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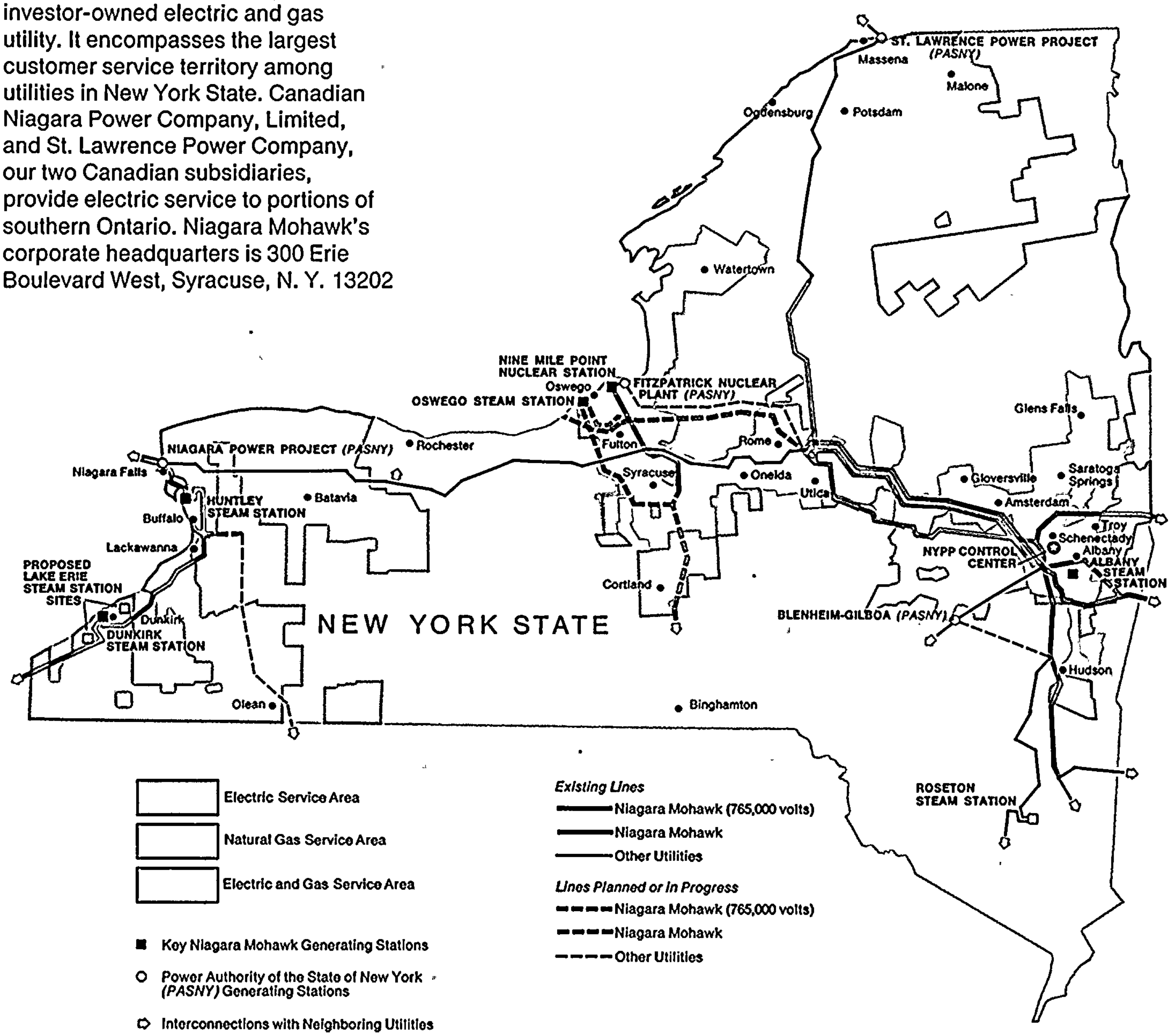
NOTICE

Our Service Area

Niagara Mohawk Power Corporation ranks nationally as a principal investor-owned electric and gas utility. It encompasses the largest customer service territory among utilities in New York State. Canadian Niagara Power Company, Limited, and St. Lawrence Power Company, our two Canadian subsidiaries, provide electric service to portions of southern Ontario. Niagara Mohawk's corporate headquarters is 300 Erie Boulevard West, Syracuse, N. Y. 13202



RATE INCREASE APPROVED FEBRUARY 26

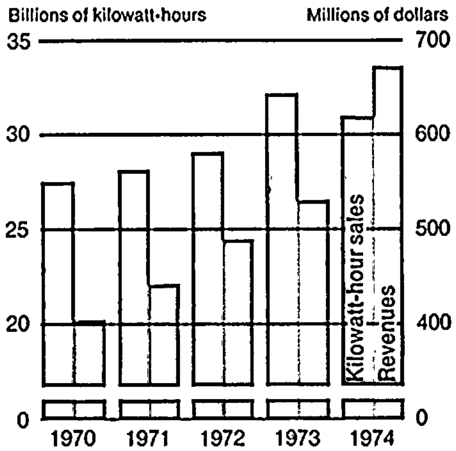
As this report went to press, the New York State Public Service Commission authorized Niagara Mohawk to increase its gas and electric rates on an annual basis by approximately $92,200,000, inclusive of the temporary rate increase of $36,000,000 effective September 1974.

The new rates became effective March 11.

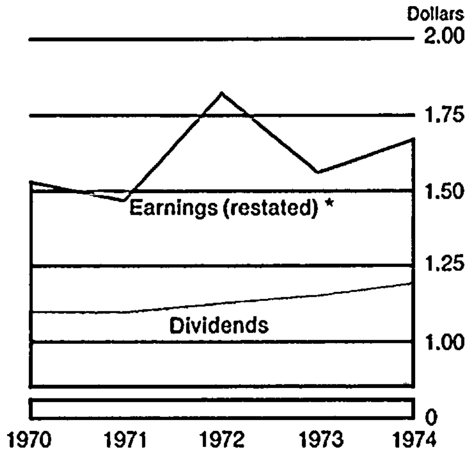
1974 Highlights

	1974	1973	% Change
Total operating revenues	**$830,810,000**	$671,357,000	24
Income available for common stockholders*	**$71,425,000**	$56,787,000	26
Earnings per common share*	**$1.70**	$1.57	8
Dividends per common share	**$1.18**	$1.15	3
Utility plant *(gross)*	**$2,949,042,000**	$2,677,978,000	10
Gross additions to utility plant	**$295,347,000**	$286,313,000	3
Kilowatt-hour sales to customers	**30,914,000,000**	32,074,000,000	(4)
Electric customers at end of year	**1,298,000**	1,286,000	1
Electric peak load *(kilowatts)*	**5,789,000**	6,168,000	(6)
Natural gas sales to customers *(cubic feet)*	**99,938,000,000**	97,502,000,000	2
Gas customers at end of year	**419,000**	416,000	1
Maximum day gas sendout *(cubic feet)*	**697,777,000**	717,472,000	(3)

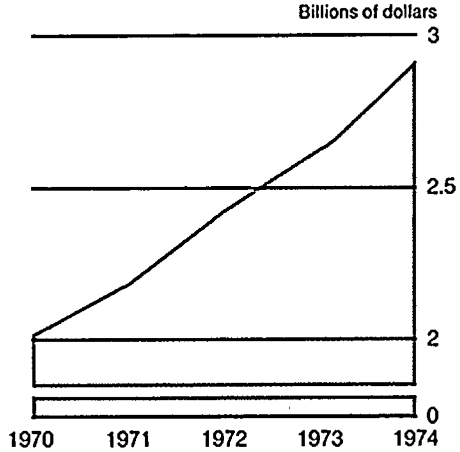
KILOWATT-HOUR SALES AND REVENUES



EARNINGS AND DIVIDENDS PER SHARE OF COMMON STOCK



GROSS UTILITY PLANT



Reflects fuel deferral accounting—see financial statements.

Contents

To the Shareowners:

For our Company—and most other utilities—1974 was a very disturbing year. Total electric sales were off 4% while gas sales increased only 2%, all due primarily to energy conservation and general economic conditions.

Although the combined effects of spiraling inflation and economic recession make any long-range business outlook difficult to predict, awakened interest in the importance of national energy independence has intensified recognition of the need for a strong, financially viable utility industry. Also, federal and state regulators are evidencing greater awareness of our problems.

Since October 1973, we have seen astounding increases in costs of fuel to generate electricity. Our coal costs at year end were up 128% and residual oil was up 150%. These are costs we cannot effectively control. And our business has suffered the severe impact of inflation as all our costs of doing business—supplies, equipment, wages, taxes and capital—increased dramatically.

Against this background, resolute efforts were made to improve earnings and successfully cope with changing conditions. On April 1, 1974 we filed with the New York State Public Service Commission for combined electric and gas rate increases totaling about $93,100,000 annually, or about 14% of 1973 revenues. Interim electric rate relief of $36,000,000 obtained in September was an important factor in 1974's improved earnings. We expect a favorable decision on new permanent rates before February 28, 1975, the end of the maximum rate suspension period.

Our construction budgets for 1974-75 were reduced by a total of $205,000,000, chiefly by rescheduling completion of new generating plants and related transmission lines, described on page 4. Decisions on postponements were made with extreme care, giving top priority to continuing quality service to customers. The construction deferrals reflect lower anticipated growth in the next few years. Despite energy conservation efforts, we believe the use of electricity will increase modestly in the years ahead as households increase, living standards improve and new uses for electric power develop, particularly in the environmental field.

