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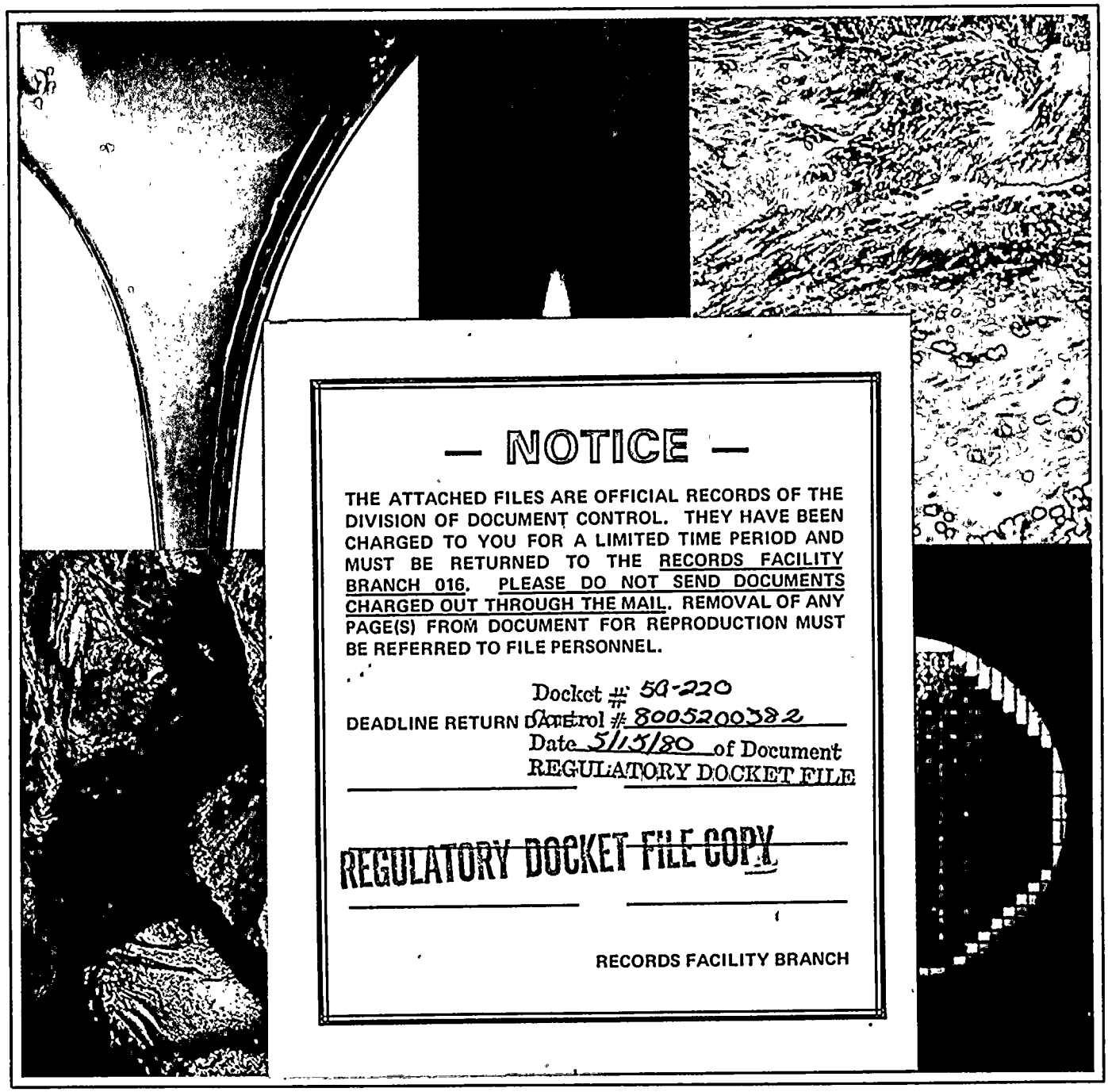
NIAGARA MOHAWK POWER CORPORATION 1979 ANNUAL REPORT

ENERGY FOR THE EIGHTIES



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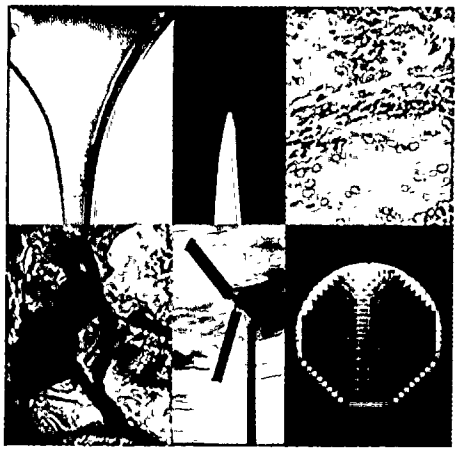


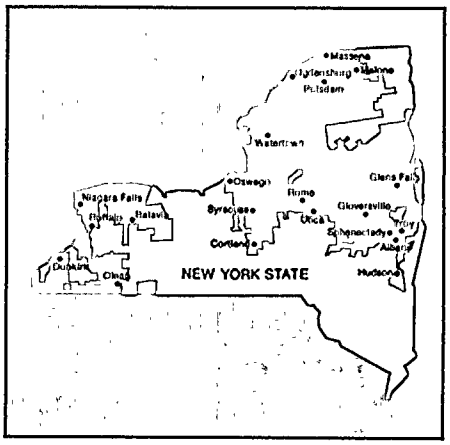
A new energy decade beckons.

Prime energy sources—fossil fuels, hydroelectric and nuclear—form the long-established power generation mix Niagara Mohawk will continue to deploy for the most efficient generation of electricity. At the same time, our firm commitment to developing alternate energy sources—the sun and wind included—will prevail as we enter the 1980s.

OUR SERVICE AREA

With the largest and most diverse service territory in New York State, Niagara Mohawk Power Corp. is recognized as one of the nation's major investor-owned utilities. Electricity from our massive system, extending from Lake Erie to New England's borders, to Canada and Pennsylvania, serves the energy needs of 1,348,000 customers. Our natural gas system serves 416,000 customers in central, eastern and northern New York, nearly all within our electric service area. Two Canadian subsidiaries, St. Lawrence Power Company and Canadian Niagara Power Company, Ltd., provide electric service to parts of southern Ontario. Our corporate headquarters is 300 Erie Boulevard West, Syracuse, N.Y. 13202.

ELECTRIC SERVICE AREA



GAS SERVICE AREA

INVESTOR NOTES

Annual Meeting

The annual meeting of stockholders will be held on May 6, 1980 at the Company's principal office in Syracuse. A formal notice of meeting, proxy statement and proxy form will be sent to holders of common stock in early April.

Transfer Agents

Preferred Stock and Preference Stock:
Marine Midland Bank—New York
2 Broadway, New York, N.Y. 10004

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

Disbursing Agent

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

Stock Exchanges

Common and Certain Preferred Series:
Listed on New York Stock Exchange

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

Ticker Symbol: NMK

Form 10-K Report

A copy of the Company's Form 10-K report filed annually with the Securities and Exchange Commission is available after March 31, 1980 by writing the Vice President and Treasurer at 300 Erie Boulevard West, Syracuse, N.Y. 13202.

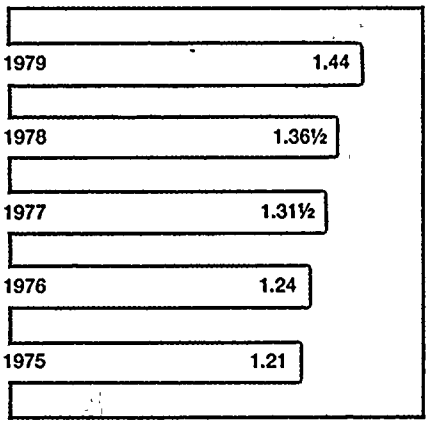
Printed in U.S.A.

HIGHLIGHTS OF 1979

	1979	1978	% Change
Total operating revenues	$1,516,503,000	$1,280,248,000	18
Income available for common stockholders	$ 128,186,000	$ 112,502,000	14
Earnings per common share	$2.00	$1.89	6
Dividends per common share	$1.44	$1.36½	5
Common shares outstanding *(average)*	63,976,000	59,661,000	7
Utility plant *(gross)*	$4,218,528,000	$3,905,374,000	8
Gross additions to utility plant	$ 374,530,000	$ 316,280,000	18
Kilowatt-hour sales to customers	33,315,000,000	32,382,000,000	3
Electric customers at end of year	1,348,000	1,336,000	1
Electric peak load *(kilowatts)*	5,641,000	5,485,000	3
Natural gas sales to customers *(dekatherms)*	96,618,000	98,002,000	(1)
Gas customers at end of year	416,000	413,000	1
Maximum day gas sendout *(dekatherms)*	750,666	655,408	15

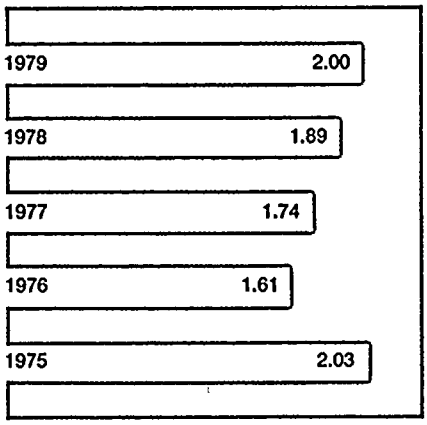
DIVIDENDS PER COMMON SHARE

Dollars



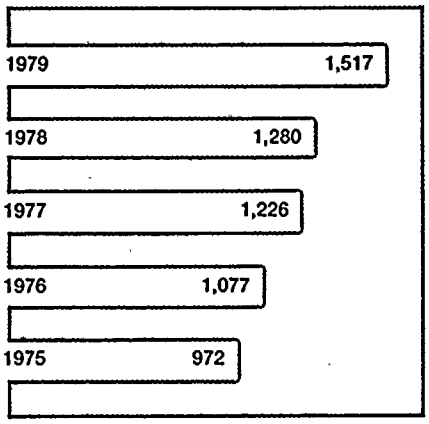
EARNINGS PER COMMON SHARE

Dollars



TOTAL OPERATING REVENUES

Millions of dollars



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TO OUR STOCKHOLDERS

We achieved a moderate improvement in our earnings in 1979, as they reached $2.00 per common share compared to $1.89 per share in the prior year.

