"Although we have undergone dramatic organizational change, we have not lost sight of our mission."

JAMES A. CARRIGG
Chairman, President and Chief Executive Officer

THE MISSION OF NYSEG'S DIVERSIFIED ENERGY-RELATED BUSINESS UNITS IS TO:

- ENSURE CUSTOMER SATISFACTION
- DELIVER QUALITY SERVICES AT COMPETITIVE PRICES
- FOSTER EXCELLENCE AMONG EMPLOYEES
- ACHIEVE ATTRACTIVE RETURNS FOR INVESTORS
- CONTINUE TO PROTECT THE ENVIRONMENT
- BE ACTIVELY INVOLVED IN THE COMMUNITIES WE SERVE

NYSEG

1990 ANNUAL REPORT

CONTENTS

NYSEG

To my fellow stockholders:

Our significant accomplishments in 1990 and the dramatic organizational change being made strengthens our belief that by the end of the decade we will be one of the preeminent utilities in the nation.

Highlights of 1990 include:

EARNINGS OF $2.48 PER SHARE compared to $2.43 in 1989. Including the effects of a December 1989 adjustment to the 1987 write-off related to the Nine Mile Point 2 nuclear unit (NMP2), 1989 earnings were $2.53.

AN AGREEMENT TO PURCHASE Columbia Gas of New York, Inc. for approximately $65 million. The acquisition will increase the number of natural gas customers we serve by more than 40%.

AN AGREEMENT WHICH RESOLVES open ratemaking issues with respect to the construction and operation of NMP2 through January 19, 1990. No additional write-offs were necessary for us.

SETTLEMENT WITH THE PUBLIC Service Commission (PSC) staff of the Homer City fuel prudence proceeding. PSC approval of the settlement is expected by the end of the second quarter of 1991.

BOOSTING OUR COMMON EQUITY ratio to over 40% with the sale of four million shares of common stock at a premium to book value in October 1990.

CONTINUED AGGRESSIVE REFINANCING of high-coupon bonds which will save customers an additional $2.8 million a year in interest costs. Our embedded cost of debt is now 8.7%, the lowest it has been in over a decade.

THE BEST POWER PLANT EFFICIENCY in the state and the fifth best in the nation, according to the 1989 ranking by *Electric Light & Power* magazine.

THE LOWEST COMPLAINT RATE from customers to the PSC among the seven combination electric and natural gas utilities in the state. Our Standards of Excellence program which began in 1990 will ensure that we continue serving customers well and providing services efficiently.

In January 1991, the PSC approved an electric rate increase of approximately $50 million, or 4.4%—our first in five years—and a natural gas rate increase of approximately $4.5 million, or 2.8%—our first in six years. However, our allowed return on equity was reduced to 11.7% from 13%. That reduction, coupled with the slowing economy and increased expenses such as health care costs, will lower 1991 net income. We have also committed to not file for increases in electric and natural gas rates before August, 1991. These prospects require even stronger control of our operations. Our challenge is clear.

We sold $100 million of preferred stock in February 1991 at a dividend rate of 8.95%. This is the lowest fixed rate for any preferred stock we have issued since 1979. That sale, combined with the sale of common stock in October 1990, will contribute to the reduction of the long-term debt portion of our capitalization.

Meanwhile, we are completing plans to meet the requirements of the Clean Air Act Amendments of 1990 which became effective in November. We will be an active participant in Environmental Protection Agency rule-making. We continue to support the cause of clean air but remain concerned about the cost and impact of the Amendments on the reliability and efficiency of our generating resources and, ultimately, on our customers. Under the new law, we must reduce our annual sulfur dioxide emissions from 138,000 tons in 1989 to approximately 70,000 tons by the year 2000. Preliminary estimates indicate this reduction will cost approximately $250 million to $300 million and result in a 3 to 4% increase in electric rates.

In the 1989 Annual Report, we wrote about our strategic planning program, "NYSEG 2000: A Vision for the Future." We said that the program focused on making the most of our core electric and natural gas businesses, as well as exploring new business opportunities. Its goal, we noted, is to make our Company one of the top 20 utilities in the nation by the year 2000 as measured against such benchmarks as return on equity, total return to shareholders and quality of service. Another objective is to maintain competitive unit costs to our customers for electricity and natural gas. We continue to stand by those goals.

With a full year of planning behind us, our vision for the future is taking shape. It is characterized by decentralized decision-making, fewer levels of management, accountability for performance, new ideas and initiatives, and a stronger working relationship with the PSC. Our success in holding to this new course will mean a promising future for our constituents: for stockholders, improved returns; for customers, excellent service at reasonable prices; for employees, opportunities for growth in a challenging work environment; and for the communities we serve, a good corporate citizen.

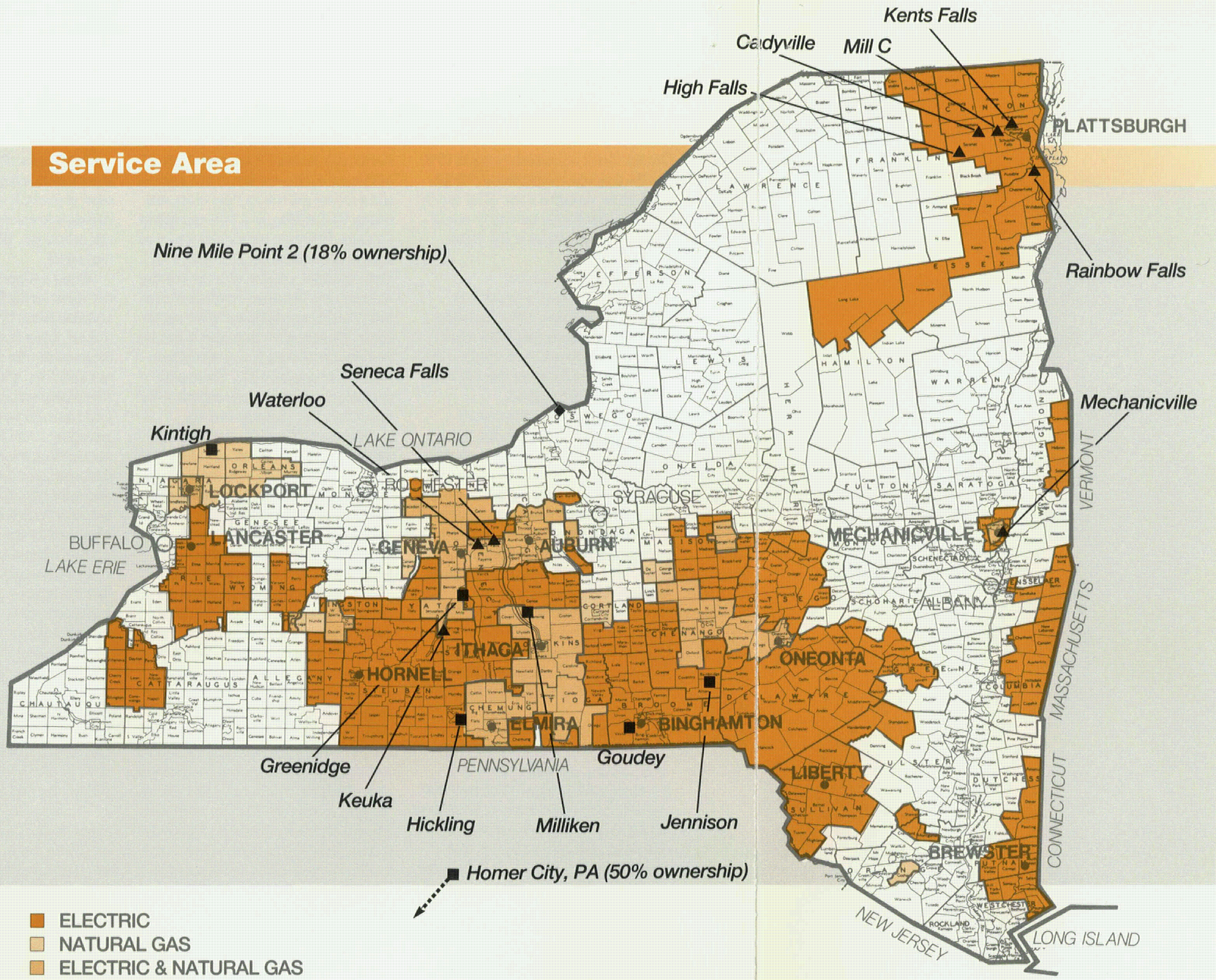
Our Company has been reorganized into five business units. The recruitment and appointment in October of a senior vice president to head the Gas Business Unit completed the complement of five senior vice presidents, each of whom is responsible for the performance of a business unit. With the PSC's expected approval in 1991 of petitions to establish unregulated subsidiaries as part of the Strategic Growth Business Unit, that unit will join the others as a vibrant enterprise.

Although change is not new to us, change of this magnitude is. Our employees are the key to making change work and they have responded very well. They know, as I do, that these changes are for the best and that they offer opportunities for growth. That said, you would probably like to know what lies ahead. Here is the focus for each business unit:

ELECTRIC: to earn our allowed return on equity while promoting energy conservation and efficiency; to control expenses, especially those at NMP2; and to explore the sale of energy-related services

GAS: to triple the size of the business by the year 2000 through aggressive marketing, additional acquisitions and securing new franchises; to reduce purchased

Service Area



- ELECTRIC
- NATURAL GAS
- ELECTRIC & NATURAL GAS
- DIVISION OFFICE

Generating Stations

- ▲ *Hydro*
- ■ *Coal*
- ◆ *Nuclear*

New York State Electric & Gas Corporation (NYSEG) is an organization of 4,600 people who are committed to doing their best to serve customers and improve the value of shareholders' investments.

Headquartered in Binghamton, we serve 769,000 electric customers and 146,000 natural gas customers in a 17,000-square-mile area of suburban and rural upstate New York. Light industry, agriculture, recreational facilities, colleges and universities support the area's economy.

Our gross operating revenues last year approached $1.5 billion and total assets topped $4.7 billion.

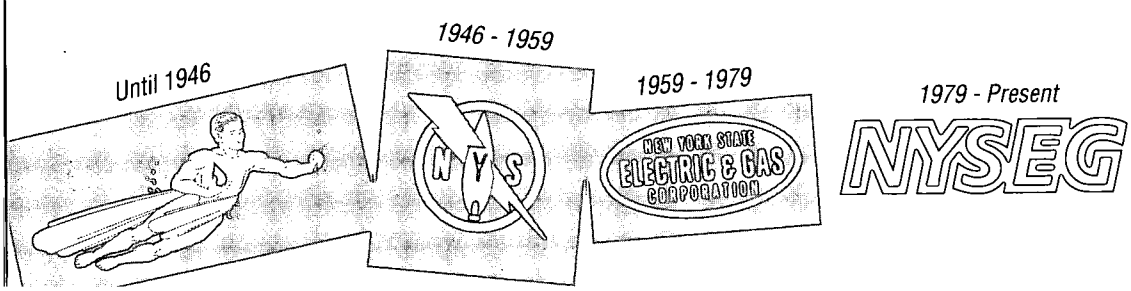
We generated 17 billion kilowatt-hours of electricity in 1990 at seven coal-fired power plants, several small hydroelectric plants and one nuclear plant. The 34 million dekatherms of natural gas we distributed in 1990 was purchased from interstate pipeline companies and producers. ■

HIGHLIGHTS

NYSEG

	1990	1989	%CHANGE
BALANCE SHEET INFORMATION			
Total Assets (000)	$4,736,039	$4,670,283	1
Capitalization			
Long-Term Debt	54.2 %	56.3 %	(4)
Preferred Stock	5.1 %	5.4 %	(6)
Common Equity	40.7 %	38.3 %	6
INCOME STATEMENT INFORMATION (000)			
Gross Operating Revenues	$1,496,780	$1,427,745	5
Operating Expenses	$1,181,423	$1,115,012	6
Net Income	$158,013	$157,779	-
Earnings for Common Stock	$145,351	$144,804	-
Retail Megawatt-Hour Sales	13,197	13,055	1
Dekatherms of Natural Gas Delivered	33,672	35,348	(5)
INFORMATION PER COMMON SHARE			
Earnings	$2.48	$2.43 *	2
Dividends	$2.06	$2.02	2
Book Value (year-end)	$21.85	$21.29	3
Market Value (year-end)	$26.00	$28.88	(10)
Price Range	$21 3/8 - 29 1/4	$21 7/8 - 29	
Return on Average Equity	11.4 %	11.5 %	(1)
ABOUT OUR CUSTOMERS (YEAR-END)			
Electric Customers	769,000	758,000	1
Natural Gas Customers	146,000	142,000	3
AVERAGE ANNUAL RESIDENTIAL ENERGY USE			
Electric (kilowatt-hours)	7,796	7,786	-
Natural Gas (dekatherms)	119	126	(6)
AVERAGE ANNUAL RESIDENTIAL ENERGY COST			
Electric (per kilowatt-hour)	9.81 cents	9.76 cents	1
Natural Gas (per dekatherm)	$6.38	$6.12	4

**Including the effect of a December 1989 adjustment to the 1987 Nine Mile Point Unit No. 2 write-off, earnings were $2.53.*



natural gas costs; and to earn our allowed return on equity

MANAGEMENT SERVICES: to provide quality and cost-effective services including accounting, information systems, financial planning, audit, security, consumer services, human resource administration, communications and shareholder services, to the other units

STRATEGIC GROWTH: to become active in independent power production, emissions management and environmental laboratory and consulting services—opportunities with potentially higher returns than our regulated businesses

STRATEGIC MANAGEMENT: to support the Company and its business units in developing strategies, identifying and developing growth opportunities and achieving overall performance excellence

The retirements of three senior officers also occured in 1990: Al Kintigh, president and chief operating officer, Dick Jacobson, executive vice president and chief financial officer, and Ray Perine, vice president - gas operations. Together, these men devoted over 95 years to our Company. Their special talents helped us prepare well for the challenges ahead. We wish them all the best.

As a special tribute to Mr. Kintigh, the Board of Directors on February 8 named Somerset Station after him. He was instrumental in the planning, licensing and construction of the plant on time and under budget.

In closing, we appreciate your confidence and continued support. □

NYSEG

For the Board of Directors,

James A. Carrigg

James A. Carrigg
Chairman, President and Chief Executive Officer

1990: A YEAR OF DRAMATIC CHANGE

NYSEG

In *CHANGE!: 71 Glimpses of the Future*, Isaac Asimov describes how cloning will one day give us replacement parts for the human body, how mental telepathy will break down barriers to communication, and how colonization of space will become reality.

These are not pipedreams; rather they are "soundly reasoned extrapolations of present knowledge," the book jacket explains.

Although the changes Asimov cites have yet to occur, dramatic changes of another kind are splashed across the front pages of newspapers and served in bite-sized segments on the evening news every day. The fall of the Berlin Wall and the political and economic revolution in the Soviet Union and Eastern Europe are but two examples of the change that foreshadows a worldwide, market-responsive economy. For businesses in the U.S., it means even more intense competition than we already know and signals the need to sharpen our competitive skills.

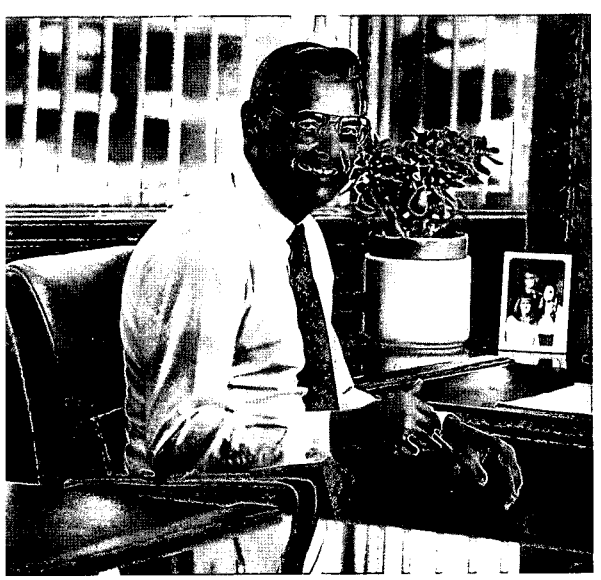
An example of being beaten to the punch in this evolving economy is as close as the grocery store, according to Russ Fleming, senior vice president - gas. "I can go to the grocery store nearest my home and find apples from New York, Washington, Chile and even New Zealand," Fleming says. "But I've been to New Zealand and I didn't see any apples from New York or Washington...and I'm sure I wouldn't find any in Chile either."

For our industry, competition takes the form of independent power production and cogeneration, transmission access and further deregulation of both the electric and natural gas businesses.