During the year, extensive cost-cutting and control programs were implemented, including tightened work rules. Every aspect of our operations is under constant review in the search for further economies. No potential savings, however small, are being overlooked. We expect to render adequate service to our customers in 1975 with noticeably fewer personnel.

Although our diverse generation mix of hydro, nuclear and fossil-fueled sources continues to be a great asset, excessively high fossil-fuel prices, combined with stockpiling for winter operations, resulted in a record fuel investment at the year end.

We support the overall concept of energy conservation for the general well-being of the nation. Our consumer representatives work closely with customers, particularly large industries, to promote more efficient energy use and reduce waste. This is especially important in our natural gas business, where a nationwide

John G. Haehl, Jr.

shortage still exists, limiting sales growth. A curtailment by our wholesale gas supplier, effective February 1, 1975, amounts to about 1.9% of our annual sendout. At present, this affects only commercial and industrial customers, including those who have facilities to use an alternate fuel. Along with other New York State gas utilities, effective May 31, 1975, we will not accept new gas customers.

Financing in 1974 reflected a great increase in the cost of money, as well as reduced investor confidence in utility securities. Issuance of $125,000,000 of seven-year bonds in October at an unprecedented interest rate of 12.6% and an earlier sale of 3,300,000 shares of common stock at a price of $9.75 indicate financing difficulties we experienced during the year. Security offerings proposed in October and December were deferred due to unfavorable marketing conditions. We believe similar offerings in 1975, including refinancing over $100,000,000 in 2¾% bonds, will be more successful, based in part on improved 1974 earnings and granting of additional rate relief.

The Year in Review

Historically, the cost of energy has been kept low, encouraging its ever-increasing use. But today the picture has changed. It's obvious that consumers will pay more for satisfactory electric and gas service in the future. But we will strive to keep the price of our services reasonable compared with the overall cost of living.

In the foreseeable future, our important concerns are cash and earnings. As indicated elsewhere in this report, earnings per common share for the year were $1.70, compared to $1.57 in 1973, based on fewer shares and a change to fuel deferral accounting. We are employing every available method, including strong internal cost controls, deferred construction and prompt rate relief, to improve our cash flow and earnings.

Your interest and support during these trying times are greatly appreciated.

John G. Haehl, Jr.

John G. Haehl, Jr.
President and Chief Executive Officer

February 3, 1975

Revenues reached $830,810,000—up 24% over last year—attributable in large part to fuel adjustment clauses and an electric rate relief grant of $34,748,000, effective February 1974, and an interim electric rate increase of $36,000,000 annually, effective September.

Total electric sales for the year decreased 4% compared with 1973. Approximately 12,000 customers were added to our lines, raising the total at the year end to 1,298,000. The average price per kilowatt-hour paid by residential customers rose from 2.57 to 2.87 cents.

Listed below are changes in major classifications of electric service.

Class of service	*% of total electric revenues*	*% increase (decrease) over 1973*	
		Electric revenues	*Kilowatt-hours*
Residential	31%	11%	—%
Commercial	30	27	(1)
Industrial	24	37	(2)
Municipal service	2	15	(3)
Total to ultimate consumers	87	23	(1)
Other electric systems	10	52	(19)
Miscellaneous	3	24	—
	100%	26%	(4)%

Natural gas sales increased 2%. Average annual cost per thousand cubic feet of gas for residential customers was $1.76, up 17 cents over 1973, due primarily to cost increases by our supplier.

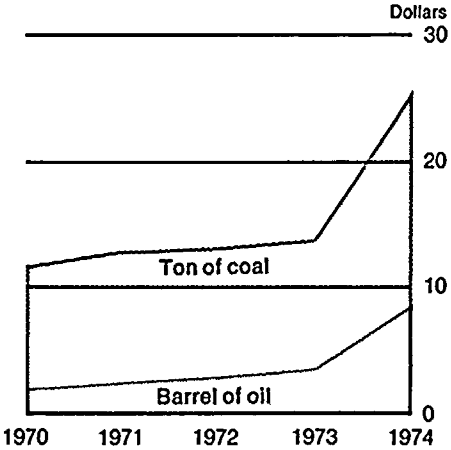
Changes in major classes of gas service appear below.

Class of service	*% of total gas revenues*	*% increase (decrease) from 1973*	
		Gas revenues	*Cubic feet*
Residential	62%	14%	3%
Commercial	24	21	1
Industrial	11	21	2
Total to ultimate consumers	97	17	3
Other gas systems	2	22	1
Miscellaneous	1	(3)	—
	100%	17%	2%

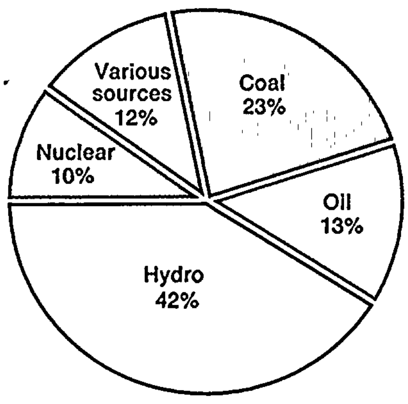
Because of a 1.9% curtailment of gas deliveries imposed by our wholesale supplier, Consolidated Gas Supply Corporation, restrictions have been placed on gas used by certain industrial and commercial customers and on the addition of any new loads in 1975. These restrictions will remain in effect indefinitely.

Under a new plan as directed by the Public Service Commission, effective February 1, 1975 the Company has contracted with large gas customers with alternate fuel to switch to oil or propane and give up a corresponding amount of gas for distribution among our customers. Niagara Mohawk will reduce the economic penalty of the fuel change by paying these cooperating customers the difference between the cost of the gas and the higher cost of the alternate fuel. The Company then recovers the amount paid these customers through application of our gas adjustment clause, which spreads the cost equally over all gas

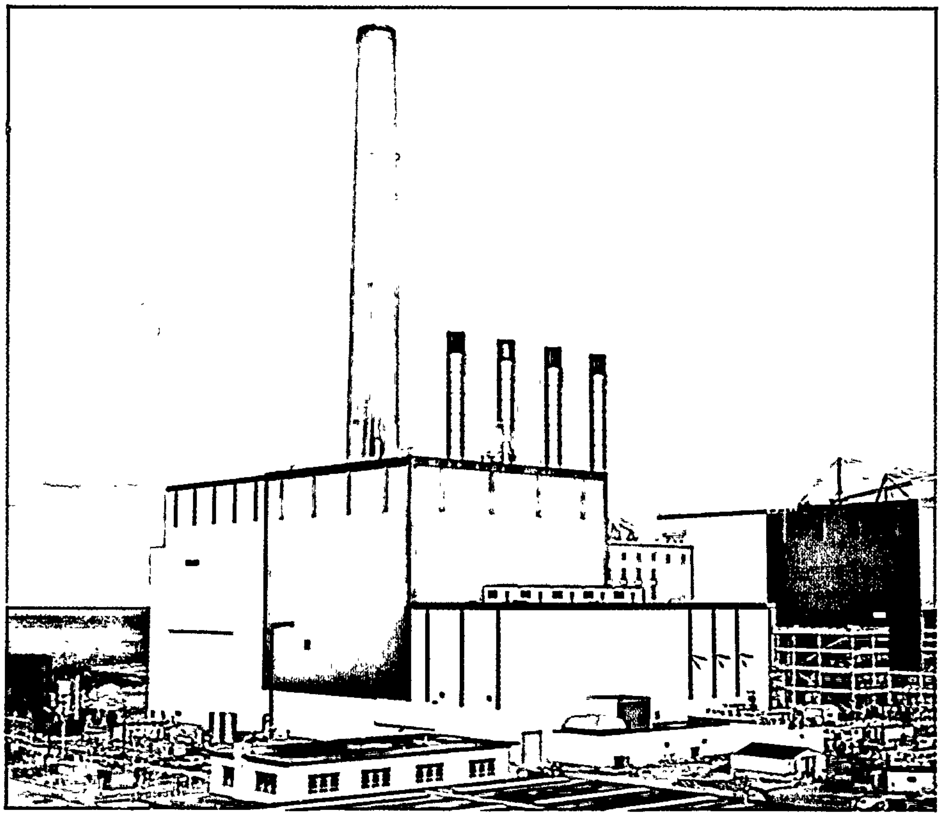
AVERAGE COST OF FUEL BURNED



ELECTRICITY GENERATED AND PURCHASED BY TYPE OF FUEL



Oil-fired 850,000-kilowatt Unit #5 at Oswego Steam Station is targeted for commercial operation in May 1975, more than doubling station capacity. Steelwork for Unit #6 is at right.



sold in our system. The added cost is expected to average approximately $4 per year for residential customers who heat with gas and about $1.10 a year for those without gas heating. This temporary arrangement is intended to help protect the economy and jobs in our service area.

On May 30, 1974 residents of the Town and Village of Massena voted in a referendum to approve a bond issue for creation of a municipal electric system through a takeover of our facilities. There are widely differing views regarding the cost of such a takeover, including payment of damages to our Company. We will make certain our security holders are properly compensated for all costs related to the possible separation of our Massena facilities from our carefully integrated system.

The Massena referendum awakened interest in public power in Niagara and Erie counties, where special task forces were appointed to study possibilities of similar action. Company representatives made strong presentations underscoring the high costs and other disadvantages of such a move. Final reports by the task forces to the legislatures are awaited.

Effects on Construction

The decline in electric load growth experienced in 1974 has significantly affected the Company's long-term construction program.

However, we regard this decline as a temporary leveling of our long-range growth. Energy conservation has its limits—overall consumption will resume an upward curve in future years. Our customers can only conserve so much. We believe electrical usage will expand in near-future years. Improvements in living standards, increases in households, added energy for pollution controls and many other elements will all contribute to this trend.