A portion of this 6% rise can be attributed to a $16.2-million annual rate adjustment approved by the N.Y. State Public Service Commission and put into effect during the first quarter. Despite this modest increase, double-digit inflation again continued to overwhelm our strongest cost control efforts and we were compelled to pursue further rate improvement. In April 1979, we filed for electric and natural gas rate increases of $180.1 million. The Commission's decision was expected as this report neared publication. As in previous years, we shall continue to file for increased rates whenever the need arises—not only to provide you with a fair return on your investment as a stockholder but to maintain the reliable, efficient energy services which our consumers expect.

During the year, electric sales increased 2.9% while gas sales decreased 1.4% due to warmer than normal weather.

Presently, our best forecasts indicate that Niagara Mohawk's annual electric growth rate into the 1990s will be only about half that projected from the early 1970s, before OPEC's oil embargo, inflation and the general economic slowdown which has hurt N.Y. State and our service area. Even with the reduced prospects we must plan and construct new generation and related electric facilities to meet the energy requirements of our consumers, whatever the future may hold.

To that end, Unit No. 6 at our Oswego Steam Station produced its first electricity in 1979. This jointly owned 850,000-kilowatt addition to our diverse generation mix will help lower requirements for purchased power at peak load periods and improve reliability through expansion of our power reserve margin.

We anticipate announcement soon of the final Master Energy Plan for New York State, administered by the State Energy Office. This long-awaited blueprint will have a significant future bearing on Niagara Mohawk, particularly on scheduling and siting of generation and transmission projects. Its treatment of proposed nuclear-electric units should be especially relevant to us in the years ahead.

Our commitment to nuclear technology is no less firm today than before events at the Three Mile Island nuclear plant. Three Mile Island has strengthened our dedication and motivation to advance nuclear power's well-established safety and performance record to as close to perfection as humanly possible. Some of these efforts are discussed in detail on page 7.

Total project completion of the jointly owned Nine Mile Point Nuclear Unit No. 2 reached the halfway mark in 1979. However, because of regulatory uncertainties affecting the nuclear industry and possible modifications required in the construction and operation of nuclear plants, we are in the process of revising our entire construction schedule for completion of the plant in 1986. This two-year extension will accommodate necessary modifications to the reactor's containment and radiation protection structures, further geological studies and new requirements expected from the Nuclear Regulatory Commission arising from the Three

John G. Haehl, Jr.

Mile Island incident. As a result, manpower and engineering design work have been temporarily reduced pending resolution of probable modifications. We do not expect any power supply difficulties related to the delay, and we will strive as ever to maintain adequate electric power sources for customer needs at all times.

We were pleased with a decision by the State Board on Electric Generation Siting and the Environment giving us a go-ahead to build an 850,000-kilowatt coal-fired unit on Lake Erie, south of Dunkirk. The ruling followed many months of public hearings and exhaustive legal and environmental proceedings. The Board indicated approval of a second proposed unit would be contingent on proof of need, either by Niagara Mohawk alone or in concert with other utilities. We feel confident that this principal power producer can be constructed and operated without harm to air, land or water quality. We are especially sensitive and concerned over the vital grape-growing industry in the region.

As the new year began, announcement by the State Board on Electric Generation Siting disallowing construction of the proposed Sterling Nuclear Station came to us as a severe disappointment. Sterling's design was part of the Standardized Nuclear Unit Power Plant System Program already approved by the U.S. Nuclear Regulatory Commission. We firmly believe this project, of which Niagara Mohawk owned 22%, would have been totally compatible with the environment. Moreover, it would have provided significant economic benefits for upstate New York consumers besides reducing foreign-oil dependence and helping to assure stable energy supply in the decades ahead. Together with the co-owners, we have filed with the Public Service Commission to recover our investment in the Sterling project.

In a similar vein, references appear throughout this report to other difficulties and costly delays stemming from regulatory influences over every facet of our business. Of particular note are some of the barriers we must clear to expand our hydroelectric capacity on waterways in our system, discussed on page 8.

Financing during the year included the public sale of 3.5 million shares of common stock and issuance of $100 million of 25-year mortgage bonds. Financing requirements for 1980 are expected to exceed $270 million, including receipts from common stock sales through our Dividend Reinvestment and Stock Purchase Plan and the Employee Savings Fund Plan. Construction needs and refunding of $80 million of 30-year bonds will make 1980 a heavy financing year.

The proposal of the Town of Massena to acquire by condemnation major parts of our electric distribution system in Massena remains undecided as various courts and the Federal Energy Regulatory Commission consider matters in the case.

We value the loyalty of our employees and stockholders more than ever as we enter the decade of the Eighties. Your continuing support is deeply appreciated.

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

February 1, 1980

FINANCIAL REVIEW

Niagara Mohawk's earnings in 1979 were $2.00 per share, up 11¢ over 1978 when fewer shares were outstanding. The following factors, which may not be indicative of future operations or earnings, have had a significant effect upon the results of operations during 1978 and 1979:

Total revenues were $1.517 billion in 1979, an increase of $236 million or 18.5% for the year. Operating revenues increased significantly in 1979, primarily the result of: (1) recovery of increased energy and purchased gas costs through the electric and gas adjustment clauses of the Company's tariffs, (2) base rate increases and (3) increased electric sales. Gas sales decreased due to warmer than normal weather during the last few months of 1979. The tables on page 5 show changes in electric and gas revenues and sales.

The Company's electric revenues increased $191 million in 1979, to $1.211 billion, compared with a rise of $33 million in 1978. Electric sales to ultimate consumers in 1979 were up 2.0% over 1978. Residential sales rose by 1.7%, while sales to commercial and industrial customers showed increases of 1.8% and 2.3%, respectively.

At year end, our customers numbered 1,348,000, some 12,000 more than in 1978. The average price per kilowatt-hour paid by residential consumers was 4.33¢ in 1979, compared with 3.93¢ in 1978, a rise of 10.2%, while the Consumer Price Index climbed 13.3%.

A new electric peak load of 5,641,000 kilowatts was recorded on February 14, 1979, some 156,000 kw over the 1978 peak.

A $46 million increase in natural gas revenues was noted in 1979, compared with a rise of $22 million in 1978. The change resulted primarily from price increases authorized by the Federal Energy Regulatory Commission to Consolidated Gas Supply Corp., our only supplier of gas, and recovered from customers through the gas adjustment clause.

Total gas sales for the year fell 1.4% in 1979, against a climb of 5.0% in 1978. Residential customers led the decline with a decrease of 5.3% and commercial sales decreased 1.3%, while industrial sales increased 9.5%. The lower gas usage was due to warmer than normal weather partially offset by conversions to gas for heating because of its price advantage over other fuel sources. Gas customers numbered 416,000 at the end of 1979, up 3,000 over 1978. The average revenue per unit of use (dekatherm) for residential customers was $3.40, 17.6% more than in 1978.

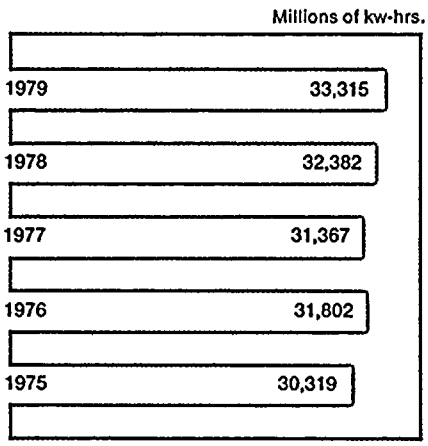
We filed with the New York State Public Service Commission (PSC) on April 6, 1979 for a total $180.1 million in electric and natural gas rate increases, based on forecast operations for the rate year ending March 31, 1981. The request was for an overall 13.6% revision, including $159.7 million (15.5%) electric and $20.4 million (7.0%) gas, all within Federal price guidelines.

In early December, the Administrative Law Judge in the case recommended that electric rates be allowed to increase $91.3 million annually and gas rates be allowed to rise $800,000 per year supplemented by accounting procedures designed to partially offset the immediate need for higher revenues. The interim recommendation was far short of our request and we took strong exception to it in our response to the Commission. Because of the nearly year-long regulatory proceedings for any rate case, any increase, as finally determined by the PSC, is not expected to go into effect until March 1980.