In such an environment, characterized by sophisticated consumers and discriminating investors, businesses must adapt or fall by the wayside. As John P. Kotter wrote in *What Leaders Really Do* in the May-June 1990 *Harvard Business Review*, "The net result is that doing what was done yesterday, or doing it 5% better, is no longer a formula for success. Major changes are more and more necessary to survive and compete effectively in this new environment." We couldn't agree more.

" The goal we identified when we started our strategic planning program was to become one of the top 20 utilities in the nation by the year 2000. Significant organizational changes and a new mind-set were vital for us to even consider reaching that goal. "

PAUL KOMAR
Senior Vice President
Strategic Management



We have changed to stay competitive

Many organizational changes alluded to in last year's Letter to Stockholders have now been made—not for the sake of change but to ensure a promising future in an intensely competitive environment.

We have formed five business units: electric, gas, management services, strategic growth and strategic management. A senior vice president, who reports directly to our chairman, is responsible for the performance of each business unit. Behind these changes are thousands of hours of research, study and discussion by hundreds of employees throughout the last two years.

In the past, we only evaluated the performance of the corporation as a whole; now we will also focus on the performance of each business unit and determine how it contributes to the corporate goal of becoming one of the top utilities in the nation.

We also tended to place more emphasis on the electric business because of its size. All field employees, whether part of the electric or natural gas business, reported to a common local, general or district manager. Now, we have designated each of our 38 customer service offices as either "electric" or "gas." Such designations are invisible to customers but support the business unit concept and our desire to place equal emphasis on the natural gas business by giving it a substantial field organization. For example, where a designated gas office serves both electric and natural gas customers, all major functions in that office except electric operations and electric marketing report to the Gas Business Unit. Consequently we are able to provide identity for and give responsibility to both businesses while maintaining the economies of a combination utility. □

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Conference rooms became homes away from home in 1990 for the hundreds of employees, representing a cross section of the Company, who spent thousands of hours planning organizational change.

Despite our attention to organizational change, one thing hasn't been altered: our commitment to customer service. Our ambitious Standards of Excellence program will ensure that service all across the state, and at our new drive-up window in Dansville, is the best it can possibly be.

HOW THE ORGANIZATION HAS CHANGED

NYSEG

Establishing business units has meant significant changes in the way we are organized and do business. Although we are still one corporation, each and every employee now identifies with a business unit; if employees do their best and each business unit does well, the success of the corporation will follow.

"The organization has done a good job," says Jack Roskoz, senior vice president - electric. "The changes we are implementing allow a change of emphasis and enable us to focus more on profitability."

Levels of management have been reduced and decision-making has been pushed down into the organization. This gives senior management more time for strategic planning and organizational development. "We're very serious about giving people authority to make more decisions," Roskoz says. "And, of course, along with that authority goes accountability."

The role of managers must change, according to Roskoz. "Supervisors and managers can no longer afford to micro manage, become tied up in details, and lose sight of the bigger issues," he says. "We have talented, skilled and dedicated employees. Our role as managers is to remove as many impediments as possible which may be preventing them from doing their very best."

Furthermore, we are encouraging initiative, new ideas and methods. An example of this new mind-set is our planned centralization of telephone answering and customer accounting which will enhance customer service and be cost-effective.

Paul Komar, senior vice president - strategic management, sums up, "We will become more efficient and effective. There may be slimming down in some areas and growth in others. While all this change is taking place, we will continue to focus on providing quality service to our customers and adding value for our stockholders."

In the short term, all of these changes take some getting used to. The only immediate benefit to stockholders, customers, employees and the communities we serve is the realization that the changes will provide a springboard for becoming a top 20 utility.

To illustrate how formidable a task that is, consider where we stand today. In return on equity in 1989, we ranked 60th, almost three percentage points behind the 20th ranked utility. Our market-to-book ratio in 1989 was 1.19, while the 20th ranked utility's was 1.42. And, lastly, we were 83rd when annual total shareholder return and market-to-book ratio ranks were averaged.

Certainly there is risk in pursuing this aggressive goal and in making the necessary changes. However, we are heartened by our progress so far and remain confident that our goal is attainable. It will mean improved returns for investors, excellent service at reasonable rates for customers, a challenging work environment for employees and good corporate citizenship in the communities we serve. □

" One could take the position that change was not necessary because we were already providing excellent service and achieving good financial results. But, that position evaporates when one recognizes the enormous changes taking place in the business environment. "

DICK FAGAN
Senior Vice President
Management Services

WE WILL DIVERSIFY

NYSEG

Vital to our future is the Strategic Growth Business Unit which will initially steer three unregulated subsidiaries once they have been approved by the Public Service Commission (PSC). In recent years, investors have become wary of diversification as some companies have strayed far from their areas of expertise. That will not happen here.

"We went through extensive screening," says Bernie Rider, senior vice president - strategic growth. "We were looking for opportunities that have significant revenue potential, higher returns than are possible in our regulated businesses and, most of all, are related to our core businesses."

The screening yielded three opportunities with strong growth potential: independent power production, emissions management (flue gas desulfurization) and environmental services. We are familiar with each of these areas as a result of our regulated operations. These opportunities are promising because:

NON-UTILITY GENERATION is a growing part of the electric industry. Numerous states now mandate a bidding process for future generating capacity, and we expect such mandates to spread to other states.

EMISSIONS MANAGEMENT has come to the forefront with the enactment of the Clean Air Act Amendments of 1990. We expect this market to grow substantially as a result.

ENVIRONMENTAL LABORATORY SERVICES are in growing demand. Numerous regulatory programs have been enacted to protect the environment, and we believe this trend will continue, creating an expanding market for laboratory testing and related environmental services.

Our petitions before the PSC, which we expect to be approved, call for us to invest up to $60 million in the three unregulated subsidiaries over the next three years.

"We have business plans and an entry strategy in place for each proposed subsidiary," Rider says. "Once the PSC approves the petitions, we'll be ready to go." □

" Our analysis showed that if we pursued a course of business as usual, there would not be much growth nor increase in stock value. The changes we've made will allow us to explore growth opportunities and expand into diversified, unregulated, energy-related businesses. "

BERNIE RIDER
Senior Vice President
Strategic Growth

Most of what rolls out of the stack at Kintigh Station, formerly Somerset Station, is water vapor thanks in part to an effective and efficient sulfur dioxide removal system. Once the Public Service Commission approves, we will form an unregulated subsidiary which will focus on emissions management.

WE'VE PLACED NEW EMPHASIS ON NATURAL GAS

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We started in 1852 as the Ithaca Gas Light Company, but as we acquired electric and natural gas companies, electricity quickly became the lion's share of our business. Last year, electric service produced more than 89% of our $1.5 billion in revenue.

That will change in the years ahead.

We will add 68,000 natural gas customers this year with PSC approval of our purchase of Columbia Gas of New York, Inc. We will also add more customers through the acquisition of small natural gas companies. Providing service to new areas will also figure prominently in tripling our natural gas business by the year 2000.

"Natural gas expansion is an excellent opportunity for the Company and its shareholders, but it's also very significant for the communities getting natural gas service for the first time," Fleming says. "Because natural gas is economical, it should boost residential and commercial growth."

Adding new customers will also benefit existing ones, according to Fleming. "By maximizing the use of our distribution system we will gain even more flexibility in determining where and when we buy natural gas. That will minimize the cost of natural gas to customers," he says.

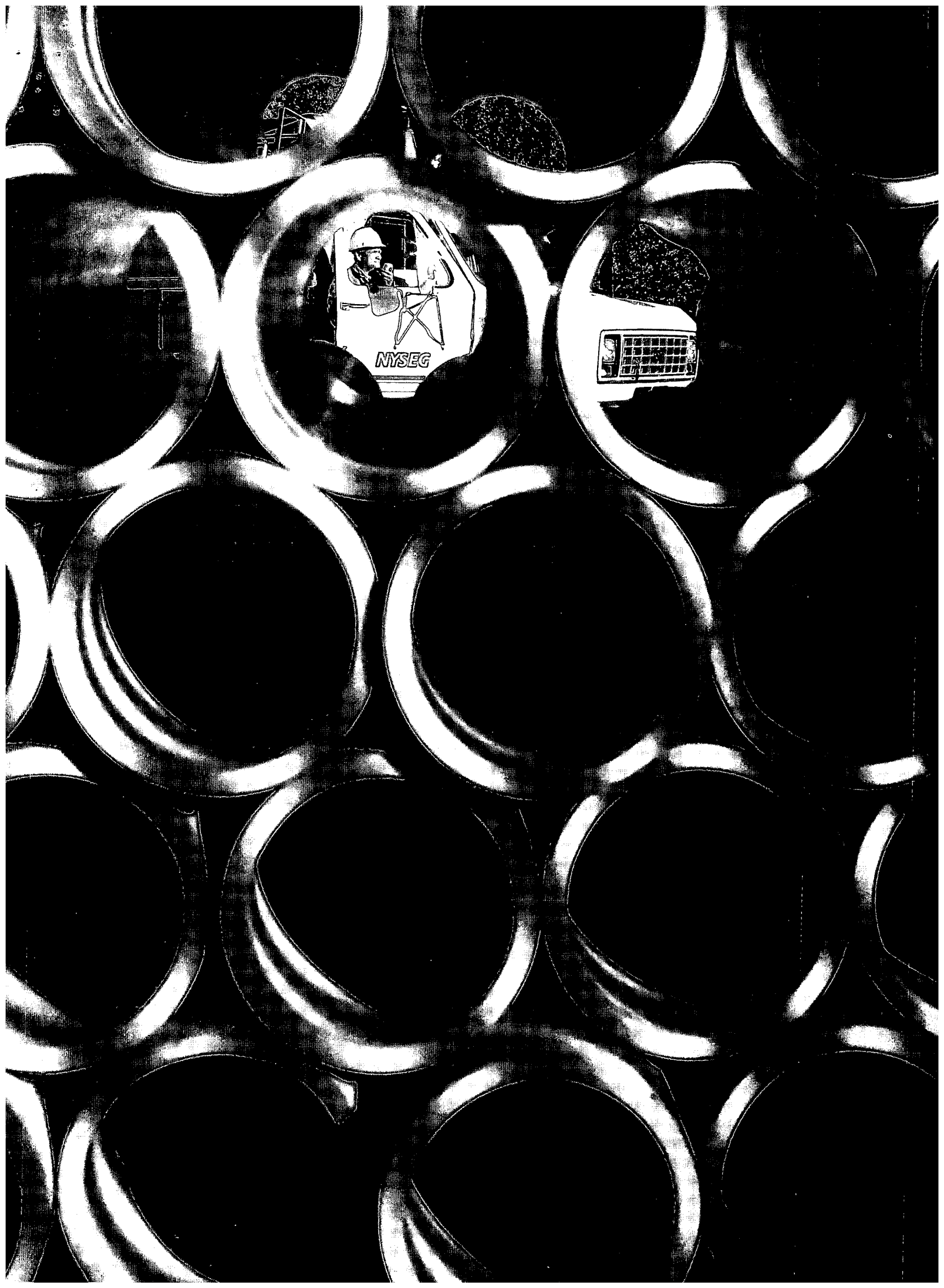
As our system expands, we will also continue to encourage large customers to procure their own natural gas supply and have us deliver it through our distribution system. "Transportation of natural gas is a win-win situation," Fleming says. "It's good for customers because they can get natural gas from producers at very reasonable prices and it's good for us because we can make money transporting the natural gas."

Fleming is already looking at new markets including natural gas air conditioning and vehicles powered by compressed natural gas. □

" This change that we are swept up in is worldwide. We have to become more efficient and more adept at seizing opportunities. The companies that deal effectively with change will be the survivors. "

RUSS FLEMING
Senior Vice President
Gas

Plastic natural gas distribution pipe will become a more familiar sight around our service area. We are committed to tripling our natural gas business over the next 10 years by serving new areas, aggressively marketing natural gas and acquiring small natural gas companies.


NYSEG

Hexagonal-head transmission towers, like this model, will support the world's first commercial high-phase-order transmission line which will be built in 1991 in the Binghamton area. It will carry more electricity in the same amount of space as a conventional line. The project is just one example of our efforts to generate and distribute electricity more efficiently.

THE ELECTRIC BUSINESS IS NOT IMMUNE FROM CHANGE

NYSEG

Plenty of changes are also in store for our electric business.

"We will make sure the electric business contributes to growth in earnings, while continuing our track record of excellent service, efficient operation and reasonable rates," Roskoz says. His business unit has to address these issues:

ADAPTING TO A CHANGING ENVIRONMENT which includes increasing emphasis on energy conservation. "The challenge is to find ways to generate additional income without necessarily increasing the use of electricity," Roskoz says. The PSC is assisting with financial incentives for utilities that help customers reduce energy use.

EXPENSES, ESPECIALLY AT NINE MILE POINT 2 (NMP2), must be controlled. "I'm more optimistic about NMP2," Roskoz says, "because of the significant enhancement of management of Niagara Mohawk Power Corporation's nuclear division. There is really no reason why the plant cannot run well."

THE CLEAN AIR ACT AMENDMENTS OF 1990 must be dealt with. "Our likely paths are clear," Roskoz says. "Among them are the installation of flue gas desulfurization units (scrubbers), fuel switching and a clean coal technology project, probably at Milliken Station."

We also continue to use technology to make the generation and delivery of electricity more efficient. For example, this year, we will begin constructing the world's first commercial high-phase-order transmission line near Binghamton. This line, which will use six wires instead of the usual three, is being funded by the state and federal governments, two research agencies, and us. It will carry 73% more electricity than a conventional line and yet use smaller towers and a narrower right-of-way.

"We fully intend to maximize the use of organizational change and technology to benefit our customers and our shareholders," Roskoz says.

The business units behind the scenes

The management services and strategic management business units are providing the other business units with support services.

Management services offers services such as accounting, information systems, financial planning, audit, security, consumer services, human resource administration, communications and shareholder services. "The new option for business units to secure those services outside the Company gives us even more incentive to critique what we are doing and make sure we're competitive," says Dick Fagan, senior vice president - management services. "We are determined to be the provider of those services."

Delegating responsibility and authority to individuals will become even more evident in the management services unit, Fagan says. "We have very talented individuals and that is a vital ingredient to success," he says. "We do not want to burden them with excessive layers of management approvals."

The strategic management unit, meanwhile, is "the chairman's right arm," Komar says, because its responsibilities include assisting the business units and corporation with strategic planning, identifying new opportunities and promoting excellence.

"To become a top 20 utility, we must be able to understand the changing environment and spot opportunities that we can capitalize on," Komar says. "At the same time, we are focused on improving our efficiency and effectiveness in existing operations."

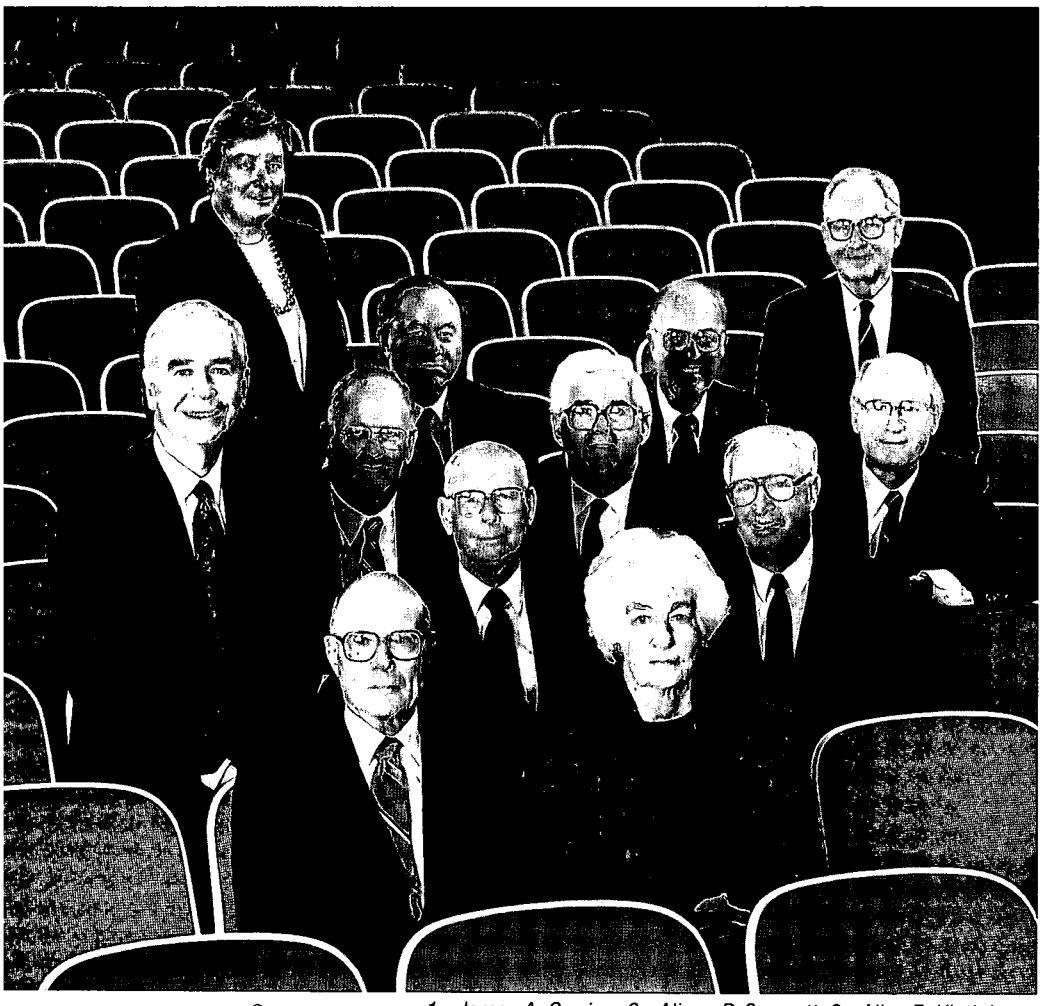
Further, Komar says, as competition increases, we need to change our corporate culture to reward innovation, business risk-taking and exceptional performance.