Negative sales results and sharp rises in interest rates on money needed for construction caused deferrals of $42,000,000 from the 1974 and $163,000,000 from the 1975 construction budgets.

Construction of major generating units was rescheduled as shown in the table below.

Unforeseen delays in regulatory proceedings were a further influence in rescheduling the No. 2 nuclear unit at Nine Mile Point. Although the Atomic Safety and Licensing Board of the U. S. Atomic Energy Commission (now the Nuclear Regulatory Commission) issued a construction permit in June 1974, a review of the Board's findings was conducted by the Licensing Appeals Board and we are still awaiting a decision.

Construction Deferrals.

Unit	Capacity *(kilowatts)*	Fuel	Formerly planned for service	Now planned for service
Oswego No. 6	850,000	Oil	1976	1978
Nine Mile Point No. 2 ..	1,100,000	Nuclear	1979	1981
Lake Erie No. 1	850,000	Coal	1982	1985
Lake Erie No. 2	850,000	Coal	1984	1987

Progress on other major construction projects moved ahead as previously planned. Unit No. 5 at Oswego Steam Station will soon be the newest addition to our generation complex. This oil-fired 850,000-kilowatt power-producer is presently under test, with commercial operation now scheduled for May 1975.

Two 600,000-kilowatt, oil-fired units at Roseton Generating Station near Newburgh, N. Y. went into commercial operation in September and December. Roseton's capacity and ownership are shared on a 40% basis each by Niagara Mohawk and Consolidated Edison Company of New York, Inc., and 20% by Central Hudson Gas and Electric Corporation. The station is located in Central Hudson's service area and Central Hudson manages its operation.

The 821,000-kilowatt James A. FitzPatrick Nuclear Plant, recently completed by the Power Authority of the State of New York (PASNY), is scheduled to begin commercial service in spring 1975. Our initial power allocations from this new nuclear development are 269,000 kilowatts (winter) and 107,000 kilowatts (summer). Under contract with PASNY, Niagara Mohawk will operate the FitzPatrick plant, thereby coordinating all nuclear facilities at Nine Mile Point.

In May 1974, following a study of several years, Niagara Mohawk and New York State's six other major investor-owned utilities formed Empire State Power Resources, Inc. (ESPRI) to construct and operate vital generating facilities planned for 1981 through 1991. Application for approval of ESPRI has been filed with the Public Service Commission.

Our long-standing pledge to preserve environmental quality is evident throughout our operations. Approximately $18,700,000 was spent for environmental programs in 1974 and $10,300,000 is so earmarked for 1975. The Company financed pollution controls at Huntley and at Oswego Steam stations through $46,600,000 of tax-exempt 8% revenue bonds issued in 1974 by the New York State Atomic and Space Development Authority (ASDA).

Our research and development programs, mainly seeking new energy sources and environmental enhancement, are making gains independently and jointly with other utilities and organizations. Two prominent R & D groups in which we participate are the nationwide Electric Power Research Institute (EPRI) and the Empire State Electric Energy Research Corporation (ESEERCO).

Conserving Energy

As concern deepens over scarcity of basic fuels and rising energy costs, the need to achieve greater efficiency and to curb waste grows more crucial.

In this regard, members of our Consumer Relations Department are serving as energy consultants, helping customers find the most effective and thrifty ways of using electricity and natural gas. We are continuing a campaign to inform and educate the public on the urgent necessity to conserve energy.

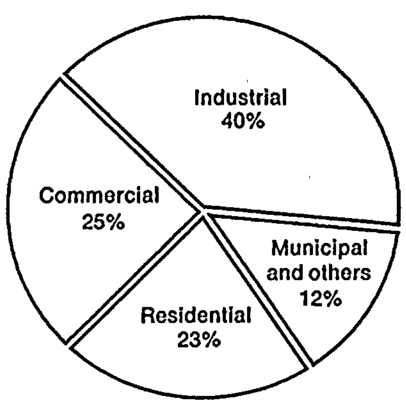
Electric load and demand studies have also been intensified toward further accuracy in forecasting future system electric loads.

Fighting Inflation

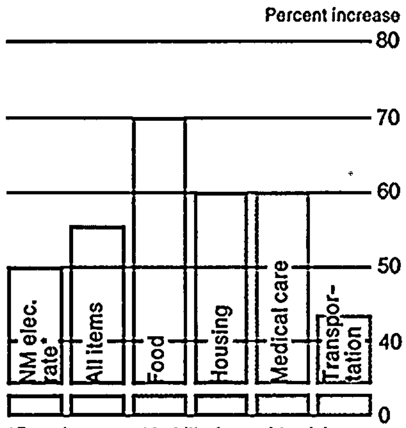
Greater productivity, concentrating on the best possible use of talent, resources and materials, is our strongest strategy against inflation.

To this end, our Corporate Planning Department is constantly seeking improved alternatives to present Company policies and procedures. Together with an independent consulting firm, we have begun management studies for more effective planning methods and work flow, focusing upon the number of employees and skills needed for various jobs. Independent, in-house capability for making these reviews is under development by training employees in management techniques.

KILOWATT-HOUR SALES BY TYPE OF CUSTOMER



PRICE INCREASES, 1967-1974



*Based on monthly bills for residential customers using 500 kwh, including fuel adjustment charge and PASNY credit

New electronic data processing center at our corporate headquarters in Syracuse adds to efficiency and speed of programming for accounting, engineering and operating department functions.

Many innovations and changes are bringing desirable results. For example, computer tasks previously assigned to outside firms are now performed with our own computers, including stockholder records and consumer, employee and inventory information systems, all at annual savings. Other productive gains were achieved by tightening work practices and placing added controls over equipment, tools and materials.

Engineers and corporate planners are making advanced determinations of facilities to meet future energy needs, starting with forecasts of energy use on a yearly basis and during periods of peak demand. Working together they examine the Company's construction budget to review need for new projects and make sure suitable alternatives are considered.

The Company and Its People

Niagara Mohawk's 24,000-square-mile electric service territory encompasses half of New York State and extends from Lake Erie to the borders of New England, Canada and Pennsylvania. Power from this vast system serves the electric needs of 1,284,000 customers in 37 of the state's 62 counties. Thirty-one cities and 639 towns and villages are supplied electricity from six steam stations (one nuclear-fueled), 78 hydroelectric stations and 20 combustion turbine and diesel units. Two Canadian subsidiaries serve 14,000 electric customers in the Province of Ontario.

Mutual reliability and economic exchange of energy are enhanced by the operation of the New York Power Pool and interconnection of our transmission facilities with those of neighboring northeastern electric systems, including Canada.

Natural gas service is provided to 419,000 customers in 15 counties in central, eastern and northern New York, nearly all within our electric service area. Gas customers reside in 21 cities and 169 municipalities.

Niagara Mohawk had 9,800 employees at the end of 1974. Consistent with our program for greater operating economy, overtime costs were reduced by $5,500,000. Three-hundred employees, including 150 temporary positions, were removed from the payroll in 1974. Early in 1975, about 975 jobs were being eliminated, including those of 337 employees in a voluntary one-time early retirement plan. The Company has also discontinued hiring temporary help during the summer months.

Total payroll for 1974 was $151,845,000, of which $106,706,000 was charged to operations and the balance principally to new construction. These figures were $142,590,000 and $98,134,000 for 1973.

Some, 5,980, or 80% of all eligible employees subscribe to the Company's Savings Fund Plan, allocating from 2% to 6% of their wages toward the purchase of Niagara Mohawk common stock or U.S. Government securities. Ninety-nine percent of those participating are investing in common stock. The Plan holds 2,717,372 shares, or 6% of the total outstanding. The Company contributed about $2,154,000 in 1974, half the amount invested by employees. All shares of common stock for the Plan are purchased in the open market.

The number of shareowners increased by 14,000 in 1974 to a total 196,000. Some 186,000 own common stock and 10,000 hold preferred shares. Stockholders live in all 50 states and 40 foreign countries. About 36% reside in New York State and hold 46% of the total shares.

Financial Summary

Banks (in trust) and brokers (for their clients) hold about one-quarter of the stock; the balance is owned by individuals, insurance companies, investment firms, foundations and other organizations.

As indicated below, a considerable number of shareowners have less than 100 shares:

Size of holding (Shares)	Total shareowners	Total shares held
1 to 99	66,000	2,234,000
100 to 999	116,000	24,731,000
1,000 or more	4,000	16,586,000
	186,000	43,551,000

Approximately 8,800 shareowners participate in our Automatic Dividend Reinvestment Plan. Representing some 4% of the holders of common stock, in 1974 they reinvested $1,153,000 of dividends and $589,000 in optional cash payments. A brochure describing the Plan and an authorization form are available by writing the Vice President and Secretary at 300 Erie Boulevard West, Syracuse, N. Y. 13202.

Stock matters and records are managed at our Syracuse office. Inquiries should be sent to Manager, Stockholder Records Department. Transfer agents for our common and preferred stock are listed on the back cover of this report. A ten-year financial summary is available from the Vice President and Secretary upon request.

Interim reports on Company news and earnings accompany quarterly dividend checks and a record of dividend payments is mailed in December for tax-reporting purposes. Information on our annual meeting is mailed in early April.

Our consolidated income available for holders of common stock for 1974 was $1.70 per share, up $.13 or 8% over $1.57 in 1973, based on fewer outstanding shares. These figures are restated to reflect the consistent application of a change to fuel deferral accounting initiated early in 1974.