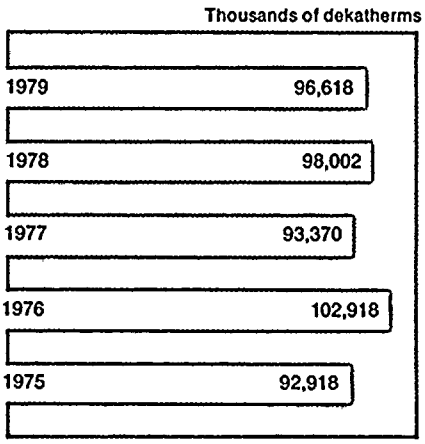
In 1978, the Company petitioned the Commission for a reopening of an earlier electric rate case on the basis of changes in demand for electricity which had caused Niagara Mohawk's forecast of sales and revenues for the first rate year ending June 30, 1979 to be overstated. The PSC granted the petition and on March 14, 1979 we were allowed to increase electric rates by $16.3 million yearly.

In 1979, the cost of fuel for electric generation went up $69 million and electricity purchased rose $60 million. These added costs were due to higher unit costs of fuel and purchased power and to necessary reliance on higher-cost sources of power during the shutdown of Nine Mile Point Nuclear Station for scheduled refueling and maintenance. Through our energy and pur-

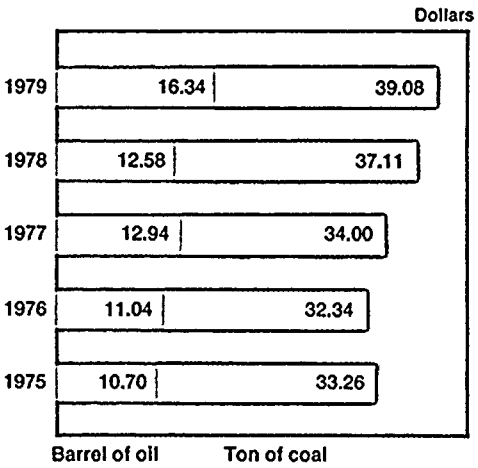
ELECTRIC SALES



GAS SALES



AVERAGE COST OF FUEL BURNED



ELECTRIC Revenues	Increase (decrease) from prior period In millions of dollars 1979	1978
Increase in base rates	$ 24.5	$14.9
Fuel and purchased power cost increases	108.8	(2.6)
Sales to ultimate consumers	20.7	16.7
Sales to other electric systems	23.7	0.8
Miscellaneous operating revenues	13.1	2.8
	$190.8	$32.6

Class of Service	% of total electric revenues	% increase from 1978 Electric revenues	Kilowatt-hours
Residential	29.5	11.9	1.7
Commercial	32.5	17.8	1.8
Industrial	25.8	20.9	2.3
Municipal service	2.0	10.8	(0.7)
Total to ultimate consumers	89.8	16.5	2.0
Other electric systems	6.9	39.9	13.0
Miscellaneous	3.3	48.0	—
	100.0%	18.7	2.9

GAS Revenues	Increase (decrease) from prior period In millions of dollars 1979	1978
Increase in base rates	$ 4.6	$ 2.2
Purchased gas cost increases	42.3	9.8
Gas sales	(1.4)	9.9
	$45.5	$21.9

Class of service	% of total gas revenues	% increase from 1978 Gas revenues	Deka-therms
Residential	57.8	11.3	(5.3)
Commercial	23.3	17.0	(1.3)
Industrial	15.1	42.7	9.5
Total to ultimate consumers	96.2	16.7	(1.8)
Other gas systems	3.3	46.0	9.2
Miscellaneous	0.5	15.3	—
	100.0%	17.5	(1.4)

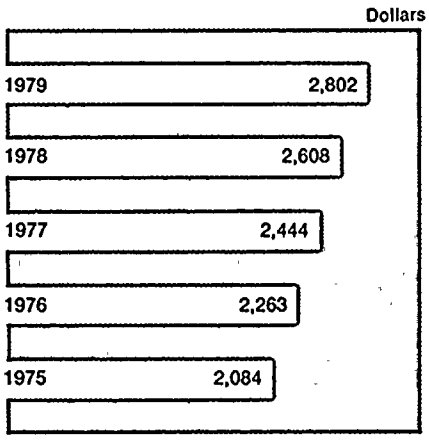
chased gas adjustment clauses, the higher costs of fuel, purchased power and purchased gas related to sales to ultimate consumers eventually result in higher revenues. Such higher costs associated with sales to neighboring utilities are recovered immediately in prices charged to them.

The cost of gas purchased climbed $38 million in 1979, compared with a $16 million increase in 1978. The increases reflect the effects of the Natural Gas Policy Act, enacted by the Congress in 1978, and renegotiation of a 10-year contract between El Paso Corp., Consolidated's liquefied natural gas (LNG) supplier, and Sonatrach, Algeria's national oil and gas company. The Natural Gas Policy Act gradually phases out domestic price controls at the wellhead to create incentives for further exploration and drilling of new wells to improve gas supplies. LNG forms about 15% of Consolidated's supply, and its higher cost in turn adds to the price of gas purchased by Niagara Mohawk and sold to customers.

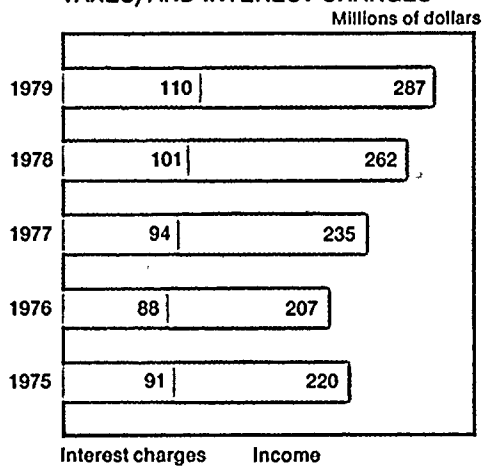
Increases in other operating expenses of $19 million in 1979 and $16 million in 1978 are largely due to wage increases and a rise in prices paid for materials and supplies. Maintenance expenses for 1979 were $19 million above those in 1978, largely the result of work performed at the Company's nuclear plant during refueling and higher levels of maintenance required at our steam generating stations and on our electric distribution system.

Federal and Canadian income taxes (net) rose $1 million in 1979 and $2 million in 1978. The 1979 increase is the result of an increase in deferred federal income taxes which was partially offset by a decrease in current federal income tax expense. The 1978 increase was attributable to higher taxable earnings. (See Note 10 to the Consolidated Financial Statements.)

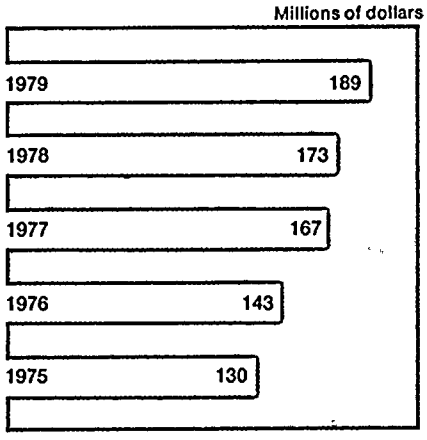
AVERAGE GROSS ELECTRIC UTILITY PLANT PER ELECTRIC CUSTOMER



INCOME (BEFORE INTEREST AND INCOME TAXES) AND INTEREST CHARGES

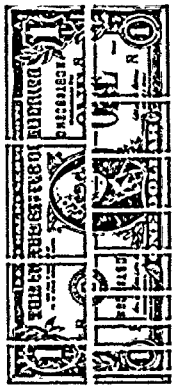


TOTAL TAXES, INCLUDING INCOME TAXES



THE 1979 REVENUE DOLLAR AND WHERE IT WENT

In thousands of dollars	Change from 1978		
$534,385	12%	35¢	Residential customers
464,312	18	31¢	Commercial customers
359,093	23	24¢	Industrial customers
158,713	37	10¢	All others



		In thousands of dollars	Change from 1978
Fuel for production of electricity	25¢	$380,101	22%
Wages, salaries, employee benefits	13¢	198,469	12
Gas purchased	13¢	196,711	24
Income and other taxes	12¢	188,758	9
Electricity purchased	11¢	159,453	60
Interest and other costs—net	10¢	152,769	9
Dividends to stockholders	8¢	119,980	9
Depreciation	6¢	84,212	4
Retained in business	2¢	36,050	20

Allowance for funds used during construction increased $13 million in 1979 and $11 million in 1978 due to higher amounts of construction work in progress and additionally in 1979, due to higher accrual rates being charged. The increase in other interest of $3 million in 1979 reflects both the need for greater short-term borrowing to temporarily finance the construction program and a drastic rise in interest rates during the year.

Preferred and common stock dividends were paid on March 31, June 30, September 30 and December 31. We presently estimate that 65% of the 1979 common stock dividends is a return of capital and therefore is not taxable as dividend income for income tax purposes. The remaining percentage on common dividends and 100% of preferred stock dividends are taxable as dividend income.