Our active research and economic development groups are also part of the strategic management unit. They will continue to play key roles.

As we adjust to our new organization, we become better equipped to take advantage of opportunities and compete successfully. And, while changes have been dramatic, we have not lost sight of our purpose: to do what's best for all of our constituents. □

" We aren't changing for change's sake. The changes we've made will permit us to be flexible enough to deal with a rapidly changing business environment, focus on the profitability of present services and the potential profitability of new opportunities. "

JACK ROSKOZ
Senior Vice President
Electric



1 - James A. Carrigg, 2 - Alison P. Casarett, 3 - Allen E. Kintigh, 4 - David R. Newcomb, 5 - Ben E. Lynch, 6 - Wells P. Allen Jr., 7 - Eileen D. Dickinson, 8 - Alton G. Marshall, 9 - C. William Stuart, 10 - Everett A. Gilmour, 11 - John M. Keeler, 12 - Robert A. Plane

DIRECTORS

First year elected in parentheses

Wells P. Allen Jr. (1974)
Former Chairman and Chief Executive Officer of the Corporation, Binghamton, NY

James A. Carrigg (1983)
Chairman, President and Chief Executive Officer of the Corporation, Binghamton, NY

Alison P. Casarett (1979)
Dean of the Graduate School, Cornell University, Ithaca, NY

Eileen D. Dickinson (1971-1975; 1983)
Former Free-lance Economic Researcher Brainard, NY

Everett A. Gilmour (1980)
Former Chairman of the Board and Chief Executive Officer, The National Bank and Trust Company of Norwich, Norwich, NY

John M. Keeler (1989)
Managing Partner, Hinman, Howard & Kattell (Attorneys at Law), Binghamton, NY

Allen E. Kintigh (1987)
Former President and Chief Operating Officer of the Corporation, Binghamton, NY

Ben E. Lynch (1987)
President, Winchester Optical Company (Manufacturer of Eyeglasses), Elmira, NY

Alton G. Marshall (1971)
Senior Fellow, Nelson A. Rockefeller Institute of Government, Albany, NY; President, Alton G. Marshall Associates, New York, NY

David R. Newcomb (1979)
Former President and Chief Executive Officer Buffalo Forge Company (Manufacturer of Heating, Ventilating and Air Conditioning Equipment), Buffalo, NY

Robert A. Plane (1982)
Interim President, Wells College, Aurora, NY

C. William Stuart (1971)
Chairman and Chief Executive Officer C.W. Stuart & Co., Inc. (Interstate Trucking Concern), Newark, NY

COMMITTEES OF THE BOARD

Chairperson listed first

Audit: Newcomb, Dickinson, Keeler, Plane
Executive and Finance: Allen, Carrigg, Casarett, Gilmour, Kintigh, Newcomb, Stuart
Executive Compensation and Succession: Gilmour, Allen, Casarett, Kintigh, Newcomb, Stuart
Pension: Marshall, Keeler, Lynch, Plane
Public Affairs: Dickinson, Lynch, Marshall, Stuart

Mr. Carrigg is an ex officio member of the Pension and Public Affairs committees.

OFFICERS

Age and years of service as of February 20, 1991 in parentheses

James A. Carrigg (57, 32)
Chairman, President and Chief Executive Officer

Gerald E. Putman (40, 20)
Executive Assistant to the Chairman, President and Chief Executive Officer

Dolores R. Hix (59, 32)
Assistant to the Chairman, President and Chief Executive Officer; Assistant Secretary

Electric Business Unit

Jack H. Roskoz (52, 28)
Senior Vice President

John J. Bodkin (45, 22)
Vice President - Electric Transmission and Distribution

Vincent W. Rider (59, 32)
Vice President - Electric Generation

Irene M. Stillings (51, 15)
Vice President - Electric Marketing

Denis E. Wickham (41, 18)
Vice President - Electric Resource Planning

Michael J. Turkovic (58, 35)
Vice President - Purchasing and Administration

James A. Ackerman (62, 38)
Vice President - East Region Electric Operations

William G. McCann (43, 21)
Vice President - West Region Electric Operations

John I. Fiala (54, 32)
Assistant Vice President - Plant Operations

John V. Kutz (56, 34)
Assistant Vice President - Transmission and Distribution Operations

Gas Business Unit

Russell Fleming Jr. (52, 5 Months)
Senior Vice President

Orlin W. Darrach (62, 32)
Vice President - Regional Operations

Robert A. Paglia (53, 25)
Vice President - Gas Marketing and Sales

Management Services Business Unit

Richard P. Fagan (50, 19)
Senior Vice President

Carl E. Johnson (48, 24)
Vice President - Consumer Services and Communications

Richard W. Page (55, 32)
Vice President - Human Resources

Sherwood J. Rafferty (43, 10)
Vice President and Treasurer (Chief Financial Officer)

Everett A Robinson (47, 17)
Vice President and Controller (Chief Accounting Officer)

John D. Scott (52, 27)
Vice President - Economics

Daniel W. Farley (35, 9)
Secretary

Roy Hogben (51, 33)
Assistant Controller

James M. Niefer (60, 35)
Assistant Secretary

Robert T. Pochily (41, 19)
Assistant Treasurer

Gary J. Turton (43, 19)
Assistant Controller

Strategic Growth Business Unit

Bernard M. Rider (59, 30)
Senior Vice President

Strategic Management Business Unit

Paul Komar (52, 21)
Senior Vice President

NYSEG

Change is evident in our financial condition, too.

Since our devastating write-offs in 1987, we have been determined to improve the Company's financial condition. We are proud of the significant progress we have made.

We have refinanced $626 million of high-coupon debt and issued more than 6½ million shares of common stock at a premium to book value. Four million shares were issued through a public offering and the balance through our Dividend Reinvestment and Stock Purchase Plan.

We have rebuilt our capital structure by improving the common equity ratio from 33 to 41% and reducing the long-term debt ratio from 62 to 54%. In addition, we have reduced our embedded cost of long-term debt from 9.8 to 8.7%.

In February 1991, we issued $100 million of preferred stock and further reduced the debt portion of our capital structure to 52%.

We are not through yet. Our goal is to continue to improve the Company's financial condition and capital structure. We will accomplish that goal while properly balancing the interests of our stockholders, ratepayers and employees.

Sherwood J. Rafferty
Vice President and Treasurer
(Chief Financial Officer)

CONTENTS

Recycled Paper

LIQUIDITY AND CAPITAL RESOURCES

In 1989, the Company began a strategic planning program, "NYSEG 2000: A Vision for the Future," to determine a course of action for the Company for the next decade and beyond. During 1990, the Company reorganized into five business units: electric, natural gas, strategic growth, management services and strategic management. The Company also explored ways to maximize the potential of its core electric and natural gas businesses and studied diversification opportunities.

The primary goal of this strategic planning effort is to make the Company one of the top 20 utilities in the nation by 2000. For the electric business, this will be accomplished by controlling expenses, especially those of the Nine Mile Point 2 nuclear unit (NMP2); to earn its allowed return while promoting energy conservation; and to explore the sale of energy-related services. For the natural gas business, the focus will be to triple the size of the business by 2000 through aggressive marketing, additional acquisitions and securing new franchises; to reduce purchased natural gas costs; and to earn its allowed return.

On August 13, 1990, the Company and The Columbia Gas System, Inc. (CS) entered into an agreement for the Company to purchase from CS all of the common stock of Columbia Gas of New York, Inc. (CNY) for $39.2 million. The Company will also purchase all CNY debt outstanding on the closing date at face value. The purchase is an important step toward achieving the Company's goal of expanding its natural gas business. This acquisition is an excellent match to the Company's existing service territory as four out of five CNY customers are already electric customers of the Company. The Public Service Commission of the State of New York (PSC) is expected to approve the transaction in March 1991, and the closing will take place shortly thereafter.

Certain business opportunities were also identified as part of NYSEG 2000 which closely relate to the Company's core businesses. Those opportunities meet needs and address public concerns in the areas of independent power production, flue gas desulfurization and environmental laboratory and consulting services. The Company has filed petitions with the PSC to invest in those non-regulated businesses in an amount not to exceed $20 million in one or more subsidiaries to operate as independent power producers and provide related services, and in an amount not to exceed $40 million in one or more subsidiaries which will engage in the environmental services business and provide related services. The Company expects to form a subsidiary for each of those ventures once regulatory approval is received.

Financing Activities

The Company is committed to improving its capital structure and reducing its embedded cost of long-term debt. In October 1990, the Company sold four million shares of common stock at $24.25 per share. After deducting underwriting fees, net proceeds of $23.45 per share, or $93.8 million, were used to repay commercial paper. The sale increased the Company's common equity ratio to over 40% — our highest level since our major construction program of the 1980s.

The Company further improved its common equity ratio through the Dividend Reinvestment Plan and earnings retained in the business. During 1990, the Company received approximately $21 million from the issuance of 876,769 shares of common stock through the Dividend Reinvestment Plan. Earnings retained in the business were approximately $24 million in 1990.

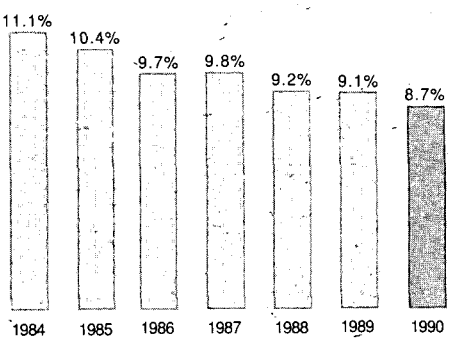
The Company issued $100 million of 8.95% preferred stock in February 1991 to further improve its capital structure. The issuance reduced the long-term debt portion of the Company's capital structure from 54 to 52%. The Company also redeemed in February 1991, at par, through a sinking fund provision in its mortgage, $18.9 million of 10⅝% Series first mortgage bonds due 2016.

Reductions in the embedded cost of long-term debt in 1990 resulted from the redemption of three high-coupon first mortgage bond issues. For each redemption, the Company issued $100 million of first mortgage bonds, and, coincidentally, the interest rate for each new series was 9⅞%. Those redemptions will reduce annual interest costs by approximately $2.8 million.

- In April the Company redeemed, at par, $100 million of 11¾% Series first mortgage bonds due 1993.
- In July the Company redeemed $100 million of 12% Series first mortgage bonds due 2015. Most of those bonds were redeemed at a premium.
- In December the Company redeemed, at a premium, $75 million of 12⅛% Series first mortgage bonds due 2015.

The Company's embedded cost of long-term debt is now only 8.7%, compared to 1984, when it was 11.1%. Although it will be difficult to improve from the 8.7% level, all opportunities will be pursued aggressively.

Embedded Cost of Long-term Debt



The Company has $406 million of pollution control notes outstanding which have adjustable interest rates. Fluctuations in those interest rates will impact the Company's earnings to the extent that they differ from estimated interest rates included in the Company's electric and natural gas base rates.

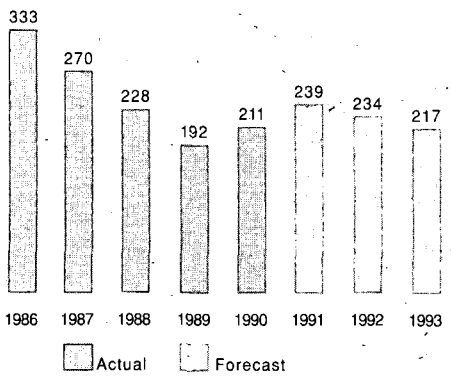
The Company uses interim financing in the form of short-term unsecured notes, usually commercial paper, to finance certain refundings and construction expenditures, thereby providing flexibility in the timing and amounts of long-term financings. The Company had approximately $73 million of commercial paper outstanding at December 31, 1990.

The Company has a revolving credit agreement with certain banks which provides for borrowing up to $200 million to July 31, 1992. The Company did not have any outstanding loans under this agreement at December 31, 1990.

Capital Expenditures

Costs for the Company's 1990 construction program totaled approximately $211 million. The majority of those costs was for extensions of service and for improvements at existing facilities. Construction expenditures for 1986-1990 and forecasted expenditures for 1991-1993 are presented graphically below.

Construction Expenditures
(Millions of Dollars)



Construction expenditures for 1991-1993 will continue to be primarily for extensions of service and for improvements at existing facilities. The Company presently has no plans to build another large base-load generating plant before 2000. Increased electricity demands will be met through more efficient use of energy (primarily the promotion of energy conservation), generation from independent power producers and supply and demand side electric resources obtained through a competitive bidding process. Under the PSC's competitive bidding program, the Company is evaluating bids for 100 megawatts (mw) in new dispatchable peaking generating capacity and 30 mw in conservation projects to be available by November 1994.

As shown in the following table, internal sources of funds represent 105% of construction expenditures for 1991-1993, or 74% after adjusting for working capital and deferrals.

	1991	1992	1993	Total
Uses of funds:		*(Millions of Dollars)*		
Construction				
Cash expenditures	$232	$224	$208	$ 664
AFDC	7	10	9	26
Total	239	234	217	690
Working capital and deferrals	88	67	56	211
Columbia Gas of New York, Inc.	65	-	-	65
Subsidiary equity contributions	20	20	20	60
Retirement of securities and sinking fund obligations	51	26	26	103
Total	$463	$347	$319	$1,129
Sources of funds:				
Internal sources	$225	$236	$261	$ 722
Long-term financing	222	98	24	344
Increase in short-term debt	16	13	34	63
Total	$463	$347	$319	$1,129

The Company has implemented conservation programs commonly referred to as demand-side management (DSM) programs. The Company has received approval from the PSC for a plan to obtain earnings incentives for conducting efficient DSM programs. Those incentives are limited to .75% return on the equity allocated to electric operations. The 1991-1992 DSM plan, which has been approved by the PSC, contains approximately 30 large-scale programs including financial and technical assistance to various customers. The 1991-1992 plan anticipates approximately 78 million kilowatt-hours (kwh) of savings in 1991 through a program costing approximately $23 million. The Company anticipates spending approximately $35 and $45 million in 1992 and 1993, respectively. The long-range DSM plan is a 17-year program that will cost approximately $2.3 billion. The plan anticipates approximately 2.7 billion kwh of annual savings in 2008.

The Clean Air Act Amendments of 1990 (1990 Amendments) which became effective in November 1990, will result in significant future expenditures for the reduction of sulfur dioxide, nitrogen oxides and possibly toxic emissions at several of the Company's coal-fired generating stations. The Company estimates that the cost of complying, over a 30-year period, with the sulfur dioxide and nitrogen oxides limitations in the 1990 Amendments is between $250 and $300 million. This cost includes all capital and operation and maintenance expenses. The Company anticipates that those costs will be recoverable through rates and that a 3 to 4% electric rate increase will be required. The cost of controlling toxic emissions, if necessary, cannot be estimated at this time. Regulations may be adopted at the state level which would limit emissions even further, with an additional cost to the Company. The Company believes that any costs associated with such regulations will also be recoverable through rates.

Regulatory Matters

In October 1990, the PSC approved an agreement signed in June 1990 (June 1990 Agreement) by the cotenants of NMP2, the PSC staff and other interested parties. The PSC is expected to issue its order approving the June 1990 Agreement by the end of the first quarter 1991. The June 1990 Agreement resolves open NMP2 ratemaking issues with respect to the construction of NMP2 and its operation through January 19, 1990. The June 1990 Agreement imposes additional disallowed costs on the cotenants. The Company's share of the disallowed costs resulting from the June 1990 Agreement was provided for in 1987.