Electric revenues climbed $47,900,000 in 1972, $46,400,000 in 1973 and $136,700,000 in 1974. Principal factors are listed below:

Electric Revenues

	Increase (decrease) from prior period *In millions of dollars* 1972	1973	1974
Increase in base rates	$37.0	$ —	$ 44.8
Fuel adjustment clause	1.9	3.2	74.7
Sales to other electric systems	(7.1)	19.0	22.6
Sales to ultimate consumers	14.5	20.7	(9.0)
Miscellaneous operating revenues	1.6	3.5	3.6
	$47.9	$46.4	$136.7

Changes in electric base rates for 1974 are attributable to granted increases of approximately $34,700,000 annually, effective February 15, 1974 and $36,000,000, effective September 11, 1974, pending final settlement.

Electric sales to ultimate consumers rose 4.4% in 1972 and 6.1% in 1973; but decreased 1.4% in 1974, principally as a result of economic conditions and voluntary conservation discussed on page 5.

Gas revenues were up $10,300,000 in 1972, down $4,600,000 in 1973 and up $22,800,000 in 1974 as follows:

Gas Revenues

	Increase (decrease) from prior period *In millions of dollars* 1972	1973	1974
Increase in base rates	$ —	$ 2.0	$ 6.4
Purchased gas adjustment	7.5	1.2	14.0
Gas sales	2.8	(7.8)	2.4
	$10.3	$ (4.6)	$22.8

Gas sales rose 3.1% in 1972, declined 7.4% in 1973, principally because of milder weather, and climbed 2.5% in 1974, reflecting the net effects of colder weather and conservation efforts by customers. In April 1974, we requested a gas rate increase intended to yield, as now revised, $15,600,000 in annual revenue. This is still pending.

Operation and maintenance expenses went up due to higher wage rates, fuel and other costs and through greater wholesale and retail sales of electricity during 1972 and 1973. These expenses rose $26,800,000 in 1972, $51,300,000 in 1973 and $116,200,000 in 1974 as follows:

Operation and Maintenance Expenses

	Increase (decrease) from prior period *In millions of dollars* 1972	1973	1974
Fuel costs	$ 5.4	$12.0	$ 52.8
Purchased power	(3.9)	25.4	30.8
Gas purchased	8.9	(2.9)	16.2
Payroll	7.1	9.2	8.6
Other costs	9.3	7.6	7.8
	$26.8	$51.3	$116.2

Fuel and purchased power costs spiraled upward during the past year and produced higher revenues through our fuel adjustment clause. Accounting for such costs was modified in 1974 to defer them until they are included in customer bills. (See Note 3, "Accounting Changes", page 13). In 1973 and 1974, delays in completion of the jointly owned and operated Roseton Generating Station and certain forced outages at other plants caused higher maintenance and purchased power expenses.

Additional securities issued to finance expanding construction requirements, plus sharp rises in the cost of capital, have increased allowance for funds used during construction, interest charges and dividend requirements on preferred stock as follows:

Costs of Money

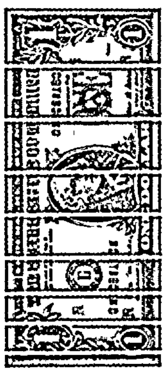
	Increase from prior period *In millions of dollars* 1972	1973	1974
Allowance for funds used during construction.	$7.6	$5.1	$ 8.5
Interest charges	8.2	9.4	17.0
Dividend requirements on preferred stock ...	1.1	4.3	2.2

The Revenue Dollar—

Where it came from

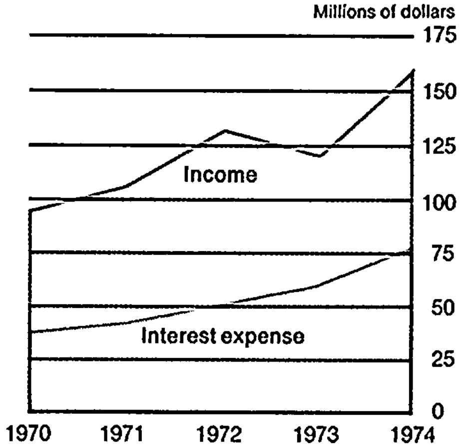
		In thousands of dollars	Change from 1973
37¢	Residential customers	$304,151	12%
29	Commercial customers	238,737	26
22	Industrial customers	184,832	35
12	All others	103,090	38

and where it went

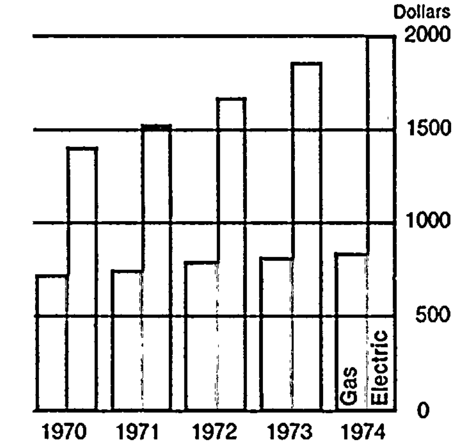


16¢	Fuel for production of electricity	$135,332	64%
15	Wage, salaries, employee benefits	127,195	10
15	Electricity purchased	124,481	33
12	Interest and other costs—net	99,729	3
12	Income and other taxes	98,198	9
10	Gas purchased	86,907	23
8	Dividends to shareowners	64,526	19
8	Depreciation	63,055	7
4	Retained in the business	31,387	256

INCOME (BEFORE INTEREST AND INCOME TAXES) COMPARED TO INTEREST EXPENSE



AVERAGE GROSS UTILITY PLANT PER CUSTOMER



Federal and Canadian income taxes increased $3,100,000 in 1972, went down $13,000,000 in 1973 and $1,500,000 in 1974. In 1973 and 1974, no net liability for federal income taxes was recorded. Real estate, revenue and other taxes went up $10,200,000 in 1972, $4,400,000 in 1973 and $9,700,000 in 1974, due primarily to property additions, higher tax rates and revenues.

The most significant factors expected to affect income before cumulative effect of an accounting change after December 31, 1974 include the generally declining economy, gas supply curtailment, rate increases, continued higher operating and finance expenses and larger fixed charges due to greater plant investment and refinancing of $104,000,000 in low-interest-rate mortgage bonds maturing in 1975. In addition, earnings per share of common stock will be affected by the rising average number of common shares outstanding. As a result of these conditions, additional rate relief will be required from time to time in the future.

In 1974, 3,300,000 shares of common stock were sold for $29,964,000 and $125,000,000 in mortgage bonds were sold in October at 12.6% interest, a record high for the Company. The proceeds were used to help finance our construction program and refinance $48,000,000 in 3% bonds maturing in 1974.

Niagara Mohawk's gross utility plant totaled $2.95 billion at the end of 1974, up $271,064,000 compared with 1973. The 1975 construction budget is presently estimated at $160,000,000, down $163,000,000 from an earlier estimate through deferrals. About $149,000,000 of the budget is for electric and $6,000,000 for gas facilities; $5,000,000 is for general or common plant and other property. Funds will be provided from internal sources, bank loans and long-term financing. We presently estimate 1975-79 construction expenditures at $1.48 billion, excluding allowance for funds used during construction and certain overheads capitalized.

Our common stock is listed on the New York Stock Exchange. Dividends per share and range of high and low prices quoted on the exchange are as follows:

1973:	Dividends paid per share	Price range High	Low
1st quarter	$ .28½	18¼	15⅝
2nd quarter	.28½	16¼	15½
3rd quarter	.28½	15⅞	14
4th quarter	.29½	15⅞	12¾
	$1.15		
1974:			
1st quarter	$ .29½	14¾	13⅛
2nd quarter	.29½	14	8⅜
3rd quarter	.29½	9⅝	8
4th quarter	.29½	10	7⅝
	$1.18		

Niagara Mohawk common stock has suffered along with stock of all utilities. However, by continued belt-tightening of our operations and pursuit of rates commensurate with rising costs, we are hopeful that the market value of our stock will improve. This is management's immediate goal.

Preferred and common stock dividends were paid on March 31, June 30, September 30, and December 31. We estimate that 100% of the 1974 common and 75% of preferred stock dividends are a return of capital and therefore not taxable as dividend income for federal income tax purposes. The remaining percentage is subject to federal income tax.

In 1974, we renewed through Lloyds of London to January 1, 1976 a policy which primarily provides coverage for Niagara Mohawk and subsidiaries against third-party liability, including liability for personal injury and property damages, at an annual premium of $223,000. The policy also covers any obligations incurred as a result of indemnification of our officers and directors and insures our officers and directors for liability against which they may not be indemnified by Niagara Mohawk or its subsidiaries, except a dishonest act or breach of trust.