The table below shows dividends per share for our common stock and quoted market prices:

1979	Dividend paid per share	Price range High	Low
1st quarter	$ .36	$15⅝	$13½
2nd quarter	.36	14⅛	13
3rd quarter	.36	14⅞	12¾
4th quarter	.36	14	12
	$1.44		
1978			
1st quarter	$ .33½	$15¾	$14½
2nd quarter	.33½	15	13¾
3rd quarter	.33½	15⅛	13¾
4th quarter	.36	14⅞	13⅝
	$1.36½		

1979 financing included the public sale of 3.5 million shares of Niagara Mohawk common stock at the approximate market price of $13¼ per share, 2.3 million common shares sold through our Dividend Reinvestment and Stock Purchase Plan and Employee Savings Fund Plan and a total of $100 million of 25-year mortgage bonds issued through private placement at the comparatively favorable rate of 9.95%. Proceeds from these sales provided construction funds.

In the fourth quarter, interest rates rose sharply to record high levels for both short and long-term financings. In 1980, we must refund $80 million of bonds coming due which were issued 30 years earlier at interest rates under 3%. The average interest rate for all debt outstanding at the end of December was about 7.4%. High priority in rate increase filings is given to seeking an adequate earnings level on stockholders' investment and improving our current bond credit ratings of A and A-minus from key rating agencies.

To broaden our financing opportunities, we have established Niagara Mohawk Finance N.V., in the Netherlands Antilles. This subsidiary will give us access to the Eurodollar market to obtain capital needed for construction projects. Overseas financing is desirable when the Eurodollar market offers lower interest rates than in the U.S. The Company will still have to obtain Public Service Commission approval for each borrowing, as with domestic financing. The PSC authorized formation of the subsidiary in 1979.

Productivity gains and new efficiency measures were again noted at Niagara Mohawk during the year. Especially significant was the revamping of our Information Systems Department into the new Management Systems and Services Department. Its expanded activities are expected to yield gross annual savings of about $5 million beginning in 1986 due to startup of several new computer systems. Project teams have been organized to begin work on the first of these, including customer, corporate and construction and maintenance systems.

The cost impact of regulation upon virtually all aspects of our business, especially environmental affairs, is growing more pronounced every year. Proceedings, for instance, in the New York State "Article VIII" siting law for proposed power generating facilities cost the Company $2.7 million in 1979. Since 1976, when we filed for certification for our planned Lake Erie Generation Station, we have spent over $17.3 million solely for environmental and legal affairs in the case. This includes an estimated $2 million just for analyses of projected effect of the station upon regional grape crops. Regulatory requirements, including environmental assessments for our hydroelectric expansion program alone, amounted to some $300,000 during the year. All of these costs of doing business are borne by our customers. ■

NUCLEAR ACTIVITIES

The accident at the Three Mile Island nuclear plant in Pennsylvania in March 1979 fostered a number of measures by Niagara Mohawk and others in the industry to further safety refinements and promote nationwide public understanding of nuclear energy.

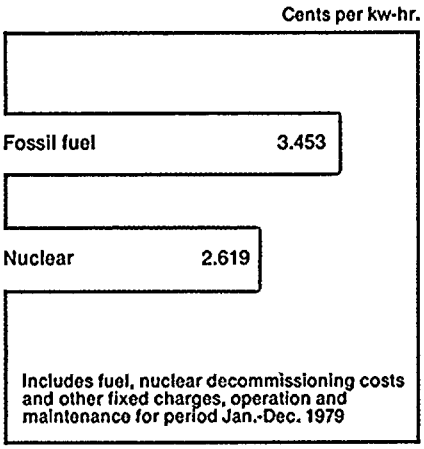
Foremost among these was the creation by the industry of two new organizations, the Institute of Nuclear Power Operations to achieve improved operator training and to audit and evaluate safety programs, and the Nuclear Safety Analyses Center to serve as a clearing house for Three Mile Island study results.

Based at Electric Power Research Institute headquarters in Palo Alto, California, the Center will disseminate the results of safety reviews and analyses to reactor owners and other groups. In addition, preliminary studies have begun jointly by Niagara Mohawk and other utilities to learn the feasibility of establishing an insurance pool to cover costs of replacement power in case of an emergency at a nuclear power plant.

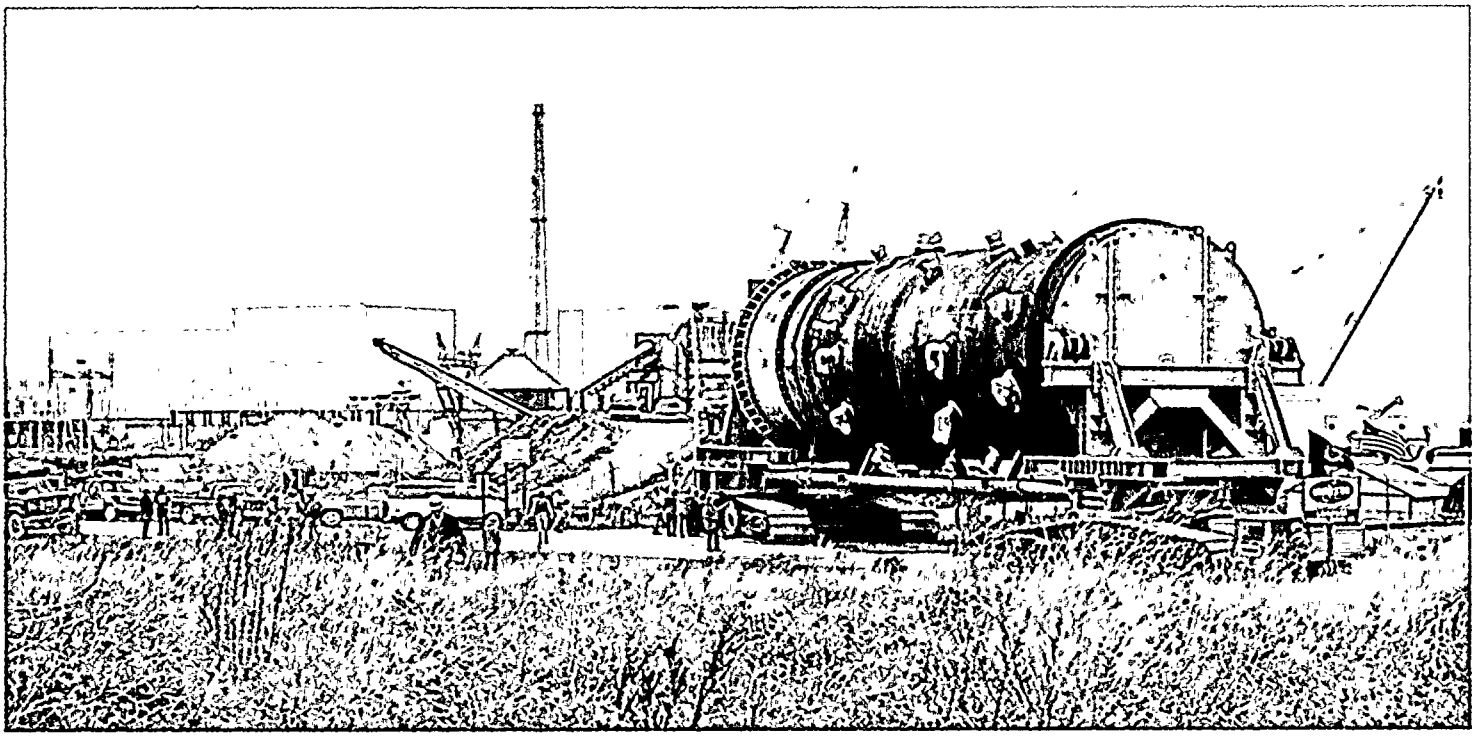
December 1979 marked the tenth anniversary of operation for Niagara Mohawk's Nine Mile Point Nuclear Station Unit No. 1. Recognized throughout the industry for its safety and fine performance record, the 610,000-kilowatt unit has produced some 32.4 billion kilowatt-hours over the past decade. Generating the same power from fossil fuels over that period would have taken 54 million barrels of oil or 14 million tons of coal. The station was cited in 1979 by General Electric Company for attaining the highest combined availability and capacity factors of any boiling water reactor in the U.S. in 1978. The unit was available for service 347 days out of 365 days and produced 86% of the power it would have generated had it been operating at full output for the entire 12 months.