In February 1990, the Company filed with the PSC for an electric rate increase of $79.4 million annually, or 6.65%, and a natural gas rate increase of $6.5 million annually, or 4%, to become effective in February 1991. The rate filings provided for a 13% return on common equity and an overall rate of return of 10.87%. In January 1991, the PSC approved an electric rate increase of $50.3 million annually, or 4.4%, and a natural gas rate increase of $4.5

million annually, or 2.8%, to become effective in February 1991. Those increases are the first electric and natural gas base rate increases since 1986 and 1985, respectively. Pursuant to the rate decision, the Company will also be allowed to record $34 million and $4.3 million of unbilled revenues for electric and natural gas, respectively, during the rate year ending January 31, 1992. The rate decision provides for an 11.7% return on common equity and an overall rate of return of 10.17%. The reduction in the Company's allowed return on equity from 13% in 1990 to 11.7%, coupled with the slowing economy and increased expenses such as health care costs, will lower 1991 net income.

As a result of the Agreement discussed in the following paragraph, the Company will not file for a revision of electric base rates until August 1991. The Company has also decided not to file for a revision of natural gas base rates until August 1991.

On January 4, 1991, the Company and the PSC staff signed an Agreement (Agreement) which settles a proceeding instituted by the PSC to investigate the reasonableness of the Company's emission control strategies, related fuel practices and other issues at the Homer City generating station (Homer City). The Agreement, among other things, provides for a rate base disallowance for the Unit #3 section of the Homer City Coal Cleaning Plant of $20.6 million, which will reduce the Company's rate of return over the life of the asset. The Agreement also provides for a six-month electric base rate moratorium in 1992. The Company is unable to estimate the impact on earnings of such a moratorium. The Agreement is subject to PSC approval, which is expected by the end of the second quarter of 1991.

The Company continues to believe that the emission control strategies and the fossil fuel procurement function at Homer City have been well managed; however, the Company decided to settle the Homer City Prudence Proceeding to eliminate the uncertainty of the final resolution and the costs of litigation and to enable management to devote its full attention to other important matters.

RESULTS OF OPERATIONS

Earnings for the year ended December 31, 1990 were $145 million, and $2.48 per share based on 58,678,000 average shares outstanding. Earnings for the year ended December 31, 1989 were $145 million, and $2.53 per share based on 57,138,000 average shares outstanding. Excluding the effects of the December 1989 adjustment to the 1987 NMP2 write-off, earnings were $139 million and $2.43 per share for 1989. Earnings for the year ended December 31, 1988 were $158 million, and $2.81 per share based on 56,239,000 average shares outstanding. Excluding the effects of the April 1988 adjustment to the 1987 NMP2 write-off, earnings were $152 million and $2.70 per share for 1988.

In April 1988, an adjustment was made to the 1987 NMP2 write-off to reflect the date on which the plant achieved commercial operation. This adjustment increased 1988 earnings by $6.1 million, and 11 cents per share, net of the federal income tax effect. Based on additional information, the Company recorded the December 1989 adjustment to the 1987 NMP2 write-off which increased 1989 earnings $5.8 million, and 10 cents per share, net of the federal income tax effect.

The increase in earnings from $2.43 per share in 1989, excluding the NMP2 adjustment, to $2.48 per share in 1990 is primarily due to the higher purchased natural gas costs and electric production costs during the unusually cold December of 1989. The related unbilled revenues were recognized early in 1990 when the customers' meters were read. Unbilled revenues are the estimated revenues attributable to energy which has been delivered to the Company's customers but for which the metered amount has not been read and billed to the customer. The Company started to phase in the recording of unbilled revenues in February 1990, in accordance with the rate stabilization plan approved by the PSC in March 1989.

The Company's 1990 earnings also increased due to its DSM programs which help customers conserve energy. As a result of a recent PSC decision (see discussion of DSM under Capital Expenditures), the Company receives earnings incentives for conducting efficient DSM programs.

The decline in earnings from $2.70 per share in 1988 to $2.43 per share in 1989, excluding the NMP2 adjustments, is primarily attributed to the reduction in the allowed return on common equity from 13.8% in 1988 to 13% effective in February 1989, and to the high electricity production costs and purchased gas costs during the unusually cold December 1989.

Earnings for 1989 were favorably affected by sales of electricity to other utilities. The Company realized greater profit margins on its sales to other utilities due, in part, to capacity charges which it received on certain sales for reserving and providing a fixed amount of generating capacity.

Operating Revenues

Operating revenues increased 5% in 1990 after increasing 7% in 1989. Significant factors affecting electric and natural gas revenues for 1990 and 1989, when compared to the prior years, follow:

	1990 over 1989		1989 over 1988	
	Electric	Natural Gas	Electric	Natural Gas
	(Thousands of Dollars)			
Unbilled revenues	$42,995	$ 854	$ -	$ -
Sales volume	12,267	(5,758)	22,698	(3,257)
Electricity sales to other utilities	10,996	-	44,324	-
Passback of sales for resale profits	(5,310)	-	(33,937)	-
Fuel cost adjustment	7,497	5,232	14,406	14,851
NMP2 deferrals-net	(6,039)	-	30,653	-
Other	5,435	866	(3,282)	1,120
Total	$67,841	$1,194	$ 74,862	$12,714

Prior to February 1991, the Company's electric and natural gas base rates had not increased since 1986 and 1985, respectively.

As indicated above, the Company started to phase in the recording of unbilled revenues in February 1990 and continued such recording through January 1991.

Pursuant to the January 1991 rate decision, $34 million for electric and $4.3 million for natural gas will be recorded as unbilled revenues during the rate year ending January 31, 1992. The Company anticipates that the remaining unbilled revenues will be amortized pursuant to future rate decisions.

The Company passes back to electric ratepayers, through the fuel adjustment clause, a forecasted sales for resale profit level, which is set by the PSC. Electric ratepayers receive 80% of the amount by which actual sales for resale profits exceed that forecasted level, also through the fuel adjustment clause. If actual profits are below the forecasted amount, the sales for resale profits passed back to electric ratepayers are reduced by 80% of that shortfall.

Eighty percent of fuel costs above or below amounts forecasted in rates are deferred and subsequently passed back to electric ratepayers through the fuel adjustment clause. The remaining 20% is a penalty or incentive to the stockholder.

Average natural gas costs above or below amounts established in base rates are credited or charged to ratepayers.

In a January 1988 rate decision, the PSC provided that the Company defer revenues associated with the recovery of NMP2 costs until April 5, 1988, the date that NMP2 achieved commercial operation for ratemaking purposes. As of December 31, 1988, the Company had deferred approximately $20 million. In 1989 and 1990, approximately $13 and $7 million, respectively, were passed back to ratepayers.

In addition, for NMP2 operation and maintenance expenses incurred after April 5, 1988, the Company was required to defer those expenses above or below forecasted amounts up to the limits established by the PSC. Approximately $6 million, $4 million and $4 million in NMP2 operation and maintenance expenses in excess of forecasted amounts established by the PSC were deferred in 1988, 1989 and 1990, respectively. Those amounts will be recovered in rates beginning in February 1991.

The percentage increase (decrease) in electric unit sales and operating revenues by major customer category compared with the prior year is as follows:

Electric

	1990		1989	
	Unit Sales	*Operating Revenues*	*Unit Sales*	*Operating Revenues*
Residential	**2%**	**6%**	2%	1%
Commercial	**2**	**6**	4	2
Industrial	**(1)**	**4**	2	(1)
Total Retail Sales	**1**	**6**	2	1
Other Utilities	**6**	**8**	14	49
Total Sales	**2%**	**5%**	5%	6%

The increase in retail electric sales during 1990 reflects a 1% increase in retail electric customers, partially offset by lower industrial sales due to a slowing economy. The increase in retail electric operating revenues is primarily due to the recording of approximately $43 million of unbilled revenues.

The increase in retail electric sales and operating revenues during 1989 primarily reflects a 2% increase in retail electric customers.

Operating revenues from the sales of electricity to other utilities increased in 1990 primarily due to a higher volume of sales. Operating revenues from the sales of electricity to other utilities increased significantly in 1989, primarily due to firm contracts which the Company entered into with several northeastern utilities. The Company received a capacity charge on those sales for reserving and providing a fixed amount of generating capacity.

The percentage increase (decrease) in natural gas deliveries and operating revenues by major customer category compared with the prior year is as follows:

Natural Gas

	1990		1989	
	Unit Sales	*Operating Revenues*	*Unit Sales*	*Operating Revenues*
Residential	**(3)%**	**1%**	3%	13%
Commercial	**(6)**	**(2)**	(2)	9
Industrial	**(7)**	**(1)**	(31)	(19)
Total Retail Sales	**(4)**	**1**	(3)	8
Transportation of Customer-Owned Gas	**(8)**	**7**	13	22
Total Gas Deliveries	**(5)%**	**1%**	1%	9%

The decrease in natural gas sales during 1990, despite a 3% increase in customers, is primarily attributable to warmer than normal weather. The decrease in natural gas sales during 1989 primarily reflects a decrease in industrial sales as a result of more industrial customers purchasing natural gas directly from producers. The Company transports this natural gas through its pipelines and is compensated for the transportation service with no material effect on earnings. The decrease in transportation of customer-owned natural gas in 1990 was due to certain transportation customers' normal natural gas suppliers being unable to meet their natural gas requirements during early 1990. Therefore, transportation customers purchased natural gas directly from the Company or burned fuel oil.

The fluctuations in operating revenues from the sale of natural gas, when compared to unit sales, primarily reflects changes in the cost of purchased natural gas. In 1989 and 1990, the average cost per dekatherm of purchased natural gas increased 18% and 2%, respectively, thereby increasing the cost to ratepayers.

Operating Expenses

Operating expenses increased 6% in 1990 and 10% in 1989. The increase (decrease) in operating expenses by category compared with the prior year follows:

	1990 over 1989		1989 over 1988	
	Amount	%	Amount	%
		(Thousands of Dollars)		
Fuel used in electric generation	$ (4,830)	(2)%	$ 25,749	10%
Electricity purchased	8,594	33	6,587	34
Gas purchased	(13,009)	(13)	18,776	23
Maintenance	9,245	9	7,323	8
Depreciation	(716)	-	14,338	11
Federal income taxes	25,088	39	(17,200)	(21)
Other taxes	12,165	8	9,899	7
Other operating expenses	29,874	12	36,890	17
Total	$ 66,411	6%	$102,362	10%

1990 over 1989

Purchased natural gas costs decreased 13% due to 14% lower natural gas purchases, partially offset by a 2% increase in the unit cost of natural gas. Natural gas purchases decreased primarily due to the warmer than normal weather in 1990.

Federal income taxes increased 39% primarily due to the passback to customers in 1989 of previously deferred excess federal income taxes resulting from the reduction in the statutory federal income tax rates from 46% to 34% and higher pre-tax book income.

Other operating expenses increased 12% due to increased NMP2 operating expenses, amortization of residential insulation expense and employee health insurance premium costs.

In 1990, the Company incurred approximately $11 million of NMP2 operation and maintenance expenses in excess of the amount allowed in rates and the amount deferred. During 1991, the Company expects to incur approximately $5 million of NMP2 operation and maintenance expenses in excess of the amount allowed in rates and the amount deferred.

1989 over 1988

Fuel used in electric generation increased primarily as a result of a 6% increase in electric generation due to higher sales and a 1% increase in the cost of coal, the primary fuel used by the Company.

Purchased natural gas costs rose 23% due to an 18% increase in the unit cost of natural gas and 4% higher natural gas purchases.

With the first full year of operation for NMP2, depreciation, other taxes and other operating expenses increased significantly. Other operating expenses also increased due to fees associated with the sale of undivided percentage interests in certain of the Company's accounts receivable and higher costs for the transmission of electricity.

Federal income taxes decreased 21% primarily reflecting the passback to customers of previously deferred excess federal income taxes resulting from the reduction in the statutory federal income tax rate from 46% to 34%, and a decrease in pre-tax book income.

Non-operating Income

Since the commercial operation of NMP2 for ratemaking purposes in April 1988, allowance for funds used during construction (AFDC) has been decreasing. AFDC and non-cash return amounted to 5% and 4% of earnings available for common stock for 1989, excluding the 1989 NMP2 adjustment, and 1990, respectively.

Interest Expense

Interest expense, before the reduction for AFDC-borrowed funds, decreased 4% in 1990 and 10% in 1989. Interest on long-term debt decreased in 1990 due to the refinancing of $275 million of high-coupon long-term debt at a lower cost and the retirement of $50 million of 9.50% notes in August 1989.

Interest expense in 1989 decreased primarily as a result of the redemption of $134 million of high-coupon first mortgage bonds with proceeds from the sale of undivided percentage interests in certain of the Company's accounts receivable. Costs associated with the sale of such interests in accounts receivable of $12.5 million and $12.6 million in 1990 and 1989, respectively, are included in operating expenses on the Consolidated Statement of Income.

The impact of inflation and changing prices on revenues and earnings for common stock was not material during the period from 1988 through 1990.

CONSOLIDATED STATEMENT OF INCOME

NYSEG

Year Ended December 31	1990	1989	1988
	(Thousands of Dollars Except Per Share Amounts)		
Operating Revenues			
Electric	**$ 1,334,509**	$ 1,266,668	$ 1,191,806
Gas	**162,271**	161,077	148,363
Total Operating Revenues	**1,496,780**	1,427,745	1,340,169
Operating Expenses			
Fuel used in electric generation (Note 1)	**274,245**	279,075	253,326
Electricity purchased	**34,613**	26,019	19,432
Gas purchased (Note 1)	**88,589**	101,598	82,822
Maintenance	**106,665**	97,420	90,097
Depreciation (Note 1)	**147,659**	148,375	134,037
Federal income taxes (Notes 1 & 2)	**89,577**	64,489	81,689
Other taxes (Note 10)	**158,770**	146,605	136,706
Other operating expenses (Note 1)	**281,305**	251,431	214,541
Total Operating Expenses	**1,181,423**	1,115,012	1,012,650
Operating Income	**315,357**	312,733	327,519
Other Income and Deductions			
Allowance for other funds used during construction (Note 1)	**185**	594	10,961
Non-cash return	**513**	780	3,081
Other - net	**10,270**	18,727	14,890
Income Before Interest Charges	**326,325**	332,834	356,451
Interest Charges			
Interest on long-term debt	**158,209**	164,573	187,304
Other interest	**15,181**	15,495	12,426
Allowance for borrowed funds used during construction (Note 1)	**(5,078)**	(5,013)	(14,746)
Interest charges - net	**168,312**	175,055	184,984
Net Income	**158,013**	157,779	171,467
Preferred Stock Dividends	**12,662**	12,975	13,492
Earnings for Common Stock	**$ 145,351**	$ 144,804	$ 157,975
Earnings per Share	**$2.48**	$2.53	$2.81
Average Number of Shares Outstanding	**58,678,033**	57,138,133	56,238,565

The accompanying notes shown on pages 26 through 35 are an integral part of the financial statements.

CONSOLIDATED BALANCE SHEET

NYSEG

At December 31	1990	1989
	(Thousands of Dollars)	
ASSETS		
Utility plant, at original cost (Note 1)		
Electric (Note 7)	**$4,279,925**	$4,143,180
Gas	**213,964**	199,026
Common	**145,811**	128,757
	4,639,700	4,470,963
Less accumulated depreciation	**1,174,651**	1,063,630
Net utility plant in service	**3,465,049**	3,407,333
Construction work in progress	**126,041**	104,239
Total Utility Plant	**3,591,090**	3,511,572
Other Property and Investments	**56,447**	60,482
Current Assets		
Cash and temporary cash investments	**6,718**	5,358
Special deposits	**7,355**	6,414
Accounts receivable (Note 1)	**106,188**	112,978
Fuel, at average cost	**70,834**	34,770
Materials and supplies, at average cost	**51,225**	49,417
Prepayments	**26,452**	25,194
Accumulated deferred federal income tax benefits (Notes 1 & 2)	**22,245**	26,865
Unfunded future federal income taxes (Notes 1 & 2)	**23,060**	25,691
Total Current Assets	**314,077**	286,687
Deferred Charges (Note 1)		
Accumulated deferred federal income tax benefits (Note 2)	**86,596**	105,656
Unfunded future federal income taxes (Note 2)	**425,369**	439,186
Unamortized debt expense	**87,286**	71,636
Other	**175,174**	195,064
Total Deferred Charges	**774,425**	811,542
Total Assets	**$4,736,039**	$4,670,283

The accompanying notes shown on pages 26 through 35 are an integral part of the financial statements.