Consolidated Statement of Income and Retained Earnings
NIAGARA MOHAWK POWER CORPORATION AND SUBSIDIARIES

			In thousands of dollars		
For the year ended December 31,	1974	1973	1972	1971	1970
Operating revenues:					
Electric	$ 671,246	$ 534,559	$ 488,186	$ 440,327	$ 403,986
Gas	159,564	136,798	141,395	131,055	118,214
	830,810	671,357	629,581	571,382	522,200
Operating expenses:					
Operation	477,463	365,697	321,717	299,186	282,329
Maintenance	55,749	51,354	44,050	39,752	35,319
Depreciation (*Note 2*)	63,055	59,181	57,847	52,802	48,924
Federal and Canadian income taxes (*Note 9*)	(4,050)	(2,571)	10,477	7,400	5,400
Other taxes	102,248	92,556	88,112	77,906	67,836
	694,465	566,217	522,203	477,046	439,808
Operating income	136,345	105,140	107,378	94,336	82,392
Other income and deductions:					
Allowance for funds used during construction	27,373	18,836	13,711	6,051	8,810
Other—net	528	(133)	(11)	(457)	(64)
	27,901	18,703	13,700	5,594	8,746
Income before interest charges	164,246	123,843	121,078	99,930	91,138
Interest charges:					
Interest on long-term debt	66,080	54,761	49,872	41,719	37,416
Other interest	11,659	5,979	1,462	1,405	2,355
	77,739	60,740	51,334	43,124	39,771
Income before cumulative effect of accounting change	86,507	63,103	69,744	56,806	51,367
Cumulative effect of accounting change	9,406	—	—	—	—
Net income (*Notes 2 and 3*)	95,913	63,103	69,744	56,806	51,367
Dividends on preferred stock	15,082	12,872	8,614	7,525	7,525
Balance available for common stock	80,831	50,231	61,130	49,281	43,842
Dividends on common stock	49,444	41,409	37,802	37,127	32,545
Retained earnings for the year	31,387	8,822	23,328	12,154	11,297
Retained earnings at beginning of year	224,317	215,495	192,167	180,013	168,716
Retained earnings at end of year	$ 255,704	$ 224,317	$ 215,495	$ 192,167	$ 180,013
Average number of shares of common stock outstanding	42,032,244	36,170,326	33,751,148	33,537,449	29,710,850
Per average share of common stock:					
Income before cumulative effect of accounting change	$ 1.70	$ 1.39	$ 1.81	$ 1.47	$ 1.48
Cumulative effect of accounting change	$ .22	—	—	—	—
Net income (*Notes 2 and 3*)	$ 1.92	$ 1.39	$ 1.81	$ 1.47	$ 1.48
Dividends paid	$ 1.18	$ 1.15	$ 1.12	$ 1.10	$ 1.10
Pro forma amounts reflecting the consistent application of the change to fuel deferral accounting (*Note 3*):					
Balance available for common stock	$71,425	$56,787	$61,760	$49,635	$45,391
Earnings per average share of common stock	$ 1.70	$ 1.57	$ 1.83	$ 1.48	$ 1.53

( ) Denotes deduction.

Consolidated Balance Sheet

NIAGARA MOHAWK POWER CORPORATION AND SUBSIDIARIES

	At December 31, 1974	1973
	In thousands of dollars	
ASSETS		
Utility plant, at original cost (*Page 15*)	$2,949,042	$2,677,978
Less accumulated provision for depreciation (*Note 2*)	670,504	616,452
	2,278,538	2,061,526
Other property and investments:		
Other physical property	16,462	14,929
Construction funds held in escrow (*Note 4*)	18,848	—
Investments, at cost which approximates equity	724	1,224
	36,034	16,153
Current assets:		
Cash (*Note 5*)	17,607	13,176
Accounts receivable (less allowance for doubtful accounts of $600,000 and $300,000, respectively)	89,254	69,749
Federal income tax refund claims (*Note 9*)	22,377	5,400
Materials and supplies, at average cost:		
Coal and oil for production of electricity	50,866	17,383
Other	27,283	17,159
Prepayments	4,527	4,225
	211,914	127,092
Deferred debits:		
Unamortized debt expense	6,175	2,818
Deferred recoverable fuel and purchased power costs (*Note 3*)	37,799	—
Other	5,110	8,629
	49,084	11,447
	$2,575,570	$2,216,218
LIABILITIES		
Stockholders' equity:		
Cumulative preferred stock (*Page 16*)	$ 270,000	$ 270,000
Premium on preferred stock	1,236	1,236
Cumulative preference stock—$100 par value; authorized 1,000,000 shares; issued—none	—	—
Common stock—$8 par value; authorized 65,000,000 (45,000,000 in 1973) shares; issued 43,551,148 shares and 40,251,148 shares, respectively (*Note 6*)	348,409	322,009
Premium on common stock (*Note 6*)	117,197	113,633
Paid-in surplus	7,569	7,569
Capital stock expense (*Note 6*)	(5,229)	(4,810)
Retained earnings (*Page 10*)	255,704	224,317
	994,886	933,954
Long-term debt (*Page 16*)	1,142,500	1,074,767*
Total capitalization	2,137,386	2,008,721
Current liabilities:		
Long-term debt due within one year (*Page 16*)	103,867	48,000*
Notes payable and commercial paper (*Note 5*)	166,650	37,350
Accounts payable	59,903	50,259
Customers' deposits	3,704	3,564
Accrued taxes	6,370	7,844
Accrued interest	22,113	16,030
Other	18,259	16,424
	380,866	179,471
Deferred credits:		
Unamortized premium on debt	979	1,099
Federal income tax refunds (*Note 9*)	26,866	—
Other	7,562	7,721
	35,407	8,820
Accumulated deferred federal income taxes (*Note 9*)	21,911	19,206
Construction commitments (*Note 7*)	—	—
	$2,575,570	$2,216,218

( ) Denotes deduction.

** Reclassified.*

Consolidated Statement of Changes in Financial Position

NIAGARA MOHAWK POWER CORPORATION AND SUBSIDIARIES

			In thousands of dollars			
For the year ended December 31,	1974	1973	1972	1971	1970	Total
Financial resources were provided by:						
Operations:						
Income before cumulative effect of accounting change	**$ 86,507**	$ 63,103	$ 69,744	$ 56,806	$ 51,367	$ 327,527
Charges (credits) to income not requiring (not providing) working capital—						
Depreciation	**63,055**	59,181	57,847	52,802	48,924	281,809
Allowance for funds used during construction*	**(27,373)**	(18,836)	(13,711)	(6,051)	(8,810)	(74,781)
Other (net)	**7,615**	14,147	11,199	6,126	14	39,101
	129,804	117,595	125,079	109,683	91,495	573,656
Cumulative effect of accounting change	**9,406**	—	—	—	—	9,406
Outside financing:						
Sale of common stock	**29,964**	88,005	—	35,160	37,235	190,364
Sale of preferred stock	**—**	60,000	40,155	—	—	100,155
Sale of mortgage bonds	**125,000**	80,000	160,000	65,000	—	430,000
Sale of promissory note (net)**	**27,752**	—	—	—	—	27,752
Increase (decrease) in notes payable and commercial paper	**129,300**	(9,850)	(19,650)	9,750	36,800	146,350
	312,016	218,155	180,505	109,910	74,035	894,621
Other sources:						
Deferred recoverable fuel and purchased power costs less related accumulated deferred federal income taxes	**(34,629)**	—	—	—	—	(34,629)
Federal income tax refunds	**26,866**	—	—	—	—	26,866
(Increase) decrease in working capital other than notes payable and commercial paper*	**(12,727)**	28,359	(4,346)	3,670	2,762	17,718
Miscellaneous (net)*	**5,631**	5,649	3,839	3,415	71	18,605
	(14,859)	34,008	(507)	7,085	2,833	28,560
Total resources provided	**$436,367**	$369,758	$305,077	$226,678	$168,363	$1,506,243
Financial resources were used for:						
Construction additions	**$283,844**	$278,941	$252,686	$173,093	$133,537	$1,122,101
Nuclear fuel	**11,503**	7,372	7,486	14,471	1,701	42,533
Allowance for funds used during construction*	**(27,373)**	(18,836)	(13,711)	(6,051)	(8,810)	(74,781)
Net additions	**267,974**	267,477	246,461	181,513	126,428	1,089,853
Income tax assessment applied to deferred credits	**—**	—	12,200	—	—	12,200
Long-term debt maturing within one year*	**103,867**	48,000	—	513	1,865	154,245
Dividends	**64,526**	54,281	46,416	44,652	40,070	249,945
Total resources used	**$436,367**	$369,758	$305,077	$226,678	$168,363	$1,506,243
(Increase) Decrease in working capital other than notes payable and commercial paper:						
Cash and temporary cash investments	**$ (4,431)**	$ (1,856)	$ 1,286	$ (986)	$ 3,315	$ (2,672)
Accounts receivable	**(19,505)**	(12,936)	(9,055)	(5,682)	(2,713)	(49,891)
Federal income tax refund claims	**(16,977)**	(5,400)	—	—	—	(22,377)
Coal and oil for production of electricity	**(33,483)**	(2,954)	(4,955)	4,457	(9,681)	(46,616)
Other materials and supplies	**(10,124)**	(2,420)	(1,120)	(2,002)	(544)	(16,210)
Long-term debt due within one year*	**55,867**	48,000	—	—	—	103,867
Accounts payable	**9,644**	615	10,759	5,108	7,547	33,673
Accrued taxes and interest	**4,609**	638	5,603	2,740	64	13,654
Other (net)	**1,673**	4,672	(6,864)	35	4,774	4,290
	$ (12,727)	$ 28,359	$ (4,346)	$ 3,670	$ 2,762	$ 17,718

**1973 and prior years reclassified.*

***Excludes amounts held in escrow pending disbursements for construction of pollution control facilities (see* Note 4 *and* Page 16*).*

Notes to Consolidated Financial Statements

Note 1. Summary of Significant Accounting Policies

The Company is subject to regulation by the New York State Public Service Commission (the "PSC") and the Federal Power Commission with respect to its rates for service and the maintenance of its accounting records. The Company's accounting policies conform to generally accepted accounting principles as applied in the case of regulated New York public utilities to give effect to the rate-making and accounting practices and policies of the PSC.

Utility Plant: The cost of additions to utility plant and replacements of retirement units of property is capitalized. Cost includes direct material, labor and similar items and charges for such indirect costs as engineering, supervision, payroll taxes, pension benefits, etc. The Company capitalizes an allowance for funds used during construction equivalent to the cost of funds devoted to plant under construction (8% for the years 1970 through 1974). The cost of current repairs and maintenance is charged to expense. Whenever utility plant is retired, the original cost of such utility plant, together with the cost of removal, less salvage, is charged to the accumulated provision for depreciation.

