Moody's INVESTORS SERVICE

Instrument Information

CUSIP: 69362BAJ1

Issuer: PSEG POWER LLC

PSEG POWER LLC is a subsidiary of PUBLIC SERVICE ENTERPRISE GROUP INCORPORATED. This section details the Moody's ratings for CUSIP 69362BAJ1.

Baa1 Senior Unsecured Rating as of 3/21/2016

Investment Grade	Non-Investment Grade

Instrument Long-Term Rating as of 3/21/2016

Obligations rated Baa are subject to moderate credit risk. They are considered medium-grade and as such may possess certain speculative characteristics.

Upgrade	Downgrade	Uncertain	Not on Watch

Instrument Watch Status

Moody's uses Watch Status to indicate that a rating is under review for possible change in the short-term.

Corporate Bond Information

Class	REG
Coupon	8.625
Maturity	15 Apr 2031
Rating Date	21 Mar 2016
Sale Date	09 Apr 2001
Original Face Value (in millions)	$500.000
Currency	USD
Debt has Support	N

PSEG POWER LLC

Baa1	Stable	Not on Watch
Long Term Rating as of 21-Mar-2016	Moody's Rating Outlook as of 21-Mar-2016	Company Watch Status

Company Profile

PSEG Power, LLC (PEG Power, Baa1 stable) is a merchant generator, 100%-owned by Public Service Enterprise Group (PSEG, Baa2 stable). It has approximately 13.5 GW of capacity, primarily located in eastern zones within PJM. PEG Power is also developing a small portfolio, currently at about 123 MW, of contracted solar projects across the country. PEG Power's fleet is well diversified by fuel with 2014 generation of about 54 TWhs broke down as 54% nuclear, 32% gas, 14% coal, and less than 1% pumped storage, hydro, and oil.

PEG Power hedges its output through the rolling three-year full requirements electricity sales to load serving entities under the New Jersey's annual Basic Generation Service (BGS) auction process as well as bilateral and financial hedges in the wholesale energy market. PEG Power also sells capacity under PJM's annual reliability pricing mechanism (RPM) auction process. PEG Power does not have a retail electricity business. However, it is exposed to retail risks for the portion of its output contracted via the BGS. The winners of the auction are responsible for fulfilling all the requirements of a PJM Load Serving Entity including the provision of capacity, energy, ancillary services, transmission and any other services required by PJM. BGS suppliers assume all volume risk and customer migration risk and must satisfy New Jersey's renewable portfolio standards.

PEG Power represented about 41% of the parent company's cash from operations before changes in working capital (CFO Pre-WC). However, it accounted for virtually all of the dividends to PSEG in the last three years, as the utility has focused on growing its rate base, a trend that is expected to continue for the next few years. PEG Power's share of consolidated earnings and cash flows has started to decline as the utility grows and merchant power markets remain relatively weak.