NYSEG

At December 31	1990	1989
	(Thousands of Dollars)	
CAPITALIZATION AND LIABILITIES		
Capitalization (Notes 3 and 5)		
Capital stock and retained earnings		
Preferred stock redeemable solely at the option of the Company	**$ 160,500**	$ 160,500
Preferred stock subject to mandatory redemption requirements	**10,200**	11,850
Common stock equity		
Common stock ($6.66 2/3 par value, 80,000,000 and 70,000,000 shares authorized and 62,430,297 and 57,553,528 issued and outstanding in 1990 and 1989, respectively)	**416,202**	383,690
Capital in excess of par value	**655,892**	573,293
Retained earnings	**292,250**	268,201
Total Common Stock Equity	**1,364,344**	1,225,184
Long-term debt	**1,756,257**	1,787,950
Total Capitalization	**3,291,301**	3,185,484
Current Liabilities		
Current portion of long-term debt and preferred stock (Notes 3 & 5)	**61,079**	15,462
Current portion of unbilled utility revenue (Note 1)	**38,803**	43,848
Commercial paper (Note 4)	**73,225**	121,000
Accounts payable	**85,921**	76,844
Interest accrued	**47,049**	51,535
Unfunded future federal income taxes (Notes 1 & 2)	**23,060**	25,691
Accumulated deferred federal income taxes (Notes 1 & 2)	**10,064**	9,786
Other	**56,671**	53,881
Total Current Liabilities	**395,872**	398,047
Deferred Credits		
Accumulated deferred investment tax credit (Notes 1 & 2)	**142,894**	138,649
Excess deferred federal income taxes (Notes 1 & 2)	**63,787**	67,456
Unbilled utility revenue (Note 1)	**18,054**	70,775
Other	**68,313**	75,250
Total Deferred Credits	**293,048**	352,130
Accumulated deferred federal income taxes (Notes 1 & 2)		
Unfunded future federal income taxes	**425,369**	439,186
Other	**330,449**	295,436
Total Accumulated Deferred Federal Income Taxes	**755,818**	734,622
Commitments and Contingencies (Note 8)	**-**	-
Total Capitalization and Liabilities	**$4,736,039**	$4,670,283

The accompanying notes shown on pages 26 through 35 are an integral part of the financial statements.

NYSEG

Year Ended December 31	1990	1989	1988
		(Thousands of Dollars)	
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS			
Operating Activities			
Customer receipts	**$1,463,651**	$1,438,938	$1,389,239
Fuel, purchased power and gas	**(411,213)**	(362,557)	(325,247)
Payroll and fringe benefits	**(177,733)**	(163,149)	(147,925)
Taxes - federal, state and local	**(197,275)**	(184,910)	(170,064)
Interest payments - net of AFDC - borrowed funds (Note 1)	**(166,597)**	(177,234)	(181,278)
Restricted cash for debt and sinking fund repayments - net	**(498)**	100,858	(103,360)
Proceeds from the sale of accounts receivable (Note 1)	-	34,800	103,400
Nine Mile Point Unit No. 2 settlement inducement	-	-	52,200
Transmission wheeling refund	**21,124**	-	-
Other operating expenses	**(254,807)**	(234,280)	(227,048)
Net Cash Provided by Operating Activities	**276,652**	452,466	389,917
Investing Activities			
Utility plant construction expenditures	**(210,725)**	(192,022)	(228,223)
Less: AFDC - other funds (Note 1)	**185**	594	10,961
Net Cash Used in Investing Activities	**(210,540)**	(191,428)	(217,262)
Financing Activities			
Proceeds from new debt issues:			
First mortgage bonds	**300,000**	-	100,000
Long-term notes payable	-	100	34,000
Sale of common stock	**115,296**	20,837	21,793
Debt and sinking fund repayments:			
First mortgage bonds and preferred stock	**(296,289)**	(146,529)	(263,279)
Long-term notes payable	**(2,078)**	(50,000)	(800)
Commercial paper - net	**(47,775)**	43,600	61,400
Dividends on preferred and common stock	**(133,906)**	(128,388)	(125,900)
Net Cash Used in Financing Activities	**(64,752)**	(260,380)	(172,786)
Net Increase (Decrease) In Cash and Cash Equivalents	**1,360**	658	(131)
Cash and Cash Equivalents, Beginning of Year (Note 1)	**5,358**	4,700	4,831
Cash and Cash Equivalents, End of Year (Note 1)	**$ 6,718**	$ 5,358	$ 4,700
RECONCILIATION OF NET INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES			
Net Income	**$ 158,013**	$ 157,779	$ 171,467
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:			
Depreciation	**147,659**	148,375	134,037
Amortization of deferred charges	**28,671**	23,258	18,763
Federal income taxes and investment tax credit deferred - net (Note 2)	**50,738**	35,384	47,337
Recovered (deferred) transmission wheeling charges	**20,793**	(5,266)	(14,532)
Unbilled revenue (Note 1)	**(43,849)**	-	-
Other - net	**(46,702)**	(31,328)	(40,619)
Changes In Certain Current Assets and Liabilities:			
Special deposits	**(941)**	100,434	(102,947)
Accounts receivable	**(7,620)**	18,031	98,337
Accounts receivable Nine Mile Point Unit No. 2 settlement inducement	-	-	52,200
Inventory	**(37,872)**	11,169	12,158
Accounts payable and accrued expenses	**10,324**	9,660	3,578
Other - net	**(2,562)**	(15,030)	10,138
Net Cash Provided by Operating Activities	**$ 276,652**	$ 452,466	$ 389,917

Investing and Financing Activities Not Affecting Cash:

The Company issued Common Stock totaling $711,000 in 1989 under employee stock ownership plans.

Capital lease additions were $12,192,000, $16,160,000 and $19,097,000 in 1990, 1989 and 1988, respectively.

Interest payments were $171,675,000, $182,247,000 and $191,892,000 in 1990, 1989 and 1988, respectively.

AFDC is Allowance for Funds Used During Construction.

The accompanying notes shown on pages 26 through 35 are an integral part of the financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN COMMON STOCK EQUITY

(Thousands of Dollars Except Per Share Amounts)

	Common Stock $ 6.66⅔ Par Value Shares	Amount	Capital in Excess of Par Value	Retained Earnings	Total
Balance, January 1, 1988	**55,733,486**	**$371,557**	**$542,063**	**$192,898**	**$1,106,518**
Net income				171,467	171,467
Cash dividends declared:					
Preferred stock (at serial rates)					
Redeemable - optional				(11,608)	(11,608)
- mandatory				(1,884)	(1,884)
Common stock ($2.00 per share)				(112,252)	(112,252)
Issuance of stock:					
Dividend reinvestment and stock purchase plan	967,025	6,447	15,340		21,787
Balance, December 31, 1988	**56,700,511**	**378,004**	**557,403**	**238,621**	**1,174,028**
Net income				157,779	157,779
Cash dividends declared:					
Preferred stock (at serial rates)					
Redeemable - optional				(11,513)	(11,513)
- mandatory				(1,462)	(1,462)
Common stock ($2.02 per share)				(115,224)	(115,224)
Issuance of stock:					
Dividend reinvestment and stock purchase plan	826,261	5,508	15,357		20,865
Employee stock ownership plans	26,756	178	533		711
Balance, December 31, 1989	**57,553,528**	**383,690**	**573,293**	**268,201**	**1,225,184**
Net income				158,013	158,013
Cash dividends declared:					
Preferred stock (at serial rates)					
Redeemable - optional				(11,484)	(11,484)
- mandatory				(1,178)	(1,178)
Common stock ($2.06 per share)				(121,302)	(121,302)
Issuance of stock:					
Public offering	4,000,000	26,667	66,990		93,657
Dividend reinvestment and stock purchase plan	876,769	5,845	15,609		21,454
Balance, December 31, 1990	**62,430,297**	**$416,202**	**$655,892**	**$292,250**	**$1,364,344**

The accompanying notes shown on pages 26 through 35 are an integral part of the financial statements.

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1. SIGNIFICANT ACCOUNTING POLICIES

a. Principles of consolidation

The consolidated financial statements include the Company's wholly-owned subsidiary, Somerset Railroad Corporation (SRC). All significant intercompany balances and transactions are eliminated in consolidation.

b. Accounting records

The Company maintains its accounting records in conformity with the uniform system of accounts prescribed by the Federal Energy Regulatory Commission (FERC) and the Public Service Commission of the State of New York (PSC).

c. Utility plant

Cost of repairs and minor replacements is charged to appropriate operating expense and clearing accounts. Cost of renewals and betterments, including indirect cost, is capitalized. Original cost of utility plant retired or otherwise disposed of and the cost of removal less salvage are charged to accumulated depreciation.

d. Allowance for funds used during construction (AFDC)

AFDC is a non-cash return which is shown in the consolidated financial statements as allowance for other funds used during construction and allowance for borrowed funds used during construction. AFDC rates are determined according to FERC regulations.

e. Revenue

The Company accrues electric and natural gas revenues on its Consolidated Balance Sheet for services provided but not billed. At December 31, 1990, approximately $102 million of unbilled revenues were accrued and included in accounts receivable.

Commencing in February 1990, the Company recognized approximately $44 million of unbilled revenues in accordance with the rate stabilization plan approved by the PSC in March 1989. The Company will recognize approximately $39 million of unbilled revenues in 1991. The PSC will determine the basis of allocation for the remaining unbilled revenues in future rate cases.

f. Federal income taxes (Note 2)

The Company follows the method of accounting for income taxes prescribed by Statement of Financial Accounting Standards No. 96, Accounting for Income Taxes.

The Company files a consolidated federal income tax return with SRC. Deferred income taxes are provided on all temporary differences between book and taxable income. Investment tax credits, which reduce federal income taxes currently payable, are deferred and amortized over the lives of the applicable property.

g. Deferred charges

The Company defers certain fuel and purchased natural gas costs which are subsequently included in billings to customers through adjustment clauses in rates.

Debt expense is deferred and amortized ratably over the lives of the related issues.

h. Depreciation

Depreciation expense is determined using straight-line rates, based on the average service lives of groups of depreciable property in service. Depreciation accruals were equivalent to 3.3%, 3.6% and 3.4% of average depreciable property for 1990, 1989 and 1988, respectively.

i. Consolidated Statement of Cash Flows

The Company considers all highly liquid investments with a maturity of three months or less to be cash equivalents. This includes Cash and temporary cash investments on the Consolidated Balance Sheet.

j. Reclassifications

Certain amounts on the consolidated financial statements for 1989 and 1988 have been reclassified to conform with the 1990 presentation.

k. Accounts receivable

The Company has an agreement to sell, with limited recourse, undivided percentage interests in certain of its accounts receivable from customers. The agreement allows the Company to receive up to $138 million from the sale of such interests through November 14, 1995. Proceeds from the sale of such interests totaled approximately $35 million in 1989 and $103 million in 1988. At December 31, 1990 and 1989, accounts receivable on the Consolidated Balance Sheet is shown net of $138 million of interests in accounts receivable sold. All fees associated with the program are included in operating expenses on the Consolidated Statement of Income and amounted to approximately $12.5 million, $12.6 million and $.6 million in 1990, 1989 and 1988, respectively.

2. FEDERAL INCOME TAXES

Federal income tax expense consists of:

	1990	1989	1988
		(Thousands of Dollars)	
Charged to operations:			
Current	**$37,804**	$34,528	$36,708
Deferred - net:			
Accelerated depreciation	**33,704**	41,420	44,189
Unbilled revenues	**10,167**	(14,064)	(10,164)
TRA 1986 - net	**(3,566)**	(16,315)	(274)
Miscellaneous	**919**	315	9,777
Investment tax credit deferred	**10,549**	18,605	1,453
	89,577	64,489	81,689
Included in other income	**(5,580)**	(3,471)	(4,132)
Total	**$83,997**	$61,018	$77,557

The effective tax rates differ from the statutory rate of 34% due to the following:

	1990	1989	1988
		(Thousands of Dollars)	
Tax expense at the statutory rate	**$82,283**	$74,391	$84,668
Depreciation not normalized	**14,459**	13,561	9,870
AFDC	**(1,790)**	(1,906)	(4,608)
TRA 1986 - net	**(3,566)**	(16,315)	(274)
Investment tax credit amortization	**(5,756)**	(6,465)	(6,500)
ADR cost of removal	**(4,148)**	(3,689)	(3,329)
Other - net	**2,515**	1,441	(2,270)
Total	**$83,997**	$61,018	$77,557

In accordance with Statement of Financial Accounting Standards No. 96, Accounting for Income Taxes, the Company has recorded unfunded future federal income taxes and a corresponding receivable from ratepayers of approximately $448 million as of December 31, 1990, primarily representing the cumulative amount of federal income taxes on temporary depreciation differences which were previously flowed through to ratepayers. Those amounts include the tax effect of the future revenue requirements and are being amortized over the life of the related depreciable assets concurrent with their recovery in rates.

The Company has approximately $29 million of unused investment tax credits at December 31, 1990, which will begin to expire in 2001.

3. LONG-TERM DEBT

At December 31, 1990, long-term debt was (Thousands of Dollars):

First mortgage bonds

Series	Due	Amount	Series	Due	Amount
4⅝ %	May 1, 1991	$ 25,000	7¼%	June 1, 2006	$ 12,000
8⅜ %	Aug. 15, 1994	100,000	6⅞%	Dec. 1, 2006	25,750
8⅝ %	June 1, 1996	50,000	8⅝%	Nov. 1, 2007	60,000
5⅝ %	Jan. 1, 1997	25,000	10⅝%	Feb. 1, 2016	125,000
6¼ %	Sept. 1, 1997	25,000	9¼%	Apr. 1, 2016	50,000
6½ %	Sept. 1, 1998	30,000	9%	Mar. 1, 2017	100,000
7⅝ %	Nov. 1, 2001	50,000	10⅝%	Jan. 1, 2018	100,000
9.35%	July 1, 2003	35,300	9⅞%*	Feb. 1, 2020	100,000
9⅜ %	Mar. 1, 2005	75,000	9⅞%*	May 1, 2020	100,000
9⅜ %	Jan. 1, 2006	48,000	9⅞%*	Nov. 1, 2020	100,000
Total first mortgage bonds					**1,236,050**

Pollution control notes

Interest Rate	Maturity Date	Interest Rate Adjustment Date	Letter of Credit Expiration Date	Amount
12 %	May 1, 2014	-	-	60,000
12.30%	July 1, 2014	-	-	40,000
6.5 %	Dec. 1, 2014	Dec. 1, 1991	Dec. 15, 1992	74,000
5.9 %	Mar. 1, 2015	Mar. 1, 1991	Mar. 15, 1992	37,500
5.9 %	Mar. 15, 2015	Mar. 15, 1991	Mar. 31, 1992	60,000
6.0 %	July 15, 2015	July 15, 1991	July 31, 1992	63,500
6.15%	Oct. 15, 2015	Oct. 15, 1991	Oct. 31, 1992	30,000
5.75%	Dec. 1, 2015	Dec. 1, 1991	Dec. 15, 1992	42,000
6.6 %	July 1, 2026	July 1, 1993	July 15, 1993	65,000
6¾ %	Dec. 1, 2027	Dec. 1, 1991	Dec. 15, 1994	34,000
Total pollution control notes				**506,000**
SRC commercial paper due December 31, 1993				31,622
Obligations under capital leases				48,885
Unamortized premium and discount on debt - net				(6,871)
				1,815,686
Less debt due within one year - included in current liabilities				59,429
Total				$1,756,257

*Issued 1990

At December 31, 1990, long-term debt which will become due during the next five years is:

1991	1992	1993	1994	1995
(Thousands of Dollars)				
$59,429	$14,558	$44,607	$113,139	$12,157

The Company's mortgage provides for a sinking and improvement fund. The provision requires the Company to make annual cash deposits with the Trustee equivalent to 1% of the principal amount of all bonds delivered and authenticated by the Trustee prior to January 1 of that year (excluding any bonds issued on the basis of the retirement of bonds). The Company satisfied this requirement in 1990 by depositing $15.9 million in cash which was used to redeem $15.9 million of 12% Series First Mortgage Bonds. The Company will satisfy the requirement in 1991 by depositing $18.9 million in cash which will be used to redeem in February 1991, $18.9 million of 10⅝% Series First Mortage Bonds due 2016.

Mandatory annual cash sinking fund requirements are $3,000,000 for the 9⅜% Series due 2006, $2,100,000 for the 9.35% Series, $600,000 beginning June 1, 2001 for the 7¼% Series and $250,000 beginning December 1, 1992 for the 6⅞% Series. The amount increases to $500,000 and $750,000 on December 1, 1997 and December 1, 2002, respectively, for the 6⅞% Series.

The Company's first mortgage bond indenture constitutes a direct first mortgage lien on substantially all utility plant.