Depreciation: For general accounting purposes, depreciation of utility plant is computed on a straight-line basis using the estimated useful lives by classes of depreciable property. For federal income tax purposes, the Company computes depreciation using accelerated methods and shorter allowable depreciable lives.

Revenues: Revenues are based on cycle billings rendered to certain customers monthly and others bi-monthly. As a result of this cycle billing method, the Company does not accrue revenues at the end of any fiscal period in respect of energy sold but not billed at such date. The Company's tariffs include a fuel adjustment clause under which fuel and certain purchased power costs above or below the levels allowed in approved rate schedules are permitted to be billed or credited to customers after these costs are incurred. Effective January 1, 1974, the Company adopted the policy of charging operations for such cost increases in the period of recovery (see Note 3).

Federal Income Taxes: The general policy is to record only income taxes currently payable. However, beginning with certain capital additions for the year 1971, deferred taxes are provided on the additional depreciation resulting from using shorter depreciable lives for tax than book purposes. Also beginning in 1971, deferred taxes are provided, to be amortized over a five-year period, for the cost of removal of property taken as a current deduction for tax purposes but charged to the accumulated provision for depreciation for accounting purposes. Deferred taxes have been provided on the fuel and purchased power costs deferred, effective January 1, 1974, for accounting purposes (see Note 3). No deferred taxes are provided for other depreciation differences, except under necessity certificates in prior years, or for other expenditures (principally allowance for funds used during construction, pensions, employee benefits and taxes) capitalized for accounting purposes but deducted currently for tax purposes. Investment tax credits are applied currently as a reduction of taxes.

Pension Plans: The cost of pension plans is based upon current costs and, through 1971, amortization of unfunded past service benefits for periods ranging from 25 to 40 years. Beginning in 1972, amortization of unfunded past service benefits arising from plan amendments since inception are being amortized over 15 years and the interest assumption for actuarial purposes has been increased from 3½% to 4½%. The net effect of these changes on total pension cost was immaterial.

Note 2. Depreciation

The percentage relationship between the total provision for depreciation and average depreciable property was 2.83% in 1974, 2.83% in 1973, 2.99% in 1972, 2.85% in 1971 and 2.92% in 1970. The Company makes depreciation studies on a continuing basis and adjusts the rates of its various classes of depreciable property, subject to PSC approval, when considered appropriate. During the past five years, depreciation adjustments have been made as follows:

Effect on Income:	Increase (Decrease)	
	Amount	*Per share*
1972	$(3,000,000)	$(.09)
1971	1,800,000	.05
1970	(4,258,000)	(.14)

Note 3. Accounting Changes

Effective January 1, 1974, as permitted by a PSC policy statement, the Company changed its accounting for the increased fuel and certain purchased power costs above or below the levels allowed in approved rate schedules to defer those costs until the time they are billed to customers thus achieving a better matching of revenue and expense. This accounting change, net of deferred income taxes of $3,170,000, resulted in an increase in net income for 1974 of $34,629,000 ($.82 per share), of which $25,223,000 ($.60 per share) was credited to income before cumulative effect of accounting change and $9,406,000 ($.22 per share), net of deferred income taxes of $400,000, represented the cumulative effect to January 1, 1974 of the accounting change.

In 1970, the Company adopted minimum lives under the "guideline" depreciation procedures for determination of income taxes, which resulted in a reduction of income taxes and an increase in net income of $6,000,000 ($.20 per share).

Note 4. Construction Funds Held in Escrow

These funds, representing the unexpended proceeds from the Promissory Note, Series A (see Page 16), are held in trust pursuant to an agreement between the New York State Atomic and Space Development Authority and the Company. Payments are made from the trust fund upon requisition by the Company for costs related to the construction of certain pollution control facilities.

Note 5. Lines of Credit and Compensating Balances

At December 31, 1974, the Company had available lines of credit aggregating $231,000,000 with a group of lending banks. These lines expire approximately one year from the dates of agreement and are normally renewed but the banks

(Note 5 continued)

have the option of terminating $156,000,000 of the lines at any time and the remainder only at time of renewal. Notes payable to banks currently bear interest equal to the prime rate or the prime rate plus a fraction when fees are used in lieu of compensating balances.

The Company maintains compensating balances, which are averaged over a period of time, with respect to certain of its lines of credit. At December 31, 1974, approximately $15,000,000 of cash represented the aggregate compensating balances. Effective July 1, 1974, the Company negotiated certain lines of credits which require the payment of fees, computed on various bases, in lieu of compensating balances. During the six months ended December 31, 1974, fees amounting to approximately $240,000 were incurred.

Note 6. Capital Stock

Premium on common stock increased $3,564,000 in 1974 and $36,005;000 in 1973 from the sale of 3,300,000 shares and 6,500,000 shares, respectively. In 1974, the authorized shares of common and cumulative preferred stocks were increased. As a result of the foregoing, capital stock expense increased $419,000 and $440,000 in 1974 and 1973, respectively.

Note 7. Construction Commitments

The Company's estimate for construction expenditures in the years 1975 through 1979 is $1,478,000,000, excluding allowance for funds used during construction and certain overheads capitalized. At December 31, 1974 substantial construction commitments have been made.

The Company has applied to the U.S. Atomic Energy Commission (now the Nuclear Regulatory Commission) for authority to construct a second nuclear unit at its Nine Mile Point Nuclear Station. Following hearings a construction permit was issued in June 1974; however, appeal has been made to the Atomic Safety and Licensing Appeals Board from whom a decision is pending. No construction will be undertaken prior to the final decision. The Company has commitments with General Electric Company for the furnishing of the turbine generator, nuclear steam supply system and associated equipment at an expected cost of about $75,000,000 and a commitment with Stone & Webster Engineering Corporation for services as architect-engineer. Approximately $50,000,000 has been spent through December 31, 1974, primarily for engineering studies and designs for this second unit.

Note 8. Pension Plans

The Company and its subsidiaries have non-contributory pension plans covering substantially all their employees. The total pension cost was $15,589,000 for 1974, $13,947,000 for 1973, $13,309,000 for 1972, $12,334,000 for 1971 and $11,019,000 for 1970 (of which $3,755,000 for 1974, $3,565,000 for 1973, $2,837,000 for 1972, $2,512,000 for 1971 and $2,188,000 for 1970 are included in construction costs).

The Company's policy is to fund pension costs accrued. Studies indicate that the estimated amount of vested benefits at December 31, 1974 exceeded the net assets of the funds by approximately $57,000,000.

Amendments to the Company's pension plan resulting from the Employee Retirement Income Security Act of 1974 are not expected to have a significant effect on the Company's annual contribution to the fund or on unfunded past service benefits.

Note 9. Federal and Canadian Income Taxes

Income Tax Refunds: Operations for the years 1974 and 1973 include credits of $4,700,000 and $5,400,000, respectively, attributable to the carryback benefits of net operating tax losses.

The Company has filed for the years 1966 through 1968 claims for refund of taxes as a result of the retroactive adoption of "guideline" lives in computing tax depreciation for such years. The 1966 claim was approved and refund of $5,100,000, together with interest of $2,300,000, was received in 1974. The 1967 and 1968 claims request refund of approximately $10,300,000, exclusive of interest. The year 1969 is presently under Internal Revenue Service audit, and in connection therewith, the Company requested a deduction for "guideline" depreciation yielding a tax benefit of $5,000,000. These tax depreciation benefits, together with accrued interest through December 31, 1974, aggregating $26,900,000, have been recorded in Deferred Credits. Although it is expected that these refunds will ultimately be received in the amounts requested, the accounting disposition of these refunds has been deferred pending completion of discussions with the PSC.

Net Operating Tax Loss: The Company has an unused net operating tax loss at December 31, 1974 of approximately $32,000,000 which may be carried forward for purposes of reducing taxable income in future years through 1979.

Investment Tax Credits: In accordance with various investment tax credit provisions of the Internal Revenue Code, capital expenditures entitled the Company to reduce its federal income taxes by approximately $5,000,000 in 1972, $1,000,000 in 1971, $100,000 in 1970 and $5,000,000 in 1969 (of which $2,400,000 representing two-thirds of the credit relating to Nine Mile Point Nuclear Station was deferred in 1969 as authorized by the PSC and has been recognized in equal amounts during 1970 and 1971). Except for the portion deferred in 1969, the reductions in taxes have been included in the income statement in accordance with the general policy as stated in Note 1. The Company has an unused credit at December 31, 1974 of approximately $18,600,000, of which $4,500,000 may be utilized no later than 1979 to reduce future tax expense, $5,500,000 no later than 1980 and $8,600,000 no later than 1981.

Income Tax Assessment: In October 1972, the Company paid a net assessment of $16,800,000 of additional federal income tax for the years 1957 through 1962 relating to the deductions taken for the loss of the Company's water rights at Niagara Falls terminated in connection with the redevelopment of Niagara power by the Power Authority of the State of New York. The Company does not agree with the Internal Revenue Service position and has instituted suit for recovery.