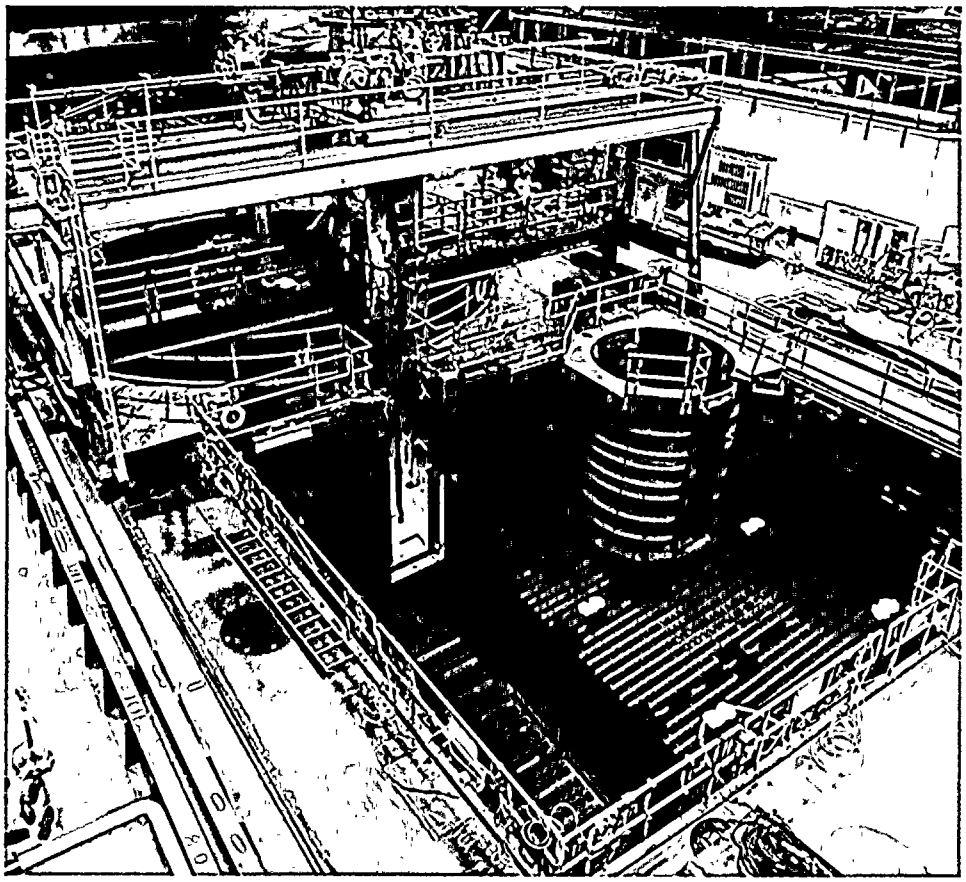
With startup now scheduled in late 1986, we are now halfway toward total project completion at our 1.08 million-kilowatt nuclear unit No. 2 at Nine Mile Point on Lake Ontario. In late 1979, the unit's 1,100-ton reactor pressure vessel arrived at the plant site following shipment by barge over the Great Lakes some 2,000 miles from Memphis, Tennessee. In December and again in early 1980 major reductions in work force were conducted at the site, not only to accommodate winter weather conditions but also to enable completion of studies to re-examine the work program in light of current regulatory uncertainties at both federal and state levels. Shares owned in the unit include Niagara Mohawk 41%, Long Island

TOTAL GENERATING COSTS: FOSSIL FUEL VS NUCLEAR



Giant 1,100-ton boiling water reactor vessel, mounted on crawlers, inches toward 1.08 million-kilowatt Nine Mile Point Nuclear Unit No. 2 construction site on Lake Ontario after 2,000-mile barge trip up Mississippi River and across Great Lakes. Large building in background at left is our 610,000-kilowatt nuclear Unit No. 1.





View of refueling operation at Nine Mile Point Nuclear Unit No. 1 shows spent fuel rods being removed from uncapped reactor, upper left, for transfer to storage pool. In service since 1969, unit has been cited for outstanding performance.

Lighting Co. 18%, New York State Electric & Gas Corp. 18%, Rochester Gas and Electric Corp. 14%, and Central Hudson Gas & Electric Corp. 9%.

Early in 1980, the New York State Board on Electric Generation Siting and the Environment withdrew its originally issued certificate of environmental compatibility and public need for a 1.15 million-kilowatt nuclear unit planned jointly at Sterling, near Lake Ontario. We are studying the Board's decision and reviewing our plans before making alternate decisions to replace this lost generation. Niagara Mohawk was to receive 22% of the plant's output, with Rochester Gas & Electric, lead utility in the project, receiving 28%, Central Hudson's share was 17% and Orange and Rockland Utilities, Inc. 33%.

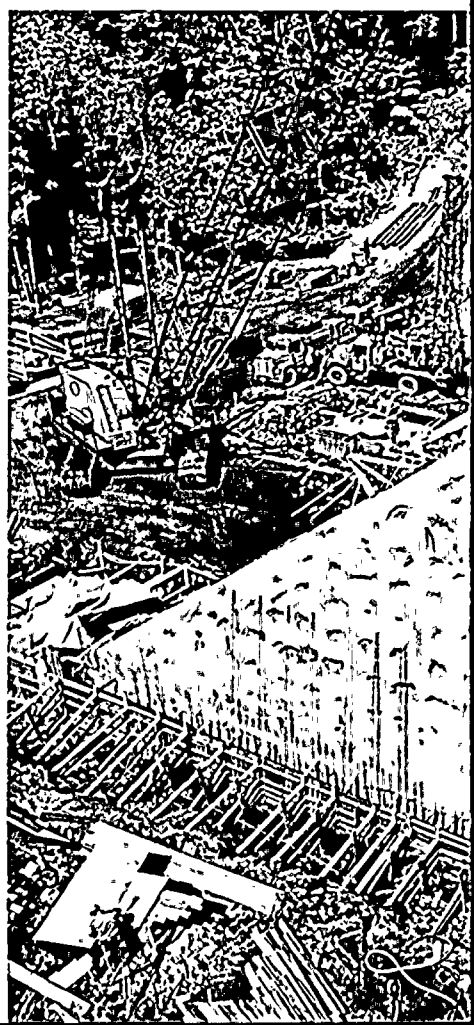
To assure future supply of fuel for our nuclear operations at Nine Mile Point, N M Uranium, Inc., a Niagara Mohawk subsidiary, owns half a uranium mine in southern Texas. United States Steel Corp. owns the other half and manages operation of the facility, the largest solution mining development in the world. The N.Y. State Public Service Commission has ruled that our electric rates must reflect the cost of NMU uranium at either production cost or the market price, whichever is lower. The first full year of operation of the expanded facilities was 1979, with production exceeding 900,000 pounds. The PSC ruling and the revision of the startup date of Nine Mile Point Nuclear Station Unit No. 2 resulted in the sale of $36 million of NMU-produced uranium during 1979. Proceeds from sales at the mine were applied to cover operating expenses and to reduce the investment in NMU, thereby reducing associated financing costs.■

HYDRO PROGRESS

Despite another year of unanticipated regulatory hurdles in hydroelectric project work, we are moving ahead with an extensive expansion program to add some 205,000 kilowatts of water-powered energy to our system.

Most of this effort entails development of the upper Hudson River basin (146,000 kilowatts), while the remainder includes northern and central New York waterways. The largest project consists of a new dam and powerhouse to generate 60,000 kilowatts at Hudson Falls, and we plan to file an application for this development with the Federal Energy Regulatory Commission in early 1980. Its on-line target date is the mid-1980s.

Because of regulatory delays over water quality certification, plans to replace the 65-year-old Granby Hydro Station on the Oswego River were set back by at least a year in 1979. The first project in our hydro expansion plan, Granby will have its 3,000-kilowatt unit replaced with a new 10,000-kilowatt

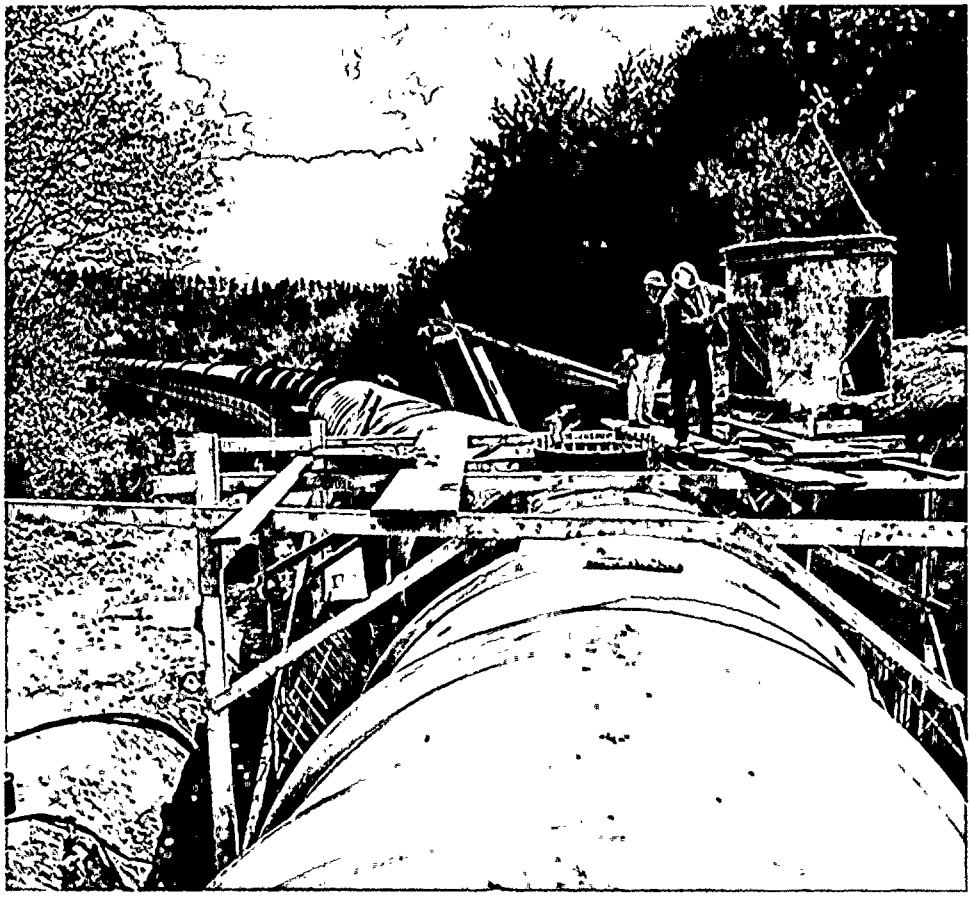


facility. Its rescheduled commercial startup is 1983.