Adjustable rate pollution control notes were issued to secure like amounts of tax-exempt adjustable rate pollution control revenue bonds (Revenue Bonds) issued by a governmental authority. The Revenue Bonds bear interest at the rate indicated through the date preceding the interest rate adjustment date. The pollution control notes bear interest at the same rate as the Revenue Bonds. On the interest rate adjustment date and annually thereafter (every three years thereafter in the case of the Revenue Bonds due July 1, 2026 and December 1, 2027), the interest rate will be adjusted, not to exceed a rate of 15%, or at the option of the Company, subject to certain conditions, a fixed rate of interest, not to exceed 18%, may become effective. In the case of the Revenue Bonds due July 1, 2026 and December 1, 2027, at the option of the Company, subject to certain conditions, a fixed rate of interest may become effective prior to the interest rate adjustment date or each third year thereaf-

3. LONG-TERM DEBT (continued)

ter. Bond-owners may elect, subject to certain conditions, to have their Revenue Bonds purchased by the Trustee.

The Company has irrevocable letters of credit which expire on the letter of credit expiration dates and which the Company anticipates being able to extend if the interest rate on the related Revenue Bonds is not converted to a fixed interest rate. Those letters of credit support certain payments required to be made on the Revenue Bonds. If the Company is unable to extend the letter of credit that is related to a particular series of Revenue Bonds, that series will have to be redeemed unless a fixed rate of interest becomes effective. Payments made under the letters of credit in connection with purchases of Revenue Bonds by the Trustee are repaid with the proceeds from the remarketing of the Revenue Bonds. To the extent the proceeds are not sufficient, the Company is required to reimburse the bank that issued the letter of credit.

4. BANK LOANS AND OTHER BORROWINGS

The Company has a revolving credit agreement with certain banks which provides for borrowing up to $200 million to July 31, 1992. At the option of the Company, the interest rate on borrowings is related to the prime rate, the London Interbank Offered Rate or the interest rate applicable to certain certificates of deposit. The agreement also provides for the payment of a commitment fee on the unborrowed amount of 3/16 of 1% per annum.

The revolving credit agreement does not require compensating balances. The Company did not have any outstanding loans under this agreement at December 31, 1990 or 1989.

Interim financing in the form of short-term unsecured notes, usually commercial paper, is used to finance certain refundings and construction expenditures, thereby providing flexibility in the timing and amounts of long-term financings.

Information relative to short-term borrowings is as follows:

	Commercial Paper		
	1990	1989	1988
		(Thousands of Dollars)	
Ending balance	**$73,225**	$121,000	$77,400
Maximum amount outstanding	**$142,600**	$128,500	$134,100
Average amount outstanding (1)	**$98,400**	$82,500	$78,100
Weighted average interest rate:			
On ending balance	**8.6%**	8.6%	9.3%
During the period (2)	**8.5%**	9.2%	7.8%

(1) Calculated as the average of the sum of daily outstanding borrowings.
(2) Calculated by dividing total interest expense by the average of the sum of daily outstanding borrowings.

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5. PREFERRED STOCK

At December 31, 1990, serial cumulative preferred stock was:

Series	Par Value Per Share	Redeemable Prior to	Redeemable Per Share	Shares Authorized(1) and Outstanding	Amount (Thousands of Dollars)
Redeemable solely at the option of the Company:					
3.75%	$100		$104.00	150,000	$ 15,000
4½% (1949)	100		103.75	40,000	4,000
4.15%	100		101.00	40,000	4,000
4.40%	100		102.00	75,000	7,500
4.15% (1954)	100		102.00	50,000	5,000
6.48%	100		102.00	300,000	30,000
8.80%	100	3/1/91	103.94	250,000	25,000
		Thereafter	102.00		
8.48%	25	2/1/94	26.23	1,000,000	25,000
		Thereafter	25.70		
Adjustable Rate (2)	25	10/1/93	25.75	1,800,000	45,000
		Thereafter	25.00		
Total					$160,500
Subject to mandatory redemption requirements:(3) (4) (5)					
9.00%	100	10/1/91	102.00	118,500	$ 11,850
Less sinking fund requirements at par value-included in current liabilities					1,650
Total					$ 10,200

Annual redeemable preferred stock sinking fund requirements for the years 1991 through 1995 are $1.65 million.

(1) At December 31, 1990, there were 1,550,000 shares of $100 par value preferred stock, 8,000,000 shares of $25 par value preferred stock and 1,000,000 shares of $100 par value preference stock authorized but unissued.

(2) The Adjustable Rate Serial Preferred Stock, Series A, was issued in September 1983. Dividends paid from the date of issuance through the January 1, 1991 payment varied from 7½% to 12.95% per annum. The payment for April 1, 1991 has been adjusted to a rate of 8.10% per annum and subsequent payments can vary from 7½% to 13½% per annum, based on a formula included in the Company's Certificate of Incorporation.

(3) On October 1, in each year 1991 through 1995, the Company must redeem at par 16,500 shares of the 9.00% Series. For the years 1988 through 1990, 16,500 shares were redeemed and cancelled annually. The 9.00% Series is redeemable at $102 per share prior to October 1, 1991. The $102 price per share will be reduced annually by $.50. As of October 1, 1994, and thereafter, the redemption price will be at par. By September 30, 1996, the Company must set aside the amount required to redeem at par all shares outstanding.

(4) In July 1989, the Company redeemed, at a price of $25 per share, the remaining 120,000 shares of the 9.10% Series. The Company redeemed and cancelled 120,000 shares annually in 1988 and 1989.

(5) In 1988, the Company redeemed and cancelled the remaining 200 shares of the 4.50% Series at a price of $103.25 per share.

6. RETIREMENT BENEFITS

The Company has noncontributory retirement annuity plans which cover substantially all employees. Benefits are based principally on the employee's length of service and compensation for the five highest paid years out of the last 10 years of service. It is the Company's policy to fund pension costs accrued each year to the extent deductible for federal income tax purposes. Net pension benefit for 1990, 1989 and 1988 totaled $4.9, $3.7 and $4.1 million, respectively.

Net pension benefit for 1990 and 1989 include the following components:

	1990	1989
	(Thousands of Dollars)	
Service cost: Benefits earned during the year	$ 11,968	$ 11,149
Interest cost on projected benefit obligation	28,636	26,305
Actual return on plan assets	(6,499)	(95,493)
Net amortization and deferral	(39,017)	54,337
Net pension benefit	$ (4,912)	$ (3,702)

The funded status of the plans at December 31, 1990 was:

	(Thousands of Dollars)
Actuarial present value of accumulated benefit obligation:	
Vested	$230,403
Nonvested	28,593
Total	$258,996
Fair value of plan assets	$557,174
Actuarial present value of projected benefit obligation	(378,802)
Plan assets in excess of projected benefit obligation	178,372
Unrecognized net transition asset	(95,356)
Unrecognized net (gain) loss	(86,615)
Unrecognized prior service cost	4,992
Net pension asset	$ 1,393

Plan assets primarily consist of equity securities, corporate bonds, U.S. agency and Treasury bonds and notes and cash equivalents.

For 1990 and 1989, the assumed discount rate and long-term rate of increase in future compensation levels used in measuring the projected benefit obligation was 8% and 6%, respectively, while the expected long-term rate of return on plan assets was 7.5%.

In addition to providing pension benefits, the Company provides certain postretirement benefits for retired employees and their dependents. Substantially all of the Company's employees who retire under a Company pension plan may become eligible for those benefits at retirement. At December 31, 1990, 1989 and 1988, 1,785, 1,685 and 1,674 retirees and their dependents, respectively, were covered under the Company's comprehensive health insurance plan and prescription drug plan, which the Company self-insures. The cost of providing those benefits to retirees was approximately $4.1 million in 1990, $3.2 million in 1989 and $2 million in 1988.

The Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 106, Employers' Accounting for Postretirement Benefits Other Than Pensions (SFAS 106), in December 1990. SFAS 106, which is effective for the Company beginning January 1, 1993, requires that the Company accrue a liability for estimated future postretirement benefits during an employee's working career rather than recognize an expense when benefits are paid. The Company believes that the adoption of SFAS 106 will not have a material impact on its results of operations or financial condition because any increase in expense should ultimately be recovered in rates.

7. JOINTLY-OWNED GENERATING STATIONS

Homer City

The Company has an undivided 50% interest in the output and costs of the Homer City Generating Station which is comprised of three generating units. The station is owned with Pennsylvania Electric Company which operates the facility. The Company's share of the rated capability is 956,000 kilowatts and its net utility plant investment was $253 and $254 million at December 31, 1990 and 1989, respectively. The accumulated provision for depreciation as of December 31, 1990 and 1989 was $135 and $125 million, respectively. The Company's share of operating expense is included in the Consolidated Statement of Income.

Nine Mile Point Unit 2

The Company has an undivided 18% interest in the 1,084,000 kilowatt Nine Mile Point nuclear generating unit No. 2 (NMP2) which was constructed and is being operated by Niagara Mohawk Power Corporation (Niagara Mohawk). Ownership of NMP2 is shared with Niagara Mohawk 41%, Long Island Lighting Company 18%, Rochester Gas and Electric Corporation 14% and Central Hudson Gas & Electric Corporation 9%. At December 31, 1990 and 1989, the Company's net utility plant investment in NMP2, excluding nuclear fuel, was $695 and $707 million, respectively. The accumulated provision for depreciation as of December 31, 1990 and 1989 was $50 and $32 million, respectively. The Company's share of operating expense is included in the Consolidated Statement of Income.

In October 1990, the PSC approved an agreement signed in June 1990 (June 1990 Agreement) by the cotenants of NMP2, the PSC staff and other interested parties. The PSC is expected to issue its order approving the June 1990 Agreement by the end of the first quarter 1991. The June 1990 Agreement resolves open NMP2 ratemaking issues with respect to the construction of NMP2 and its operation through January 19, 1990. The June 1990 Agreement imposes additional disallowed costs on the cotenants. The Company's share of the disallowed costs resulting from the June 1990 Agreement was provided for in 1987.

In December 1988, the Nuclear Regulatory Commission (NRC) categorized NMP2 as requiring close monitoring. The NRC's conclusion was based upon its assessment of the performance of NMP2 during its first year of operation. The NRC staff indicated that increased licensee and NRC management attention was needed to ensure that performance improvement is achieved at NMP2. NRC senior managers reaffirmed by letter dated January 22, 1991 that NMP2 continues to be categorized as requiring close monitoring.

The NRC conducts an annual systematic assessment of licensee performance (SALP) review of NMP2. The next SALP review is scheduled for the spring of 1991. The spring 1990 SALP review classified three of the seven functional areas reviewed as Category 3, the lowest ranking under SALP, representing acceptable, although minimally adequate, safety performance.

In August 1990, the Institute of Nuclear Power Operations (INPO), an industry sponsored oversight group, performed an evaluation of NMP2. INPO reported deficiencies in several key areas related to operator performance, enforcement of station standards, documentation of in-house events and engineering support of plant operations. Niagara Mohawk has provided a response with respect to the INPO findings and has made commitments to INPO to address those findings. Niagara Mohawk has advised the Company that it considers that the issues raised will not prevent the continued operation of NMP2.

On August 22, 1989, an 18-month interim operating agreement for NMP2 became effective. The agreement provides for additional policy, budget and management oversight functions of NMP2 by the four non-operating cotenants. During the period of the agreement, the cotenants are exploring alternative operating arrangements for NMP2. The interim operating agreement was to expire on February 22, 1991; however, the cotenants have extended the agreement until February 22, 1992.

On September 5, 1990, NMP2 was taken out of service for a scheduled 13-week refueling outage; however, the outage was extended as a result of increased work scope. On January 30, 1991, NMP2 returned to service. The next refueling outage for NMP2 is expected to begin during the first quarter of 1992; however, an inspection of a potential weld defect will be required before such time.

8. COMMITMENTS AND CONTINGENCIES

Construction Program

The Company has made substantial commitments in connection with its construction program and estimates that 1991 costs will approximate $239 million. The program is subject to periodic review and revision, and actual construction costs to be incurred may vary because of revised load estimates, imposition of additional regulatory requirements and the availability and cost of capital.

Environmental Matters

The Clean Air Act Amendments of 1990 (1990 Amendments) which became effective in November 1990, will result in significant future expenditures for the reduction of sulfur dioxide, nitrogen oxides and possibly toxic emissions at several of the Company's coal-fired generating stations. The Company estimates that the cost of complying, over a 30-year period, with the sulfur dioxide and nitrogen oxides limitations in the 1990 Amendments is between $250 and $300 million. This cost includes all capital and operation and maintenance expenses. The Company anticipates that those costs will be recoverable through rates and that a 3 to 4% electric rate increase will be required. The cost of controlling toxic emissions, if necessary, cannot be estimated at this time. Regulations may be adopted at the state level which would limit emissions even further, with an additional cost to the Company. The Company believes that any costs associated with such regulations will also be recoverable through rates.

Homer City Prudence Proceeding

On January 4, 1991, the Company and the PSC staff signed an Agreement (Agreement) which settles a proceeding instituted by the PSC to investigate the reasonableness of the Company's emission control strategies, related fuel practices and other issues at the Homer City generating station (Homer City). The Agreement, among other things, provides for a rate base disallowance for the Unit #3 section of the Homer City Coal Cleaning Plant of $20.6 million, which will reduce the Company's rate of return over the life of the asset. The Agreement also provides for a six-month electric base rate moratorium in 1992. The Company is unable to estimate the impact on earnings of such a moratorium. The Agreement is subject to PSC approval which is expected by the end of the second quarter of 1991.

Nuclear Insurance

Niagara Mohawk maintains public liability and property insurance for NMP2. The Company reimburses Niagara Mohawk for its 18% share of those costs.

The Price-Anderson Amendments Act of 1988 (Amendment) significantly increased the Company's potential liability for a nuclear incident. The Amendment increased the public liability limit for a nuclear incident to approximately $7.6 billion. Should losses stemming from a nuclear incident exceed the commercially available public liability insurance, each licensee of a nuclear facility would be liable for up to a maximum of $63 million per incident, payable at a rate not to exceed $10 million per year.

The Company's maximum liability for its 18% interest in NMP2 would be approximately $11 million per incident. The $63 million assessment is subject to periodic inflation indexing and a 5% surcharge should funds prove insufficient to pay claims associated with a nuclear incident. The Amendment also requires indemnification for precautionary evacuations whether or not a nuclear incident actually occurs.

Niagara Mohawk maintains nuclear property insurance for NMP2. Through the Nuclear Insurance Pools, Arkwright Mutual and the Nuclear Electric Insurance Limited (NEIL), Niagara Mohawk has procured property insurance aggregating approximately $2.2 billion. In addition, the Company has purchased NEIL insurance coverage for the extra expense incurred in purchasing replacement power during prolonged accidental outages. Under NEIL programs, should losses resulting from an incident at a member facility exceed the accumulated reserves of NEIL, each member, including the Company, would be liable for its share of the deficiency. The Company's maximum liability under the property damage and replacement power coverages is approximately $1.8 million.

Nuclear Fuel Disposal and Nuclear Plant Decommissioning Costs

Niagara Mohawk has contracted with the U.S. Department of Energy for the disposal of nuclear fuel. The Company is reimbursing Niagara Mohawk for its 18% share of the cost under the contract (currently approximately $1.00 per megawatt hour of net generation).

The Company has been informed by Niagara Mohawk that its 18% share of the cost to decommission NMP2 is currently estimated to be $226 million in 2027, when decommissioning is expected to commence. Included in the Company's 1991 electric rates is an annualized allowance of approximately $1.6 million which is based on Niagara Mohawk's estimate for the Company's 18% share of decommissioning NMP2 in 2027.

In March 1990, the Company established a Qualified Fund, under applicable provisions of the federal tax law. The fund also complies with NRC regulations which require the use of an external trust fund to decommission the contaminated portion of NMP2. The Company has been informed by Niagara Mohawk that on July 18, 1990, it filed a decommissioning report for NMP2 with the NRC. The report outlined the proposed plans, which included the Company's funding plan, to provide financial assurance to fund costs to decommission NMP2 when its license expires.

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9. INDUSTRY SEGMENT INFORMATION

Certain information pertaining to the electric and natural gas operations of the Company is:

	1990		1989		1988	
	Electric	Natural Gas	Electric	Natural Gas	Electric	Natural Gas
			(Thousands of Dollars)			
Operating:						
Revenues	**$1,334,509**	**$162,271**	$1,266,668	$161,077	$1,191,806	$148,363
Expenses	**1,033,564**	**147,859**	961,127	153,885	878,794	133,856
Income	**300,945**	**14,412**	305,541	7,192	313,012	14,507
Depreciation*	**142,286**	**5,373**	143,433	4,942	129,518	4,519
Construction expenditures	**187,660**	**23,065**	176,645	15,377	211,539	16,684
Identifiable assets**	**3,781,048**	**179,605**	3,721,147	163,389	3,707,589	141,470

* Included in operating expenses.