(Note 9 continued)

Summary Analysis:

	1974	1973	1972	1971	1970
	In thousands of dollars				
Components of Federal and Canadian income taxes					
Current tax expense:					
Federal	$ (5,500)	$ (7,700)	$ 7,000	$ 6,300	$ 5,800
Canadian	1,730	1,770	1,630	1,400	1,500
	(3,770)	(5,930)	8,630	7,700	7,300
Deferred Federal tax expense	(280)	3,359	1,847	(300)	(1,900)
Total	$ (4,050)	$ (2,571)	$10,477	$ 7,400	$ 5,400
Timing differences resulting in deferred Federal income taxes (*see Note 1*)					
Depreciation	$ 985	$ 2,767	$ 1,572	$ 400	$ —
Cost of removal of property	(750)	1,292	975	1,200	—
Investment tax credit	—	—	—	(1,200)	(1,200)
Necessity certificates	(700)	(700)	(700)	(700)	(700)
Recoverable fuel and purchased power costs	2,770	—	—	—	—
Pension costs under the Age Retirement Allowance Plan	(2,585)	—	—	—	—
	$ (280)	$ 3,359	$ 1,847	$ (300)	$ (1,900)
Reconciliation between Federal and Canadian income taxes and the tax computed at prevailing U. S. statutory rates on income before income taxes and cumulative effect of accounting change					
Computed tax	$39,579	$29,056	$38,506	$30,819	$27,929
Reduction attributable to flow-through of certain tax adjustments:					
Depreciation	16,602	14,186	11,667	14,011	13,202
Allowance for funds used during construction	13,426	8,745	6,581	2,904	4,334
Taxes, pensions and employee benefits capitalized for accounting purposes	7,112	4,336	3,298	2,783	2,867
Real estate taxes on an assessment date basis	4,415	2,373	1,094	1,440	1,476
Investment tax credit	—	—	5,000	2,200	1,300
Release of accrued Federal income taxes no longer required	800	2,300	—	—	—
Other	1,274	(313)	389	81	(650)
	43,629	31,627	28,029	23,419	22,529
Federal and Canadian income taxes	$ (4,050)	$ (2,571)	$10,477	$ 7,400	$ 5,400

Summary of Electric and Gas Utility Plant

NIAGARA MOHAWK POWER CORPORATION AND SUBSIDIARIES

	At December 31, 1974	% of Total 1974	At December 31, 1973
	In thousands of dollars		
Utility plant:			
Electric plant (including nuclear fuel)	$2,186,131	74.1	$1,950,884
Gas plant	321,901	10.9	308,276
Common plant	54,426	1.9	38,578
Construction work in progress	386,584	13.1	380,240
Total utility plant	$2,949,042	100.0	$2,677,978

Long-Term Debt

Niagara Mohawk Power Corporation:	At December 31, 1974 (In thousands of dollars)	1973
General Mortgage Bonds—		
3% Series due October 1, 1974 *(issued by Central New York Power Corporation)*	$ —	$ 48,000
2¾% Series due January 1, 1980	40,000	40,000
2⅞% Series due October 1, 1980	40,000	40,000
12.6% Series due October 1, 1981	125,000	—
3⅜% Series due December 1, 1981	15,000	15,000
3¼% Series due October 1, 1983	40,000	40,000
3½% Series due February 1, 1983	25,000	25,000
3⅛% Series due August 1, 1984	25,000	25,000
3⅝% Series due May 1, 1986	30,000	30,000
4⅞% Series due September 1, 1987	50,000	50,000
3⅞% Series due June 1, 1988	50,000	50,000
4¾% Series due April 1, 1990	50,000	50,000
4½% Series due November 1, 1991	40,000	40,000
4⅝% Series due December 1, 1994	40,000	40,000
5⅞% Series due November 1, 1996	45,000	45,000
6¼% Series due August 1, 1997	40,000	40,000
6½% Series due August 1, 1998	60,000	60,000
9⅛% Series due December 1, 1999	75,000	75,000
7⅜% Series due February 1, 2001	65,000	65,000
7⅝% Series due February 1, 2002	80,000	80,000
7¾% Series due August 1, 2002	80,000	80,000
8¼% Series due December 1, 2003	80,000	80,000
Buffalo Niagara Electric Corporation First Mortgage Bonds,		
2¾% Series due November 1, 1975	54,334	54,334
New York Power and Light Corporation First Mortgage Bonds,		
2¾% Series due March 1, 1975	48,433	48,433
Paul Smith's Electric Light & Power & Railroad Company First Mortgage Bonds—		
3⅜% Series due April 1, 1975	1,100	1,100
4½% Series due July 1, 1979	450	450
5½% Series due May 1, 1985	450	450
Promissory Note, 8% Series A due June 1, 2004 (see Note 4)	46,600	—
	1,246,367	1,122,767
Less: Portion due within one year included in Current Liabilities	103,867	48,000
Total long-term debt	**$1,142,500**	$1,074,767

Preferred Stock

Niagara Mohawk Power Corporation:	At December 31, 1974 (In thousands of dollars)	1973
Cumulative preferred stock, authorized 5,800,000 shares (2,800,000 in 1973) $100 par value—		
3.40% Series; 200,000 shares	$ 20,000	$ 20,000
3.60% Series; 350,000 shares	35,000	35,000
3.90% Series; 240,000 shares	24,000	24,000
4.10% Series; 210,000 shares	21,000	21,000
4.85% Series; 250,000 shares	25,000	25,000
5.25% Series; 200,000 shares	20,000	20,000
6.10% Series; 250,000 shares	25,000	25,000
7.45% Series; 600,000 shares	60,000	60,000
7.72% Series; 400,000 shares	40,000	40,000
Total preferred stock	**$270,000**	$270,000

Report of Independent Accountants

Price Waterhouse & Co.

Syracuse, N. Y.
January 31, 1975

To the Stockholders
and the Board of Directors
of Niagara Mohawk Power Corporation

We have examined the consolidated balance sheet of Niagara Mohawk Power Corporation and its subsidiaries as of December 31, 1974 and 1973 and the related consolidated statements of income and retained earnings and of changes in financial position for the years then ended. Our examinations of these statements were made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The Company, effective January 1, 1974, changed its accounting for the increased fuel and certain purchased power costs to defer those costs until the time they are billed to customers as permitted by a New York State Public Service Commission policy statement as further discussed in Notes 1 and 3.

As discussed in Note 9, the Company has requested refunds of federal income taxes for the years 1966 through 1969 as a result of the retroactive adoption of "guideline" lives in computing tax depreciation for such years. Although it is expected that these refunds will ultimately be received, the accounting disposition of these refunds has been deferred pending completion of discussions with the New York State Public Service Commission.

In our opinion, subject to the effect, if any, upon the financial statements of the matter referred to in the preceding paragraph, the consolidated financial statements examined by us present fairly the financial position of Niagara Mohawk Power Corporation and its subsidiaries at December 31, 1974 and 1973, the results of their operations and the changes in financial position for the years then ended, in conformity with generally accepted accounting principles consistently applied during the period except for the change, with which we concur, referred to in the second paragraph of this report.

Price Waterhouse & Co.

Financial Statistics

NIAGARA MOHAWK POWER CORPORATION AND SUBSIDIARIES

	1974	1973	1972	1971	1970
Capitalization ratios:	%	%	%	%	%
Common stock equity	**32.3**	32.3	31.2	34.1	33.5
Preferred stock	**12.1**	13.1	11.5	10.6	11.4
Long-term debt (Including amounts due within one year)	**55.6**	54.6	57.3	55.3	55.1
Ratio of earnings to fixed charges	**2.19**	2.00	2.56	2.49	2.43
Ratio of earnings to fixed charges and preferred stock dividends	**1.84**	1.66	2.15	2.08	2.01
Other ratios—% of operating revenues:	%	%	%	%	%
Maintenance and depreciation	**14.3**	16.5	16.2	16.2	16.1
Taxes	**11.8**	13.4	15.4	15.0	14.4
Operating income	**16.4**	15.7	17.1	16.5	15.8
Balance available for common stock*	**8.6**	8.5	9.8	8.7	8.7
Ratio of depreciation reserve to gross utility plant	**22.7%**	23.0%	23.6%	24.0%	23.8%
Ratio of mortgage bonds to net utility plant	**52.7%**	54.5%	56.4%	53.2%	53.3%

**Pro forma.*

Electric Capability

NIAGARA MOHAWK POWER CORPORATION AND SUBSIDIARIES

			Thousands of kilowatts			
Thermal*	At December 31, 1974	%	1973	1972	1971	1970
Coal fuel						
Huntley, Niagara River	**830**	**13**	830	861	875	875
Dunkirk, Lake Erie	**640**	**10**	640	640	676	676
Total coal fuel	**1,470**	**23**	1,470	1,501	1,551	1,551
*Residual oil fuel***						
Albany, Hudson River	**400**	**6**	400	400	437	437
Oswego, Lake Ontario	**375**	**6**	375	385	407	407
Roseton, Hudson River	**465**	**7**	—	—	—	—
Middle distillate oil fuel						
20 Combustion turbine and diesel units	**355**	**5**	355	355	371	281
Total oil fuel	**1,595**	**24**	1,130	1,140	1,215	1,125
Nuclear fuel						
Nine Mile Point, Lake Ontario	**610**	**10**	610	610	610	500
Total thermal sources	**3,675**	**57**	3,210	3,251	3,376	3,176
Hydro						
Own hydro stations (79 in 1974)	**719**	**11**	718	724	731	725
Purchased—firm contracts						
Power Authority—Niagara River	**1,275**	**20**	1,275	1,278	1,295	1,283
Power Authority—St. Lawrence River	**115**	**2**	115	115	115	115
Power Authority—Blenheim Gilboa Pumped Storage Plant	**550**	**9**	550	—	—	—
Other	**84**	**1**	87	90	85	80
Total hydro sources	**2,743**	**43**	2,745	2,207	2,226	2,203
Total capability†	**6,418**	**100%**	5,955	5,458	5,602	5,379
Electric peak load during year:†						
Total system demand	**5,789**		6,168	6,179	5,583	5,874
Net system demand	**4,893**		5,006	4,929	4,650	4,705

** Thermal station dependable maximum net capability rating changed from one hour to four hour basis during 1972.*

*** The Albany Station was converted from coal to residual oil fuel in 1970 and the Oswego Station was converted in 1972.*

† Available capability can be increased during heavy load periods by purchases from neighboring interconnected systems. Hydro station capability is based on average December stream-flow conditions. Total system demand includes sales to other utilities; net system demand excludes such sales.