Moody's Opinion as of 18-Jun-2015

Rating Drivers

Strong and sustainable competitive position

Hedging strategy provides a degree of cash flow stability and predictability

Credit metrics expected to remain strong

Summary Rating Rationale

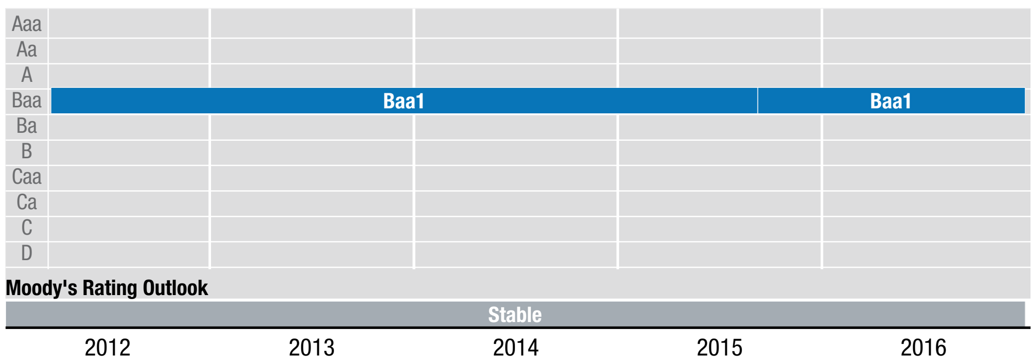
PEG Power's Baa1 senior unsecured debt rating (stable outlook) is the highest among wholesale merchant generators and reflect the strong competitive position and locational advantages of PEG Power's generating assets. These locational advantages arise mainly from generating assets inside premium capacity pricing zones in PJM with substantial barriers to the entry of new power plants or major transmission lines. These advantages have positioned PEG Power well to withstand the current downturn in the merchant power markets. PEG Power also has low leverage, a hedging strategy that provides a degree of cash flow visibility and strong liquidity. Despite weak merchant market conditions, we expect the financial profile to remain adequate for PEG Power's rating, with CFO Pre-WC coverage of debt in excess of 40%. The proposed capacity market reforms in PJM are also likely to provide some upside to PEG Power's capacity revenues. .

PSEG POWER LLC

Rating History

PSEG POWER LLC has a long term rating of Baa1 that reflects the Senior Unsecured rating description.

5 Year Long Term Rating History



Detailed Rating Considerations

STRONG AND SUSTAINABLE COMPETITIVE POSITION

PEG Power is currently the highest rated unregulated power company in the US. The company has a strong and sustainable competitive position which has not only enabled it to withstand the merchant energy sector downturn better than many competitors but also allowed it to remain strongly free cash flow positive and able to provide substantial dividends to parent PSEG. PEG Power's competitive position is underpinned by the following strengths:

Location: The vast majority of PEG Power's assets are located in the PSEG and EMAAC sub-regions of the PJM market. Not only is PJM the largest, most liquid and transparent merchant power market in the US, but PSEG and EMAAC are the most transmission constrained regions in PJM and consistently enjoy the highest capacity pricing in PJM. Although some transmission congestion is expected to be eased by ongoing upgrades, we expect PSEG and EMAAC to remain premium markets on a sustainable basis. The load pocket where its assets are located also provides PEG Power with higher energy prices, with the region generally trading at a premium to the PJM West hub. The company is also very well positioned for growth (both brownfield and capacity uprates) at many of its existing locations, which have access to transmission, gas pipelines and emission permits. The densely populated region severely limits the development of new projects by other companies.

Fuel and Dispatch Diversity: PEG Power's fleet has substantial fuel and dispatch diversity, consisting of nuclear, coal, gas, oil, dual-fuel and pumped storage assets located all along the dispatch curve, from competitive baseload nuclear to very high variable cost peaking units. This allows the company to benefit from real-time peaking prices and earn substantial ancillary services revenues besides positioning the company well to manage the variable load risk associated with its BGS contracts. PEG Power's plants have also had a strong operating track record.

Access to Shale Gas: Yet another locational benefit is that PEG Power's gas-fired power plants, which account for about 30% of the company's generation, can access shale gas at a significant discount to the TETCO M3 hub, which usually determines power prices at PJM West. The production glut in the region, coupled with the current lack of takeaway pipeline capacity from the region into regions such as New England, is likely to create a favorable basis for PEG Power over at least the medium term. About 25% of PEG Power's gas requirement currently comes from Marcellus.

HEDGING STRATEGY PROVIDES A DEGREE OF CASH FLOW STABILITY AND PREDICTABILITY

PEG Power's hedging strategy, which involves a mix of the BGS auction, RPM capacity auction and bilateral contracts, provides a material degree of cash flow predictability. While the PJM capacity auction provides cash flow visibility for the next three years, PEG Power also maintains a laddered portfolio of energy hedges for the next three years, with the BGS auction typically accounting for 25% of forward hedges. PEG Power's strategy includes substantial hedging of baseload energy, with load following and peaking resources mostly unhedged to take advantage of their favorable location in the real time energy markets. As of March 2015 PEG Power was hedged 70-75% for 2015, 50-55% for 2016 and 25-30% for 2017. Power also hedges its fuel requirements, on a rolling basis, to approximately match its forward energy sales.