** Assets used in both electric and natural gas operations not included above were $775,386, $785,747 and $844,218 at December 31, 1990, 1989 and 1988, respectively. They consisted primarily of cash and temporary cash investments, special deposits, accounts receivable, prepayments, unamortized debt expense, unfunded future federal income taxes and accumulated deferred income tax benefits.

10. SUPPLEMENTARY INCOME STATEMENT INFORMATION

Charges for maintenance, repairs and depreciation, other than those set forth in the Consolidated Statement of Income, were not significant in amount. Taxes, other than federal income taxes, are:

	1990	1989	1988
		(Thousands of Dollars)	
Property	**$ 81,276**	$ 76,591	$ 70,823
Franchise and gross receipts	**67,091**	57,202	55,398
Payroll	**14,872**	13,753	13,158
Miscellaneous	**8,578**	7,302	6,630
	171,817	154,848	146,009
Amounts charged to accounts other than taxes	**(13,047)**	(8,243)	(9,303)
Total other taxes	**$158,770**	$146,605	$136,706

GLOSSARY

Btu (British thermal unit): *the quantity of heat required to raise the temperature of one pound of water one degree Fahrenheit at sea level*

Dekatherm: *a measure of heating value equal to one million Btu; 1,000 cubic feet of natural gas (one mcf) equals approximately one dekatherm*

Demand side management: *the planning and implementation of programs designed to help residential, commercial and industrial customers manage energy use; these programs save customers money and help the Company manage energy demand*

Unbilled revenues: *the estimated revenues attributable to energy which has been delivered to the Company's customers but for which the metered amount has not been read and billed to the customer*

Watt: *the amount of electric power equal to one ampere of current under one volt of pressure*

Kilowatt: *1,000 watts*

Kilowatt-hour: *1,000 watts used for one hour*

Megawatt: *1,000 kilowatts or 1,000,000 watts*

11. QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

	Quarter Ended			
	March 31	June 30	Sept. 30	Dec. 31
	(Thousands Except Per Share Data)			
1990				
Operating revenues	$438,293	$367,009	$330,344	$361,134
Operating income	$110,646	$81,766	$62,633	$60,312
Net income	$70,321	$43,311	$22,237	$22,144
Earnings for common stock	$67,212	$40,124	$19,060	$18,955
Earnings per share	$1.17	$.69	$.33	$.31
Dividends per share	$.51	$.51	$.52	$.52
Average shares outstanding	57,651	57,859	58,074	61,097
Common stock price:*				
High	$29¼	$25⅜	$24⅝	$26¼
Low	$24⅜	$22½	$21⅜	$23
1989				
Operating revenues	$413,113	$344,760	$319,985	$349,887
Operating income	$109,476	$81,003	$65,527	$56,727
Net income	$67,738	$39,652	$26,430	$23,959
Earnings for common stock	$64,416	$36,309	$23,251	$20,828
Earnings per share	$1.13	$.64	$.41	$.36
Dividends per share	$.50	$.50	$.51	$.51
Average shares outstanding	56,815	57,038	57,238	57,454
Common stock price:*				
High	$23⅝	$27⅜	$27¾	$29
Low	$21⅞	$22¾	$25⅞	$25⅝

* The Company's common stock is listed on the New York Stock Exchange. The number of stockholders of record at January 17, 1991 was 60,585.

Dividend Limitations: After dividends on all outstanding preferred stock have been paid, or declared and funds set apart for their payment, the common stock is entitled to cash dividends as may be declared by the Board of Directors out of retained earnings accumulated since December 31, 1946. Such dividends are limited if Common Stock Equity (41.5% at December 31, 1990) falls below 25% of total capitalization, as defined in the Company's Certificate of Incorporation. Dividends on common stock cannot be paid unless sinking fund requirements of the preferred stock are met. The Company has not been restricted in the payment of dividends on common stock by these provisions.

SELECTED FINANCIAL DATA

	1990	1989	1988	1987	1986
	(Thousands Except Per Share Data)				
Operating revenues	**$1,496,780**	$1,427,745	$1,340,169	$1,289,638	$1,277,284
Net Income (loss)	**$158,013**	$157,779*	$171,467*	($177,737)*	$228,494
Earnings (loss) per share	**$2.48**	$2.53*	$2.81*	($3.46)*	$3.86
Dividends declared and paid per share	**$2.06**	$2.02	$2.00	$2.64	$2.60
Average shares outstanding	**58,678**	57,138	56,239	55,318	54,014
Book value per share of common stock (year-end)	**$21.85**	$21.29	$20.71	$19.85	$25.86
Interest charges	**$173,390**	$180,068	$199,730	$202,321	$199,258
AFDC and non-cash return	**$5,776**	$6,387	$28,788	$108,128	$111,872
Depreciation	**$147,659**	$148,375	$134,037	$110,679	$100,796
Other taxes	**$158,770**	$146,605	$136,706	$128,776	$122,400
Construction expenditures	**$210,725**	$192,022	$228,223	$270,045	$332,896
Total assets	**$4,736,039**	$4,670,283	$4,693,277	$4,487,344	$4,224,984
Long-term obligations, capital leases and redeemable preferred stock	**$1,766,457**	$1,799,800	$1,837,648	$2,073,374	$1,951,227

* Net income and earnings per share for 1987 would have been $191,052 and $3.21, respectively, excluding the effects of the write-off of NMP2 and Jamesport disallowed costs and an accounting change for income taxes. Net income and earnings per share for 1988 and 1989 include the effects of adjustments recorded in April 1988 and December 1989 to the 1987 NMP2 write-off. Excluding those adjustments, net income and earnings per share for 1988 and 1989 were $165,377 and $2.70 and $151,998 and $2.43, respectively.

REPORT OF MANAGEMENT

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The Company's management is responsible for the preparation, integrity and objectivity of the consolidated financial statements, notes and other information in this Annual Report. The consolidated financial statements have been prepared in accordance with generally accepted accounting principles and include estimates which are based upon management's judgment and the best available information. Other financial information contained in this report was prepared on a basis consistent with that of the consolidated financial statements.

In recognition of its responsibility for the consolidated financial statements, management maintains a system of internal accounting controls which is designed to provide reasonable assurance as to the integrity and reliability of the financial statements, the protection of assets from unauthorized use or disposition, and the prevention and detection of fraudulent financial reporting. Management continually monitors its system of internal controls for compliance. The Company maintains an internal audit department which independently assesses the effectiveness of the internal controls. In addition, the Company's independent accountants, Coopers & Lybrand, have considered the Company's internal control structure to the extent they considered necessary in expressing an opinion on the consolidated financial statements. Management is responsive to the recommendations of its internal audit department and Coopers & Lybrand concerning internal controls and corrective measures are taken when considered appropriate. Management believes that as of December 31, 1990 the Company's system of internal controls provides reasonable assurance as to the integrity and reliability of the consolidated financial statements.

The Board of Directors oversees the Company's financial reporting through its Audit Committee. This Committee, which is comprised entirely of outside directors, meets regularly with management, the internal auditor and Coopers & Lybrand to discuss auditing, internal control and financial reporting matters. To ensure their independence both the internal auditor and independent accountants have free access to the Audit Committee, without management's presence.

James A. Carrigg

James A. Carrigg
Chairman, President and Chief Executive Officer

Sherwood J. Rafferty

Sherwood J. Rafferty
Vice President and Treasurer (Chief Financial Officer)

Everett A. Robinson

Everett A. Robinson
Vice President and Controller (Chief Accounting Officer)

REPORT OF INDEPENDENT ACCOUNTANTS

Coopers
&Lybrand

To the Stockholders and Board of Directors,
New York State Electric & Gas Corporation and Subsidiary
Ithaca, New York

We have audited the accompanying consolidated balance sheets of New York State Electric & Gas Corporation and Subsidiary as of December 31, 1990 and 1989, and the related consolidated statements of income, changes in common stock equity and cash flows for each of the three years in the period ended December 31, 1990. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of New York State Electric & Gas Corporation and Subsidiary at December 31, 1990 and 1989, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 1990, in conformity with generally accepted accounting principles.

Coopers & Lybrand

New York, New York
January 25, 1991

NYSEG

	1990	1989	1988	1987	1986	1985	1980
				(Thousands of Dollars)			
Operating Revenues							
Electric	**$1,334,509**	$1,266,668	$1,191,806	$1,136,799	$1,098,089	$1,051,579	$570,996
Gas	**162,271**	161,077	148,363	152,839	179,195	190,201	138,812
Total	**1,496,780**	1,427,745	1,340,169	1,289,638	1,277,284	1,241,780	709,808
Operating Expenses							
Fuel used in electric generation	**274,245**	279,075	253,326	249,520	238,371	280,397	151,404
Electricity purchased	**34,613**	26,019	19,432	29,638	29,302	35,984	62,464
Gas purchased	**88,589**	101,598	82,822	90,974	111,147	129,809	100,895
Maintenance	**106,665**	97,420	90,097	93,274	88,486	81,591	44,121
Depreciation	**147,659**	148,375	134,037	110,679	100,796	98,085	47,486
Federal income taxes	**89,577**	64,489	81,689	110,355	122,987	96,651	28,382
Other taxes	**158,770**	146,605	136,706	128,776	122,400	113,587	63,552
Other operating expenses	**281,305**	251,431	214,541	195,204	182,710	167,923	96,877
Total	**1,181,423**	1,115,012	1,012,650	1,008,420	996,199	1,004,027	595,181
Operating Income	**315,357**	312,733	327,519	281,218	281,085	237,753	114,627
Allowance for other funds used during construction	**185**	594	10,961	55,777	63,168	50,263	15,560
Non-cash return	**513**	780	3,081	5,039	15,774	46,867	8,042
Other-net	**10,270**	18,727	14,890	(134,692)	34,795	39,209	10,230
Income Before Interest Charges	**326,325**	332,834	356,451	207,342	394,822	374,092	148,459
Interest Charges							
Interest on long-term debt	**158,209**	164,573	187,304	195,264	187,238	178,985	61,217
Other Interest	**15,181**	15,495	12,426	7,057	12,020	12,263	6,361
Allowance for borrowed funds used during construction	**(5,078)**	(5,013)	(14,746)	(47,312)	(32,930)	(25,589)	(7,323)
Interest charges - net	**168,312**	175,055	184,984	155,009	166,328	165,659	60,255
Income Before Cumulative Effect of Accounting Changes	**158,013**	157,779	171,467	52,333	228,494	208,433	88,204
Cumulative effect for years prior to 1987 of accounting change for disallowed project costs (less applicable taxes of $95,434)	-	-	-	(210,914)	-	-	-
Cumulative effect for years prior to 1987 of accounting change for income taxes	-	-	-	(19,156)	-	-	-
Net Income (Loss)	**158,013**	157,779	171,467	(177,737)	228,494	208,433	88,204
Preferred Stock Dividends	**12,662**	12,975	13,492	13,662	20,104	25,226	14,567
Earnings (Loss) available for Common Stock	**145,351**	144,804	157,975	(191,399)	208,390	183,207	73,637
Common Stock Dividends	**121,302**	115,224	112,252	145,794	140,432	132,018	49,091
Retained Earnings Increase (Decrease)	**$ 24,049**	$ 29,580	$ 45,723	$ (337,193)	$ 67,958	$ 51,189	$ 24,546
Average number of shares of common stock outstanding (thousands)	**58,678**	57,138	56,239	55,318	54,014	53,013	27,311
Earnings (Loss) per share	**$2.48**	$2.53	$2.81	$(3.46)	$3.86	$3.46	$2.70
Dividends paid per share	**$2.06**	$2.02	$2.00	$ 2.64	$2.60	$2.50	$1.82

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	1990	1989	1988	1987	1986	1985	1980
Financial Statistics							
Return on average common stock equity - percent	**11.4**	11.5 *	13.2 *	12.2 *	15.3	14.3	12.3
Percentage of AFDC and non-cash return to total earnings	**4.0**	4.6	15.5	50.3	53.7	67.0	42.0
Mortgage bond interest - times earned	**2.9**	2.9	2.6	1.6	2.9	2.9	2.6
Interest charges and preferred dividends - times earned	**1.8**	1.8	1.7	1.2	1.9	1.8	1.9
Book value per share of common stock (year-end)	**$21.85**	$21.29	$20.71	$19.85	$25.86	$24.65	$21.99
Market value per share of common stock (year-end)	**$26.00**	$28.88	$22.75	$20.88	$31.38	$28.63	$14.88
Dividend payout ratio (percent)	**83.1**	79.8	71.2	82.2 **	67.4	72.3	67.4
Price earnings ratio (year-end)	**10.5**	11.4	8.1	6.5 **	8.1	8.3	5.5
Property, Plant and Equipment (includes construction work in progress):							
Electric	**$4,367,913**	$4,217,920	$4,089,485	$3,885,989	$4,129,838	$3,828,220	$1,942,378
Gas	**222,125**	201,942	189,580	176,019	164,426	154,675	127,456
Common	**175,703**	155,340	129,860	100,252	78,781	72,494	47,407
Total	**$4,765,741**	$4,575,202	$4,408,925	$4,162,260	$4,373,045	$4,055,389	$2,117,241
Accumulated Depreciation	**$1,174,651**	$1,063,630	$956,415	$855,198	$769,336	$687,472	$452,464
Capitalization (includes current maturities):							
Long-term debt	**$1,815,686**	$1,801,762	$1,985,276	$2,091,678	$1,959,089	$1,803,469	$ 837,819
Preferred stock	**172,350**	174,000	178,650	183,320	217,970	252,620	191,550
Common stock equity	**1,364,344**	1,225,184	1,174,028	1,106,518	1,397,962	1,331,231	642,217
Total capitalization	**$3,352,380**	$3,200,946	$3,337,954	$3,381,516	$3,575,021	$3,387,320	$1,671,586
Capitalization Ratios (percent):							
Long-term debt	**54.2**	56.3	59.5	61.9	54.8	53.2	50.1
Preferred stock	**5.1**	5.4	5.3	5.4	6.1	7.5	11.5
Common stock equity	**40.7**	38.3	35.2	32.7	39.1	39.3	38.4
Number of Stockholders:							
Common stock	**60,585**	62,552	66,689	70,441	71,935	79,013	70,737
Preferred stock	**4,068**	4,238	4,444	4,583	6,060	6,364	6,083
Payroll (including pensions, etc.):							
Charged to operations	**$148,007**	$140,415	$132,617	$134,484	$126,307	$118,711	$ 73,442
Charged to construction and other accounts	**72,761**	64,890	61,808	54,276	55,936	57,075	43,046
Total	**$220,768**	$205,305	$194,425	$188,760	$182,243	$175,786	$116,488
Number of employees (year-end)	**4,599**	4,558	4,494	4,498	4,423	4,360	4,310

* *Return on average common stock equity for 1987 excludes the effects of the write-off of Nine Mile Point nuclear generating unit No.2 (NMP2) and Jamesport disallowed costs and the accounting change for income taxes. The return on equity for 1988 and 1989 excludes the NMP2 write-off adjustments.*

** *Excludes the 1987 write-offs and accounting change.*

ELECTRIC SALES STATISTICS

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	1990	1989	1988	1987	1986	1985	1980
Kilowatt-hour (kwh) Sales (millions)							
Residential	**5,319**	5,233	5,148	4,905	4,791	4,615	4,325
Commercial	**3,235**	3,181	3,069	2,882	2,772	2,678	2,485
Industrial	**3,175**	3,210	3,159	3,018	2,899	2,811	2,769
Other	**1,468**	1,431	1,400	1,372	1,345	1,301	1,163
Subtotal	**13,197**	13,055	12,776	12,177	11,807	11,405	10,742
Other electric utilities	**4,750**	4,461	3,896	4,295	3,545	5,021	1,944
Total	**17,947**	17,516	16,672	16,472	15,352	16,426	12,686
Operating Revenues (thousands):							
Residential	**$ 541,906** *	$ 510,941	$ 507,428	$ 483,531	$ 457,132	$ 401,345	$226,867
Commercial	**278,038** *	261,606	257,707	244,416	235,246	201,654	119,545
Industrial	**203,902** *	196,701	198,344	190,806	187,372	160,089	98,976
Other	**120,803** *	114,364	113,576	110,846	109,181	93,180	53,139
Subtotal	**1,144,649**	1,083,612	1,077,055	1,029,599	988,931	856,268	498,527
Other electric utilities	**145,104**	134,108	89,784	109,453	95,707	171,073	64,961
Other operating revenues	**44,756**	48,948	24,967	(2,253)	13,451	24,238	7,508
Total Operating Revenues	**$1,334,509**	$1,266,668	$1,191,806	$1,136,799	$1,098,089	$1,051,579	$570,996
Operating Revenues per kwh (cents):							
Residential	**9.81**	9.76	9.86	9.86	9.54	8.70	5.25
Commercial	**8.27**	8.22	8.40	8.48	8.49	7.53	4.81
Industrial	**6.17**	6.13	6.28	6.32	6.46	5.70	3.57
Other	**7.93**	7.99	8.11	8.08	8.12	7.16	4.57
Total Retail	**8.35**	8.30	8.43	8.46	8.38	7.51	4.64
Other electric utilities	**3.05**	3.01	2.30	2.55	2.70	3.41	3.34
Average revenue per kwh	**7.20**	7.23	7.15	6.90	7.15	6.40	4.50
Number of Customers (year-end):							
Residential	**685,898**	676,590	665,296	653,398	640,094	628,864	596,584
Commercial	**70,802**	69,230	67,488	65,923	64,603	63,324	56,923
Industrial	**1,498**	1,465	1,437	1,411	1,388	1,387	1,345
Other	**10,825**	10,694	10,556	10,363	10,516	10,391	9,537
Total	**769,023**	757,979	744,777	731,095	716,601	703,966	664,389
Annual Average Use (kwh): **							
Residential	**7,796**	7,786	7,791	7,569	7,538	7,387	7,289
Commercial	**45,826**	46,095	45,600	43,787	42,935	42,261	43,464
Industrial (thousands)	**2,142**	2,200	2,226	2,134	2,081	2,024	2,099
Annual Average Bill: **							
Residential	**$765**	$760	$768	$746	$719	$642	$382
Commercial	**3,791**	3,791	3,829	3,713	3,644	3,182	2,091
Industrial	**132,265**	134,819	139,777	134,941	134,510	115,255	75,039