Besides hydro areas pinpointed in our expansion program, constantly rising coal, oil and nuclear fuel prices are making previously marginal hydro prospects look more and more economically feasible. Weighing these factors, we are continually re-examining rivers and streams in our service territory for future kilowatt potential.

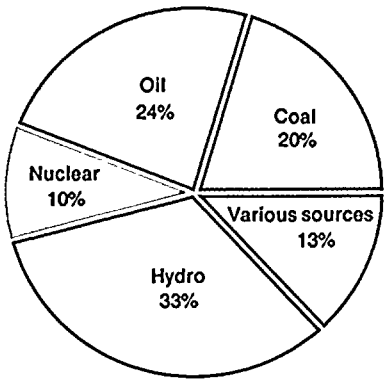
Niagara Mohawk is involved in joint, cooperative hydro plans with other parties, primarily communities and private firms. In an especially unique arrangement, the City of Little Falls, Burrows Paper Co. and Niagara Mohawk completed a hydro feasibility study in 1979 and are currently evaluating a proposal to build an 8,000 to 11,000-kilowatt station on the Mohawk River. Also, with the State Energy Research and Development Authority, we are examining a proposal to reactivate a retired hydro project on the Barge Canal in Western New York.

Recent experience has shown that, not unlike conditions for future fossil fuel generation plans, considerable delay in scheduling hydro power units can arise over a variety of environmental concerns. Historically, however, Niagara Mohawk has earned much favorable recognition for its stewardship of many thousands of acres of prime forestland at hydro installations. As long ago as the early 1900s, from reforestation and tree farming on the Black and Salmon Rivers to creation of public campsites and recreation areas at our Raquette and Sacandaga projects, we have always placed high priority on land and water quality and will continue to do so.■



Renovation at 70-year-old Ephratah Hydro Station, left, near Gloversville, involves pouring thousands of tons of concrete for new dam walls at 5,150-kilowatt plant while modern fiberglass piping, above, replaces penstock serving 50-year-old, 8,000-kilowatt Moshier Hydro Station east of Watertown. Hydro plants owned and leased by Niagara Mohawk generated some 3.6 billion kilowatt-hours in 1979, saving equivalent of 6.1 million barrels of imported oil.

ELECTRICITY GENERATED AND PURCHASED BY TYPE OF FUEL

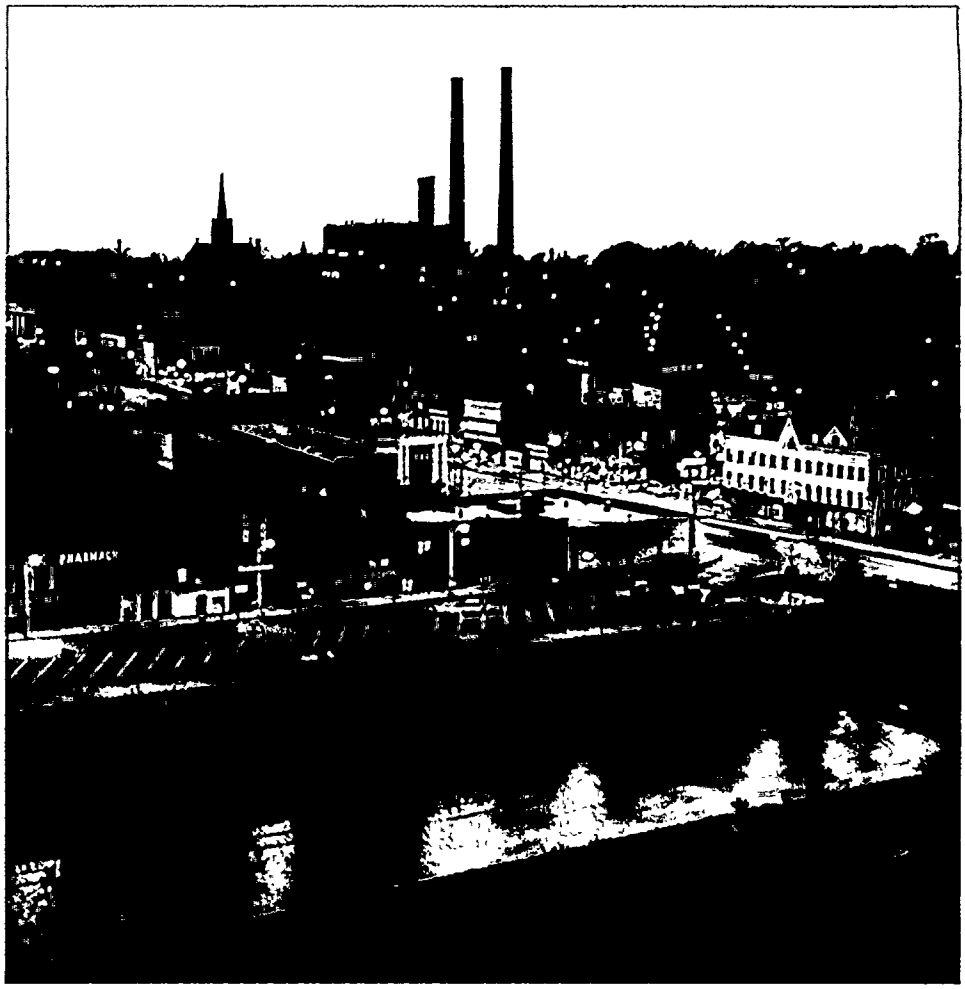


FOSSIL FUELS IN OUR ENERGY MIX

Unit No. 6 at Oswego Steam Station, a new oil-fired 850,000-kilowatt project we began constructing more than a year before OPEC's oil embargo of 1973, produced its first electricity in December 1979.

The unit is the latest addition to our generation mix and its ownership and output are shared, with Niagara Mohawk holding 646,000 kilowatts (76%) and Rochester Gas & Electric Corp. 204,000 kilowatts (24%) of net capability. Construction costs, excluding financing costs, amount to only $300 per installed kilowatt, substantially less than for any steam-electric plant planned in New York State over the next decade. It will not only increase our reserve margin, but also will cut costs during peak load periods, compared with more expensive purchased power or gas turbine capacity.

The year also saw completion of rail line facilities to deliver oil to a tank farm serving Oswego Steam Station. A leased system of interconnected tank cars is available to haul the fuel to Oswego. The rail operation, which began deliveries in January 1980, complements the usual barge shipments over Lake Ontario, seasonally restricted to non-winter months. The trains are capable of carrying more than 45,000 barrels per trip and can be unloaded in less than six hours.



Niagara Mohawk's steam station is landmark on Oswego skyline as night settles in historic Port City. Two stacks serve six generating units, with recently completed sixth unit boosting output to 2,050,000 kilowatts at power plant, now among Northeast's largest. Oswego River, flowing in foreground to Lake Ontario, is artery of N.Y. State Barge Canal System.

In January 1980, after three years of public hearings and review of hundreds of wide-ranging environmental and economic details, the State Board on Electric Generation Siting approved and certified the primary location for the 1.7 million-kilowatt Lake Erie Generating Station planned in southwestern New York. The Board also gave unconditional approval of the first 850,000-kilowatt unit, but stated that authorization of the second unit would depend on proof of need either by Niagara Mohawk or a group of utilities. The coal-fired units are targeted for commercial operation in the late 1980s and early 1990s and will save the equivalent of more than 11 million barrels of imported oil per year. We are proceeding with the plant's design and formulating plans for coal supply, transportation arrangements, labor agreements and necessary environmental controls.

During the past year, various measures and studies were undertaken, all consistent with national goals toward energy independence, to cut down on oil burned to generate electricity. We continue to emphasize, however, that full-scale conversion of our oil-fired Albany Steam Station to coal could require an added capital investment ranging from $50 million to $130 million depending upon pollution controls required. Presently, our six generating units at Oswego are not considered candidates for conversion. The capital costs for environmental controls would be prohibitive. In addition, technical problems with availability and delivery of fuel and conversions of fuel handling and boiler equipment represent unreasonable expenditures.

In cooperation with federal and state environmental agencies, we are continuing to seek corrective measures at Oswego Steam Station to reduce stack emission problems that have been experienced since its four original coal-fueled units were converted to oil in 1972. While hampered by the age of the boilers and their basic design (intended for coal), we are determined to find adequate remedies.■

THE PROMISE OF NATURAL GAS

Our natural gas business is showing positive contrast against previous years, when shortages and an uncertain supply picture curtailed growth and new markets for the fuel.

In 1979, permits were issued to attach 10,600 residential, 1,000 commercial and 50 industrial customers to our gas system which promise additional sales. This growth has entailed construction of 38 miles of new mains, 6,100 laterals and other gas service facilities over the past year.