CREDIT METRICS EXPECTED TO REMAIN STRONG

PEG Power's financial metrics have been very strong historically. CFO Pre-WC coverage of interest and debt have averaged 9.7x and 51% over the 2012-14 period, and Retained Cash Flow (RCF)/Debt stood at 22.3%. These are stronger than our benchmark expectations for the rating under our Unregulated Power Companies methodology. Over the next few years, credit metrics are expected to be slightly weaker than the past, although CFO Pre-WC coverage of debt is still expected to exceed 40% and remain adequate for the rating. Management targets a minimum threshold FFO/Debt ratio for PEG Power of 30%. Historically however, we note that the company has performed significantly better than the management's threshold. RCF/Debt ratios will be lower at 20-25% as dividends from PEG Power support cash needs at PSEG. PEG Power was mildly free cash flow negative in 2014, and Moody's estimates that it will be so in 2015 as well but is expected to be free cash flow positive thereafter.

Excluding nuclear fuel, PEG Power's capital investments (capex) are expected to be about $565 million in 2015, declining to about $265 million by 2017. With maintenance capex historically averaging about $210 million per annum, the additional capex consists mainly of efficiency and capacity uprates (~150 MW) at the Bergen, Linden and Bethelem gas plants as well as SCR/FGD investments at the Conemaugh coal plant. We expect that growth capex will be limited to opportunistic investments in new power plants that have a strong economic proposition, such as the 475 MW Bridgeport Harbor combined cycle plant in Connecticut which did not clear the ISO-New England auction and hence is not going forward this year. In a similar vein, PEG Power may also consider other investments in PJM, especially in the eastern zones where capacity prices at a premium.

PSEG POWER LLC

Key Indicators PSEG POWER LLC[1]

	2005	2006	2007	1Q08 LTM
(CFO Pre-W/C + Interest) / Interest Expense	4.7x	4.5x	8.1x	8.5x
(CFO Pre-W/C) / Debt	20%	23%	43%	50%
(CFO Pre-W/C - Dividends) / Debt	20%	23%	10%	14%
(CFO Pre-W/C - Dividends) / Capex	201%	180%	46%	58%
Debt / Book Capitalization	61%	46%	49%	50%
EBITA Margin %	16%	19%	27%	27%

[1] All ratios calculated in accordance with the Global Regulated Electric Utilities Rating Methodology using Moody's standard adjustments.

Liquidity Profile

PEG Power's liquidity is strong. The company has two syndicated revolving credit facilities with an aggregate total capacity of $2.7 billion (of which $1.6 billion matures in 2019 and $1.0 billion matures in 2020, except for some stub maturities in 2016 and 2018) and a $100 million bilateral credit facility expiring in September 2015. $178 million of the syndicated facility was utilized as of March 31, 2015. The only material covenant is a maximum debt to capitalization covenant of 65%, under which PEG Power has ample cushion. The credit agreement contains cross defaults to other indebtedness of PEG Power above a threshold and to indebtedness of its major subsidiaries (as defined) and subsidiary guarantors, but not to PSEG or PSE&G.

For 2015 and 2016, we expect that PEG Power's cash from operations will support both capex and dividends to PSEG, with no material change in liquidity or debt levels at PEG Power. No reliance on external funding is expected either, except to refinance maturities (a $300 million note in December 2015).

Rating Outlook

The stable rating outlook for PEG Power is based on our expectations for a consistent financial profile arising out of the company's significantly hedged position over the next 18 months, a relatively protected market position with significant entry barriers and expectations for reliable operations at its power plants.