Electric Statistics

NIAGARA MOHAWK POWER CORPORATION AND SUBSIDIARIES

	1974	%	1973	%	1972	%	1971	%	1970	%
Electricity generated and purchased:										
(Millions of kw-hrs.)										
Thermal:										
Generated										
Coal*	**7,805**	**23**	7,420	21	7,752	25	8,580	28	11,196	37
Oil*	**4,348**	**13**	4,472	13	3,515	11	2,795	9	622	2
Nuclear	**3,279**	**10**	3,494	10	3,242	10	2,937	10	1,687	6
Total thermal	**15,432**	**46**	15,386	44	14,509	46	14,312	47	13,505	45
Hydro:										
Generated	**3,868**	**11**	3,885	11	4,089	13	3,609	12	3,438	12
Purchased from Power Authority of the State of New York	**10,559**	**31**	11,105	32	10,299	32	9,529	31	9,304	31
Total hydro	**14,427**	**42**	14,990	43	14,388	45	13,138	43	12,742	43
Other purchased power— various sources	**4,237**	**12**	4,491	13	2,890	9	3,135	10	3,699	12
Total generated and purchased	**34,096**	**100**	34,867	100	31,787	100	30,585	100	29,946	100
Electric sales:										
(Millions of kw-hrs.)										
Residential	**7,140**		7,158		6,897		6,558		6,190	
Commercial	**7,835**		7,934		7,277		6,661		6,146	
Industrial	**12,410**		12,670		11,970		11,809		12,326	
Municipal service	**286**		295		296		291		287	
Other electric systems	**3,243**		4,017		2,622		2,735		2,484	
	30,914		32,074		29,062		28,054		27,433	
Electric revenues:										
(Thousands of dollars)										
Residential	**$205,231**		$184,243		$178,427		$156,333		$142,899	
Commercial	**200,911**		157,783		146,689		125,798		111,556	
Industrial	**166,465**		121,936		115,229		105,407		101,653	
Municipal service	**13,725**		11,895		11,562		11,038		10,693	
Other electric systems	**65,954**		43,351		24,406		31,497		26,914	
Miscellaneous	**18,960**		15,351		11,873		10,254		10,271	
	$671,246		$534,559		$488,186		$440,327		$403,986	
Electric customers:										
(Average)										
Residential	**1,157,958**		1,144,511		1,129,306		1,114,199		1,097,977	
Commercial	**128,660**		129,048		128,767		128,345		127,896	
Industrial	**3,102**		3,185		3,148		3,213		3,267	
Other	**1,935**		1,823		1,718		1,691		1,675	
	1,291,655		1,278,567		1,262,939		1,247,448		1,230,815	
Residential:										
(Average)										
Annual kw-hr. use per customer	**6,166**		6,254		6,107		5,886		5,638	
Cost to customer per kw-hr.	**2.87¢**		2.57¢		2.59¢		2.38¢		2.31¢	
Annual revenue per customer	**$177.24**		$160.98		$158.00		$140.31		$130.15	

* *The Albany Station was converted from coal fuel to residual oil fuel in 1970 and the Oswego Station was converted in 1972.*

Gas Statistics

NIAGARA MOHAWK POWER CORPORATION AND SUBSIDIARIES

	1974	1973	1972	1971	1970
Gas sales:					
(Millions of cubic feet)					
Residential	**56,059**	54,171	59,265	57,763	56,255
Commercial	**23,957**	23,750	25,824	24,966	22,695
Industrial	**16,408**	16,082	16,533	16,318	16,010
Other gas systems	**3,514**	3,499	3,687	3,098	2,915
	99,938	97,502	105,309	102,145	97,875
Gas revenues:					
(Thousands of dollars)					
Residential	**$ 98,920**	$ 86,400	$ 89,447	$ 83,935	$ 77,006
Commercial	**37,826**	31,384	32,249	29,661	25,506
Industrial	**18,367**	15,143	15,685	14,108	12,623
Other gas systems	**3,438**	2,827	2,898	2,205	1,944
Miscellaneous	**1,013**	1,044	1,116	1,146	1,135
	$159,564	$136,798	$141,395	$131,055	$118,214
Gas customers:					
(Average)					
Residential	**385,822**	383,403	381,199	378,608	375,361
Commercial	**29,869**	30,236	30,489	30,255	29,928
Industrial	**578**	602	584	601	618
Other	**2**	2	2	2	2
	416,271	414,243	412,274	409,466	405,909
Residential:					
(Average)					
Annual use per customer *(Thousands of cubic feet)*	**145.3**	141.3	155.5	152.6	149.9
Cost to customer *(Per thousand cubic feet)*	**$1.76**	$1.59	$1.51	$1.45	$1.37
Annual revenue per customer	**$256.39**	$225.35	$234.65	$221.69	$205.15
Maximum day gas sendout *(Thousands of cubic feet)*	**697,777**	717,472	681,899	744,492	674,097

Directors

James Bartlett	Executive Vice President—Engineering, Operations and Employee Relations	Syracuse
Thomas J. Brosnan	Vice President—Research and Development, Environmental Matters	Syracuse
Edmund M. Davis	Partner, Hiscock, Lee, Rogers, Henley & Barclay, attorneys-at-law	Syracuse
Edward W. Duffy	Chairman of the Board and Chief Executive Officer, Marine Midland Banks, Inc., a bank holding company	Buffalo
Edmund H. Fallon*	Executive Consultant, Agway, Inc., purchasing and marketing organization	Syracuse
John G. Haehl, Jr.*	President and Chief Executive Officer	Syracuse
Edwin F. Jaeckle*	Senior Partner, Jaeckle, Fleischmann & Mugel, attorneys-at-law	Buffalo
Ralph F. Leach*	Chairman of Executive Committee, Morgan Guaranty Trust Company of New York, commercial bank	New York
James P. Lewis*	Chairman and Chief Executive Officer, Latex Fiber Industries, paper manufacturer	Beaver Falls
Lauman Martin	Senior Vice President and General Counsel	Syracuse
Baldwin Maull*	Director of various corporations	New York
Frank P. Piskor	President, St. Lawrence University	Canton
Dean P. Taylor	Senior Partner, Wager, Taylor, Howd & Brearton, attorneys-at-law	Troy

**Members of Executive Committee.*


J. Bartlett


T. J. Brosnan


E. M. Davis


E. W. Duffy


E. H. Fallon


E. F. Jaeckle


R. F. Leach


J. P. Lewis


L. Martin


B. Maull


F. P. Piskor


D. P. Taylor

Officers

John G. Haehl, Jr.	President and Chief Executive Officer
Lauman Martin	Senior Vice President and General Counsel
James Bartlett	Executive Vice President—Engineering, Operations and Employee Relations
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O. Mark DeMichele	Vice President—Public Relations
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John M. Endries	Vice President and Controller
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John M. Haynes	Vice President and Treasurer
Harry F. Jensen	Vice President—Purchasing
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William J. Donlon	Vice President and General Manager—Eastern Division
James J. Miller	Vice President and General Manager—Central Division
Richard F. Torrey	Vice President and General Manager—Western Division
Robert M. Cleary, Jr.	Vice President and Assistant General Manager—Western Division
Raymond Kolarz	Vice President and Assistant General Manager—Central Division
Richard H. Kukuk	Vice President and Assistant General Manager—Eastern Division
Albert S. Geehr, Jr.	Director of Taxes
Edward P. Gueth, Jr.	Assistant General Counsel
Herman B. Noll	Assistant General Counsel
Philip R. Chase, Jr.	Assistant Controller
Bert W. Schillo	Assistant Controller
Henry B. Wightman, Jr.	Assistant Controller
John W. Powers	Assistant Treasurer
Harold J. Bogan	Assistant Secretary
Joseph F. Cleary	Assistant Secretary—Eastern Division
Frederick C. McCall	Assistant Secretary—Western Division

Shareowner Information

ANNUAL MEETING
The annual meeting of shareowners will be held on May 6, 1975 at the Company's principal office at Syracuse. A formal notice of meeting, proxy statement and proxy form will be sent to owners of common stock about April 2.

TRANSFER AGENTS
Preferred Stock:
Marine Midland Bank—New York
125 Barclay Street
New York, N. Y. 10015

Common Stock:
Morgan Guaranty Trust Company
of New York
30 West Broadway
New York, N. Y. 10015

DISBURSING AGENT
Preferred and Common Stocks:
Niagara Mohawk Power Corporation
300 Erie Boulevard West
Syracuse, N. Y. 13202

STOCK EXCHANGES
Preferred and Common Stocks:
Listed on New York Stock Exchange.

Common Stock:
Also traded on Boston, Cincinnati, Detroit, Midwest, Pacific Coast, Philadelphia-Baltimore-Washington and Amsterdam (Netherlands) stock exchanges.

Ticker symbol: NMK

A copy of the Company's Form 10-K report filed annually with the Securites and Exchange Commission is available upon request by writing the Vice President and Secretary at 300 Erie Boulevard West, Syracuse, N.Y. 13202.

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Niagara Mohawk Power Corporation
300 Erie Boulevard West, Syracuse, New York 13202