* *Includes unbilled revenues.*

** *Computed using the weighted average number of customers for the year.*

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	1990	1989	1988	1987	1986	1985	1980
System Capability (megawatts):							
Coal	**2,414**	2,414	2,405	2,386	2,366	2,366	1,745
Nuclear	**194**	193	194	-	-	-	-
Hydro	**68**	66	67	68	68	64	38
Internal Combustion	**7**	7	7	7	7	7	11
Total generating capability	**2,683**	2,680	2,673	2,461	2,441	2,437	1,794
Purchased - Power Authority	**487**	487	510	509	563	621	774
- Other	**53**	9	-	-	-	-	250
Less: Firm Sales	**-**	(115)	(125)	-	-	-	-
Total system capability	**3,223**	3,061	3,058	2,970	3,004	3,058	2,818
Production Statistics:							
Annual load factor (percent)	**69.4**	64.7	63.5	65.5	66.3	64.4	67.1
Coal burned (thousands of net tons)	**6,395**	6,472	6,106	5,956	5,334	6,051	4,724
Coal heat value (Btu per lb.)	**12,510**	12,477	12,572	12,487	12,335	12,309	11,537
Btu per kwh generated (net)	**9,924**	9,931	9,881	9,897	9,959	10,093	10,639
Kilowatt-hour (kwh) Production Net (millions):							
Generated:							
Coal	**16,211**	16,345	15,589	15,025	13,196	14,769	10,245
Nuclear	**743**	773	639	60	-	-	-
Hydro	**356**	292	245	280	338	242	204
Total generated	**17,310**	17,410	16,473	15,365	13,534	15,011	10,449
Purchased - Power Authority	**1,607**	1,667	1,743	1,911	2,590	2,315	2,743
- Other	**347**	102	45	583	464	491	744
Total	**19,264**	19,179	18,261	17,859	16,588	17,817	13,936
Production Expenses (thousands):							
Generated	**$391,977**	$381,371	$351,963	$332,250	$318,885	$353,265	$185,199
Purchased	**34,613**	26,019	19,432	29,638	29,302	35,984	62,465
Total	**$426,590**	$407,390	$371,395	$361,888	$348,187	$389,249	$247,664
Cost per kwh (mills):							
Generated	**22.64**	21.91	21.37	21.62	23.56	23.53	17.72
Purchased	**17.71**	14.71	10.87	11.88	9.59	12.82	17.91
Operating expense (excluding production)	**12.32**	11.20	9.65	9.79	9.85	8.46	6.45
Total	**34.46**	32.44	29.99	30.05	30.05	30.31	24.22
Electric Operation and Maintenance Expenses (thousands)							
Production	**$426,590**	$407,390	$371,395	$361,888	$348,187	$389,249	$247,664
Transmission	**30,118**	29,239	22,196	24,314	22,438	23,450	9,930
Distribution	**58,876**	54,420	49,737	55,673	49,522	46,120	30,455
Customer accounting	**38,838**	35,370	21,522	20,158	19,220	18,255	11,379
Customer service	**27,625**	23,426	20,527	12,047	8,867	7,005	3,669
Administrative and general	**81,815**	72,405	62,258	62,660	63,328	55,868	34,423
Total	**$663,862**	$622,250	$547,635	$536,740	$511,562	$539,947	$337,520

NATURAL GAS SALES STATISTICS

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	1990	1989	1988	1987	1986	1985	1980
Dekatherm (dth) Sales (thousands):							
Residential	**14,809**	15,331	14,818	13,897	14,139	13,652	16,482
Commercial	**6,532**	6,926	7,055	6,803	7,343	7,392	7,937
Industrial	**2,023**	2,167	3,121	3,038	5,126	7,790	9,883
Other	**2,151**	2,071	2,242	2,499	3,373	3,547	3,356
Subtotal	**25,515**	26,495	27,236	26,237	29,981	32,381	37,658
Transportation of customer-owned natural gas	**8,157**	8,853	7,825	5,959	3,287	1,926	-
Total	**33,672**	35,348	35,061	32,196	33,268	34,307	37,658
Operating Revenues (thousands):							
Residential	**$ 95,071 ***	$ 93,873	$ 83,115	$ 85,242	$ 91,068	$ 88,677	$ 66,333
Commercial	**38,060 ***	38,726	35,680	37,620	42,711	42,952	28,698
Industrial	**10,316 ***	10,437	12,821	13,909	24,429	37,734	31,730
Other	**11,655 ***	11,320	11,224	13,137	18,819	19,917	12,051
Subtotal	**155,102**	154,356	142,840	149,908	177,027	189,280	138,812
Transportation of customer-owned natural gas	**7,169**	6,721	5,523	2,931	2,168	921	-
Total Operating Revenues	**$162,271**	$161,077	$148,363	$152,839	$179,195	$190,201	$138,812
Operating Revenues per dth:							
Residential	**$6.38**	$6.12	$5.61	$6.13	$6.44	$6.50	$4.02
Commercial	**5.79**	5.59	5.06	5.53	5.82	5.81	3.62
Industrial	**5.08**	4.82	4.11	4.58	4.77	4.84	3.21
Other	**5.39**	5.47	5.01	5.26	5.58	5.62	3.59
Average revenue per dth	**$6.05**	$5.83	$5.24	$5.71	$5.90	$5.85	$3.69
Number of Customers (year-end):							
Residential with house heating	**117,429**	114,497	111,543	108,515	106,006	104,487	101,794
Residential without house heating	**8,360**	8,079	8,340	8,220	8,286	8,323	10,447
Commercial with space heating	**16,843**	16,626	16,419	16,265	16,221	16,074	13,068
Commercial without space heating	**1,548**	1,476	1,444	1,408	1,417	1,406	1,066
Industrial	**334**	343	343	400	399	413	392
Transportation of customer-owned natural gas	**277**	228	214	149	39	21	-
Other	**1,246**	1,154	1,133	1,202	1,174	1,158	1,180
Total	**146,037**	142,403	139,436	136,159	133,542	131,882	127,947
Annual Average Use (dth): **							
Residential	**119**	126	125	120	125	122	148
Commercial	**358**	386	398	387	419	426	566
Industrial	**6,003**	6,246	8,694	7,614	12,657	19,046	25,804
Annual Average Bill: **							
Residential	**$763**	$774	$703	$738	$803	$790	$597
Commercial	**2,076**	2,158	2,012	2,139	2,437	2,476	2,047
Industrial	**30,466**	30,079	35,713	34,860	60,319	92,259	82,846
Cost of Natural Gas Purchased							
Amount (thousands)	**$88,589**	$101,598	$82,822	$90,974	$111,147	$129,809	$100,895
Per dth	**$3.64**	$3.57	$3.02	$3.43	$3.75	$3.87	$2.59
Natural Gas Operation and Maintenance Expenses (thousands):							
Production	**$ 88,901**	$102,014	$ 83,155	$ 91,369	$111,538	$130,269	$101,174
Transmission and distribution	**13,982**	13,247	11,712	11,570	11,013	10,224	7,608
Customer accounting	**6,264**	5,489	4,607	4,656	4,085	3,977	2,589
Customer service	**5,942**	3,972	3,352	2,374	2,227	1,779	749
Administrative and general	**6,464**	8,571	9,758	11,901	9,589	9,508	6,121
Total	**$121,553**	$133,293	$112,584	$121,870	$138,452	$155,757	$118,241

** Includes unbilled revenues.*

*** Computed using the weighted average number of customers for the year.*

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Ithaca, NY 14851-0287
(607) 347-4131

GENERAL COUNSEL
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605 Third Avenue
New York, NY 10158

INDEPENDENT ACCOUNTANTS
Coopers & Lybrand
1301 Avenue of the Americas
New York, NY 10019

TO PRESENT CERTIFICATES FOR TRANSFER, write to:
Manufacturers Hanover Trust Company
Attention: Stock Transfer Administration
P.O. Box 24935
Church Street Station
New York, NY 10249

FOR STOCK TRANSFER INSTRUCTIONS, write to:
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Attention: Legal Transfer
450 West 33rd Street, 8th Floor
New York, NY 10001

TO BETTER SERVE YOU, we have consolidated all services into a shareholder services department. Contact shareholder services with questions regarding:

- dividend payments or lost dividend checks
- direct deposit of dividends
- our dividend reinvestment and stock purchase plan
- replacement of lost certificates
- a change of address
- report requests
- our annual meeting of stockholders

CONTACT US between 8 a.m. and 4:30 p.m. (Eastern Time) on regular business days by dialing **1-800-225-5643**

Or write to:
New York State Electric & Gas Corporation
Attention: Shareholder Services
P.O. Box 200
Ithaca, NY 14851-0200

FOR A FREE COPY OF FORM 10-K, which is filed each year with the Securities and Exchange Commission, contact shareholder services by dialing 1-800-225-5643

Or write to:
New York State Electric & Gas Corporation
Attention: Shareholder Services
P.O. Box 200
Ithaca, NY 14851-0200

SECURITIES LISTED ON THE NEW YORK STOCK EXCHANGE

- Common Stock
- 3.75% Preferred Stock
- 8.80% Preferred Stock
- 8.48% Preferred Stock ($25 par value)
- Adjustable Rate Preferred Stock ($25 par value)
- 7⅝% First Mortgage Bonds (Due 2001)
- 9⅜% First Mortgage Bonds (Due 2005)
- 9⅜% First Mortgage Bonds (Due 2006)
- 8⅝% First Mortgage Bonds (Due 2007)

TRADING SYMBOL
The trading symbol for our stock which is listed on the New York Stock Exchange is NGE.

ANNUAL MEETING
Friday, May 10, 1991 at 11 a.m.
Ithaca Executive Offices
Ithaca-Dryden Road, Dryden, NY

Formal notice of the meeting, a proxy statement and form of proxy will be mailed to stockholders in early April.

Dear Investor:

We'd like to know what you think about the 1990 NYSEG Annual Report. Your answers to the questions below will help us provide you with the information you need. Once you have answered the questions, please fold the card in half, tape it closed and drop it in the mail.

1. How much time did you spend reading this annual report?
   ☐ None ☐ 5-10 minutes ☐ 10-30 minutes ☐ More than 30 minutes

2. Please rate the **usefulness of the information** in each section of this annual report.

	Not Useful				**Extremely Useful**
Letter to stockholders	1	2	3	4	5
Front "narrative" section	1	2	3	4	5
Management's discussion	1	2	3	4	5
Financial statements & notes	1	2	3	4	5
Statistics	1	2	3	4	5

3. Please rate the **overall quality** of each section of this annual report in terms of how well you were able to understand the information provided.

	Low Quality				**High Quality**
Letter to stockholders	1	2	3	4	5
Front "narrative" section	1	2	3	4	5
Management's discussion	1	2	3	4	5
Financial statements & notes	1	2	3	4	5
Statistics	1	2	3	4	5

4. Please give us your overall impression of this annual report.

Needs Improvement 1 2 3 4 5 6 7 8 9 10 **Outstanding**

5. Are you a NYSEG stockholder? ☐ Yes ☐ No

6. If your answer to question #5 is "yes," how long have you been a stockholder?
   ☐ Less than 1 year ☐ 1-3 years ☐ 3-10 years ☐ More than 10 years

7. If your answer to question #5 is "no," please indicate which group you belong to:
   ☐ Securities analyst ☐ Financial advisor
   ☐ Stockbroker ☐ Media
   ☐ Industry member ☐ Other_____

Thank you for taking time to answer these questions.

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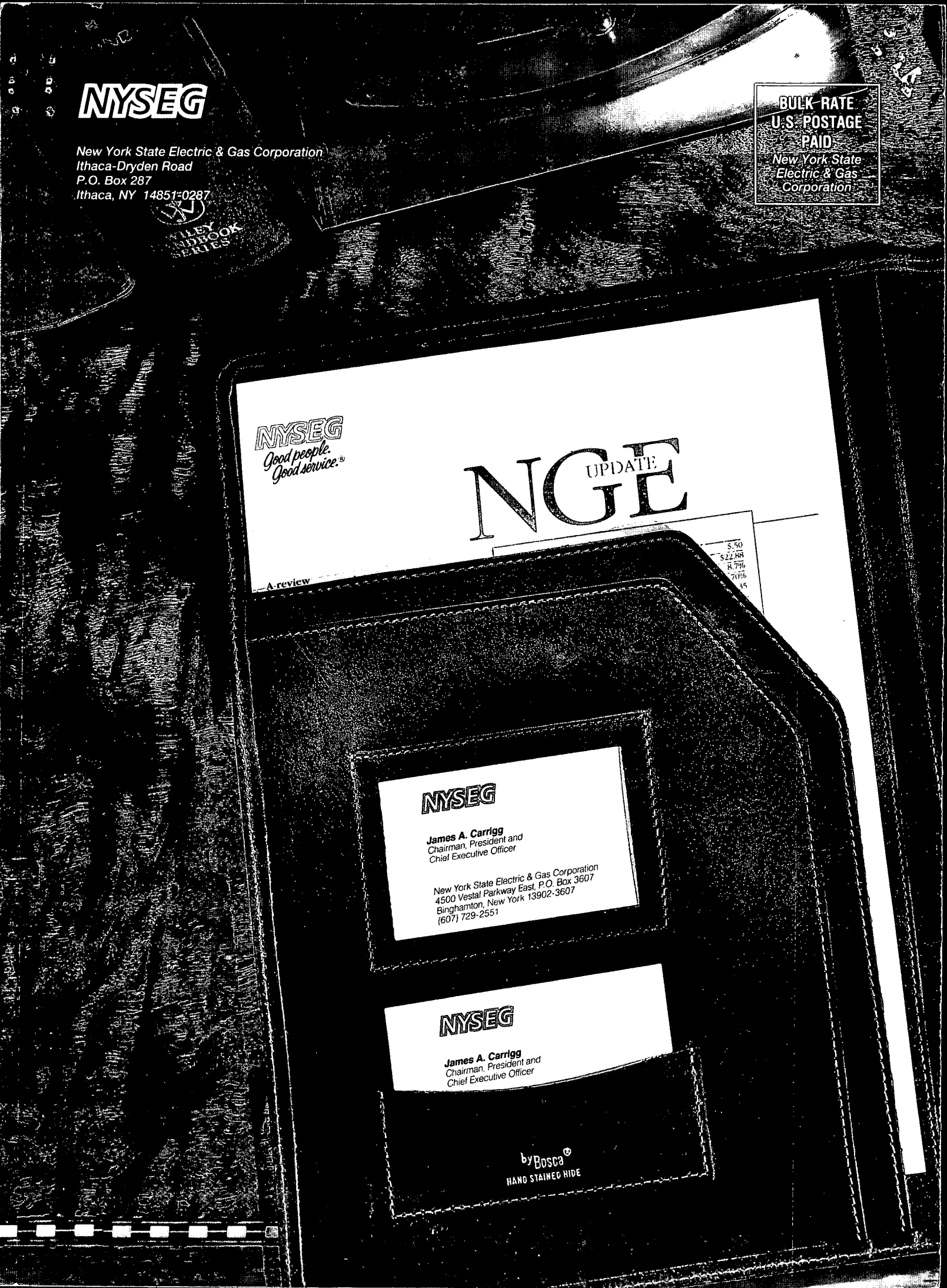
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