The gradual easing of restrictions on gas usage and new sales started in the late 1970s, due primarily to voluntary conservation by consumers and increased delivery from our wholesale supplier, Consolidated Gas Supply Corp. The improved conditions are expected to encourage commercial and industrial expansion and create new jobs in our service area.

During 1979, approval was granted by the Public Service Commission to modify customer billing methods for gas, basing rates on heat content rather than volume consumed. The new therm billing became necessary as Consolidated Gas started delivering Niagara Mohawk a mixture of domestic and imported natural gas with varying heat contents. Because the imported gas contains about 10% more heat energy (Btu) per cubic foot than domestic gas, the billing units are now therms instead of cubic feet. The new method, now employed by many utilities, protects consumers by uniformly charging for gas based on actual heat received. The change does not represent a rate increase or affect our revenues.

Despite price increases which are sure to occur, natural gas is still likely to hold economic and environmental advantages over home heating oil and other petroleum-based fuels.■

Gas crew installs service lateral to new residential customer in Schenectady area. In 1979, more than 2,600 new residential customers were attached to our gas system. Many were conversions from home heating oil.

SERVING CONSUMERS

Through our heavily promoted Home Energy Audit Program we are offering direct help to consumers in their efforts to reduce heating and energy costs. Initiated in mid-1978 under the state's Home Insulation and Energy Act, the service is making marked gains, producing some 22,700 individual home energy audits in 1979, compared with 860 for 1978.

In this widely recognized program, specially trained Consumer Relations representatives work first-hand with customers to upgrade efficiency and cut back on energy usage through any of three types of audits. These range from our representatives visiting and inspecting homes to completion of questionnaires and do-it-yourself audits by customers themselves. Also included is a financing plan with repayment options of up to seven years and liberal credit terms. Consumers are also given lists of local contractors specializing in energy conservation work. As the 1979 heating season began, the Company received as many as 200 requests per day for the audits.

In related activities, late in 1979 we launched "Low-Cost, No-Cost" home energy savings workshops for consumers on a trial basis in various upstate cities. Publicized and promoted locally in advance, these sessions were conducted by Company specialists who instruct audiences of homeowners on the many inexpensive ways, including weatherstripping, caulking and plastic storm windows, to reduce energy costs. In view of its immediate acceptance, we more than likely will expand the "Low-Cost, No-Cost" concept and schedule these helpful, informal seminars in other communities across our system. At the same time, we are continuing meetings and workshops with industrial and commercial customers.

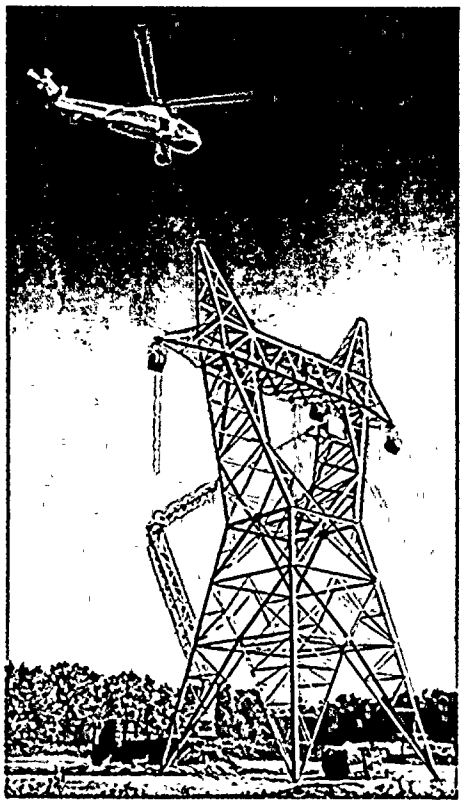
In 1979, an irregular metering unit was organized to detect and prevent meter tampering and theft of electric and gas service. As energy costs climb, so do incidents involving theft and attempts to by-pass meters. The new unit is responsible for coordination of Company-wide computer alert and meter-sealing efforts, field inspections, a manual on irregular metering and cash rewards to employees reporting

suspected theft or tampering situations. Allied with our Security function, investigations by the new unit resulted in 65 arrests for theft of service during the year.

To reinforce service reliability for our consumers, tree-trimming and clearance work on transmission and distribution lines was stepped up during the year. The work is critical not only to maintain a high degree of dependability but also to hold emergency repair costs down when storms and severe winds strike our region. Trees and branches falling on wires cause about 90% of the few power interruptions which do occur, and line clearance schedules are keyed to special problem areas.

Again last year, the Consumer Advisory Council on Energy Affairs—comprised of 26 citizens representing a cross-section of consumer and community interests—proved uniquely helpful in engendering two-way communications with the many public segments we serve. Following independent studies on nuclear-electric energy and presentations by prominent spokesmen both pro and con, Council members, with one dissenter, co-authored their own "issues paper" urging continued nuclear development. The paper drew considerable attention and positive coverage by upstate news media. The Council is now analyzing energy and consumer-related bills pending before the State Legislature and we look forward to its comments. In addition, members will continue advising the Company to help make us more sensitive to changing consumer needs.

To that end, a host of other new and continuing programs and efforts are under way for our consumers. These recognize today's need for service at a more individual, personal level and better assist consumers with their own special energy problems. Activities include a new senior consumers program, a new extended billing due date plan for the retired and disabled, an upgrading of our budget-payment plan, a winter referral procedure for hardship cases, a third-party notification plan for customers who may need help, modified disconnection procedures and maintenance of lists of customers requiring electrically operated life-support equipment. At the same time, we have intensified Company communications and ties with many social services agencies and concerned government and community groups.



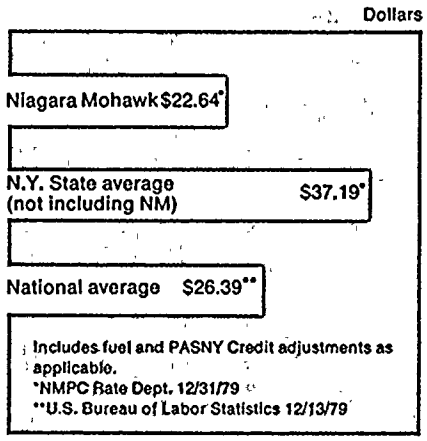
Helicopter assists in construction of transmission tower south of Syracuse, part of new 345,000-volt overhead line delivering bulk power from enlarged Oswego Steam Station to Central New York region.

This work closely parallels the informational objectives of our Public Affairs and Corporate Communications Department. In recent years, continually rising energy costs and a multitude of utility and other energy-oriented issues—nearly all coupled with our complex role as principal electric and gas supplier—underscore need for communications effectiveness. For these reasons, corporate communications assignments and goals were expanded in 1979 to generate added public awareness and understanding of Niagara Mohawk and the problems we face. While directed primarily at print and electronic media through daily news coverage and advertising, our information programs also include Community Relations as a two-way link with government officials and opinion leaders, our volunteer Speakers Bureau, Energy Information Center at Nine Mile Point and display and educational services. In spring 1979, Three Mile Island cast an entirely new light on our nuclear information capabilities. These were broadened in response to a sharp increase in requests for nuclear information across our service territory.

High among several current concepts to reduce consumers' energy costs through a change in rate design is a proposal to price electricity sales according to the time of day it is used. "Time-of-day" rate plans have been under review by the Public Service Commission, and we are actively involved in proceedings, including public hearings, to examine these proposals. We anticipate the Commission's overall decision on revised rate structures by early 1980.

As shown by the chart below, Niagara Mohawk's rates at year-end were below those of major New York State utilities and compare favorably with the national average. ■

MONTHLY RESIDENTIAL ELECTRIC COST FOR 500 KW-HRS.



SEARCHING FOR OTHER ENERGY SOURCES

Prospects of rising costs, scarcity of energy fuels and potential enactment of still further environmental directives place a new urgency upon research and development as we enter the 1980s.

Last year, Niagara Mohawk's R&D programs encompassed 53 separate projects, including both independent "in-house" assignments by the Company as well as cooperative studies with other utility and research groups. In 1979 alone, Niagara Mohawk spent over $11 million for R&D. This amounts to about eight dollars for every electric customer in our service area, with more than half spent for further refining electric generation technology.

A project attracting worldwide interest is a major electric load management and energy storage experiment at the living quarters for contestants and officials in the 1980 Winter Olympic Games at Lake Placid. With Niagara Mohawk as originator and manager of the project, athletes from nearly 40 nations will play an important role in this one-of-a-kind study. Its objective: to collect information and data on different types of heat storage devices and to weigh their possible effect on utility electric supply systems in the years ahead. Under joint sponsorship with federal and state agencies and private companies, the $2-million experiment will continue through 1982. The Olympic Village structures are currently planned to function as a Federal minimum security institution when the Winter Games are over.