What Could Change the Rating UP

An upgrade of PEG Power's rating is unlikely in the medium term in light of weak merchant market conditions, our expectation that gas prices will remain low and management's intention to use cash flows from PEG Power to help finance investments at PSE&G. However, PEG Power's rating could be upgraded in the event of a significant and sustainable improvement in its financial profile. Such an improvement would entail a material increase in the average life of its hedges resulting in a longer term sustainable financial profile, supported largely by hedges, with CFO Pre-WC coverage of interest and debt above 9x, and 45%, respectively.

What Could Change the Rating DOWN

PEG Power's rating could be downgraded if there were a material decline in the competitive position of PEG Power's fleet due to a change in market dynamics or it exhibits a materially weaker financial profile, such as CFO Pre-WC coverage of interest and debt being below 6x and 30%, respectively.

The principal methodology used for PEG Power is Moody's November 2014 Unregulated Utilities and Unregulated Power Companies Rating Methodology.

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations. [2] As of 12/31/2014; Source: Moody's Financial Metrics [3] This represents Moody's forward view; not the view of the issuer; and unless noted in the text, does not incorporate significant acquisitions and divestitures

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on http://www.moodys.com for the most updated credit rating action information and rating history.

PSEG POWER LLC

Rating Definitions

Long-Term Obligation Ratings

Moody's long-term obligation ratings are opinions of the relative credit risk of fixed-income obligations with an original maturity of one year or more. They address the possibility that a financial obligation will not be honored as promised. Such ratings reflect both the likelihood of default and any financial loss suffered in the event of default.

Aaa Obligations rated Aaa are judged to be of the highest quality, with minimal credit risk.

Aa Obligations rated Aa are judged to be of high quality and are subject to very low credit risk.

A Obligations rated A are considered upper-medium grade and are subject to low credit risk.

Baa Obligations rated Baa are subject to moderate credit risk. They are considered medium-grade and as such may possess certain speculative characteristics.

Ba Obligations rated Ba are judged to have speculative elements and are subject to substantial credit risk.

B Obligations rated B are considered speculative and are subject to high credit risk.

Caa Obligations rated Caa are judged to be of poor standing and are subject to very high credit risk.

Ca Obligations rated Ca are highly speculative and are likely in, or very near, default, with some prospect of recovery of principal and interest.

C Obligations rated C are the lowest rated class of bonds and are typically in default, with little prospect for recovery of principal or interest.

Note: Moody's appends numerical modifiers 1, 2, and 3 to each generic rating classification from Aa through Caa. The modifier 1 indicates that the obligation ranks in the higher end of its generic rating category; the modifier 2 indicates a mid-range ranking; and the modifier 3 indicates a ranking in the lower end of that generic rating category.

Rating Outlooks

A Moody's rating outlook is an opinion regarding the likely direction of a rating over the medium term. Where assigned, rating outlooks fall into the following four categories: Positive (POS), Negative (NEG), Stable (STA), and Developing (DEV -- contingent upon an event). In the few instances where an issuer has multiple outlooks of differing directions, an "(m)" modifier (indicating multiple, differing outlooks) will be displayed, and Moody's written research will describe any differences and provide the rationale for these differences. A RUR (Rating(s) Under Review) designation indicates that the issuer has one or more ratings under review for possible change, and thus overrides the outlook designation. When an outlook has not been assigned to an eligible entity, NOO (No Outlook) may be displayed.

Watchlist

Moody's uses the Watchlist to indicate that a rating is under review for possible change in the short-term. A rating can be placed on review for possible upgrade (UPG), on review for possible downgrade (DNG), or more rarely with direction uncertain (UNC). A credit is removed from the Watchlist when the rating is upgraded, downgraded or confirmed.

Provisional Ratings

As a service to the market and typically at the request of an issuer, Moody's will assign a provisional rating when it is highly likely that the rating will become final after all documents are received, or an obligation is issued into the market. A provisional rating is denoted by placing a (P) in front of the rating. Such ratings may also be assigned to shelf registrations under SEC rule 415.