A large-scale research effort related to sulfur emissions and holding promise of both cost and environmental breakthroughs was initiated jointly by the Empire State Electric Energy Research Corp., U.S. Environmental Protection Agency, Electric Power Research Institute, N.Y. State Energy Research and Development Authority, and Rockwell International. Niagara Mohawk is host utility and managing agent. Construction activity started last fall at our Huntley Steam Station near Buffalo. In the planning stage for several years, the work consists of designing, procurement, construction, start-up, testing and demonstrating the reliability of an experimental prototype to reduce sulfur dioxide emissions to meet environmental standards. The facility, including the demonstration, is budgeted at about $55 million and will have many desirable features not present in current SO_2 "scrubbing" technology. Moreover, it is designed to receive gases from the combustion of high-sulfur Eastern coal. Since this coal is in abundant supply and less expensive to burn than low-sulfur Western coals, the project offers potential for reduced costs of generation consistent with environmental standards.

In October, Niagara Mohawk and federal and state agencies jointly announced an R&D program aimed at reducing home-heating costs by using community-wide energy resources at Radisson, a new community north of Syracuse. This experiment, under direction of the State Energy Research and Development Authority, seeks methods to employ the earth's heating and cooling potential to fill basic energy needs. Water source heat pumps, using individual wells, common wells, or river or pond water, will serve to supplement customary home heating equipment in the three-year project. Put into widespread future use in our system, the equipment would help reduce peak loads that power stations must supply, thus lowering fuel and operating costs for both the utility and its consumers.

We are also making continuing strides in other high technology energy research and environmentally oriented projects recently initiated or under way for some time. The list includes a 4,800-kilowatt fuel cell prototype scheduled for startup in 1981; conversion of coal to clean-liquid or gaseous fuel; wind and solar energy research; and varied power transmission, distribution and substation improvements. All focus upon improving efficiency and reducing operating costs and adverse impacts on air, water and land.

In concert with the state's other investor-owned utilities, we will continue maintaining vigorous R&D efforts. Our mutual goals seek to reduce dependence upon foreign oil, encourage energy conservation and hold energy costs down for consumers.■

Artist's concept of Radisson community-wide research project where several homes are warmed and cooled by heat pumps using same water from ground sources is discussed by Richard C. Clancy, right, vice president of research and environmental affairs, and Howard Reynolds, display specialist. Project also seeks to increase water's heat content by recapturing community's low-grade heat.

OUR PEOPLE

At the year end, Niagara Mohawk's work force numbered 9,600, about the same as in 1957, when the Company served 347,000 fewer customers.

The total payroll in 1979 was $224 million, of which $163 million was charged to operations and the balance primarily for new construction. These figures were $197 million and $145 million for 1978. Overtime costs were $23 million in 1979, compared with $14 million in 1978.

A 7.1% wage increase on June 1, 1979 was part of a two-year contract with 12 locals in System Council U-11 of the International Brotherhood of Electrical Workers (AFL-CIO). Approximately 7,500 employees are represented in the contract, which expires May 31, 1980.

Employee training continued at increased levels in all Niagara Mohawk operations in 1979. Our safety training is recognized throughout the utility industry for its on-going, innovative approach to day-to-day accident prevention. The Training Department has been formalizing additional new programs and instruction methods, including customer service telephone and fossil generation training and a system-wide campaign to keep employees informed on prime points and issues in our recent rate application.

About 6,600 or 76% of all eligible employees subscribe to the Company's Employee Savings Fund Plan, allocating from 2% to 6% of their wages toward purchase of common stock or U.S. Government bonds. The Company matched their contributions by 50% for a total $3,356,000 in 1979. The Plan holds 5,883,000 shares or 9% of the outstanding common stock. In addition, employees may make unmatched contributions of up to 4% of their wages.

About 210,000 stockholders presently own common shares of Niagara Mohawk and 11,000 hold preferred and preference stock. The chart below indicates many stockholders own fewer than 100 shares.

Size of holding (Shares)	*Total stockholders*	*Total shares held*
1 to 99	61,092	2,078,575
100 to 999	141,375	32,343,435
1,000 or more	7,198	33,530,033
	209,665	67,952,043

For the second year, a series of seminars was held in various communities in our service area to offer our stockholders an opportunity for direct, informal communication with top management. The popular sessions, attended by more than 600 stockholders from all walks of life, leave no doubt that security holders have a strong desire for information about the Company. Questionnaires completed by those attending meetings at Dunkirk, Gloversville, Hudson, Niagara Falls, Olean and Watertown stressed interest in Niagara Mohawk's position on national energy policies, nuclear power, alternate energy sources, research and environmental matters and future energy supplies and costs. More of these helpful stockholder forums are planned for the 1980s.

Security holders with an interest in New York State investor-owned utilities have formed an independent, non-profit organization, the Association of Investors in New York Utilities, Inc. (AINYU). The new group's announced purpose is "to protect the financial integrity of New York investor-owned utilities so they can supply the power needs of the State at reasonable cost to users and reasonable profit to owners." Further information may be obtained by writing AINYU at Old Camby Road, Verbank, N.Y. 12585.

The Board of Directors in June approved a revised and more comprehensive Code of Conduct for Niagara Mohawk employees. The Code underscores our firm commitment to a practical, effective ethics policy and explains guidelines best serving interests of the Company, its employees and consumers. The guidelines cover the matter of gifts, invitations and awards from vendors and establish standards regarding outside employment, use of Company personnel, equipment and facilities. Also presented are standards for employees holding public office, relationships with governmental authorities, disclosure of proprietary information and accurate maintenance of Company records. Management and most supervisory employees signed a Certificate of Compliance and Disclosure after reviewing the Code at meetings across the System. The certificates are to be renewed every two years.

Starting in 1979, Niagara Mohawk assumed responsibility for the administration of our constantly growing Dividend Reinvestment and Stock Purchase Plan. Preferred and preference stockholders became eligible to participate and the limit on optional cash contributions was increased to $5,000 quarterly. Under the Plan, purchases of newly issued stock are made directly from the Company without incurring brokerage commissions or service charges. These purchases are made from the reinvestment of dividends and optional cash payments from participants.

A portion of funds the Company requires for periodic financing is provided by the Plan. In 1979, 34,000 participants, representing 16% of all common stockholders, invested $14,528,000 in new common shares. Application forms and literature describing the Plan are available by writing:

NMPC Dividend Reinvestment Plan
P.O. Box 131
Syracuse, N.Y. 13201 ■

REPORT OF MANAGEMENT

The consolidated financial statements of Niagara Mohawk Power Corporation and its subsidiaries were prepared by and are the responsibility of management. Financial information contained elsewhere in this Annual Report is consistent with that in the financial statements.

To meet its responsibilities with respect to financial information, management maintains and enforces a system of internal accounting controls, which is designed to provide reasonable assurance, on a cost effective basis, as to the integrity, objectivity and reliability of the financial records and protection of assets. This system includes communication through written policies and procedures, an organizational structure that provides for appropriate division of responsibility and the training of personnel. This system is also tested by a comprehensive internal audit program. In addition, the Company has a Code of Conduct which requires all employees to maintain the highest level of ethical standards and requires key management employees to formally affirm their compliance with the Code.

The financial statements have been examined by Price Waterhouse & Co., the Company's independent accountants, in accordance with generally accepted auditing standards. As a part of their examination, they made a study and evaluation of the Company's system of internal accounting control. The purpose of such study was to establish a basis for reliance thereon in determining the nature, timing and extent of other auditing procedures that were necessary for expressing an opinion as to whether the financial statements are presented fairly. Their examination resulted in the expression of their opinion which follows this report. The independent accountants' examination does not limit in any way management's responsibility for the fair presentation of the financial statements and all other information, whether audited or unaudited, in this Annual Report.

The Audit Committee of the Board of Directors, consisting of three directors who are not employees, meets regularly with management, internal auditors and Price Waterhouse & Co., to review and discuss internal accounting controls, audit examinations and financial reporting matters. Price Waterhouse & Co. and the Company's internal auditors have free access to meet individually with the Audit Committee at any time, without management present.

REPORT OF INDEPENDENT ACCOUNTANTS

PRICE WATERHOUSE & CO.

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

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income and retained earnings and of changes in financial position present fairly the financial position of Niagara Mohawk Power Corporation and its subsidiaries at December 31, 1979 and 1978, and the results of their operations and the changes in their financial position for each of the five years in the period ended December 31, 1979, in conformity with generally accepted accounting principles consistently applied. 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.

Price Waterhouse & Co.

Syracuse, New York
January 25, 1980

CONSOLIDATED STATEMENT OF INCOME AND RETAINED EARNINGS

NIAGARA MOHAWK POWER CORPORATION AND SUBSIDIARIES

For the year ended December 31,	1979	1978	1977	1976	1975
			In thousands of dollars		
Operating revenues:					
Electric	$1,211,068	$1,020,313	$ 987,760	$ 863,012	$795,917
Gas	305,435	259,935	238,072	214,218	176,289
	1,516,503	1,280,248	1,225,832	1,077,230	972,206
Operating expenses:					
Operation:					
Fuel for electric generation	380,101	311,000	311,185	241,040	223,095
Electricity purchased	159,453	99,536	93,019	99,297	86,533
Gas purchased	196,711	158,229	142,071	124,811	94,960
Other operation expenses	200,917	181,995	166,297	152,759	136,470
Maintenance	99,857	80,759	84,536	66,171	58,724
Depreciation *(Note 2)*	84,212	80,683	77,113	77,629	69,228
Federal and Canadian income taxes *(Note 10)*	34,646	31,123	22,124	17,896	14,630
Other taxes	166,666	152,550	148,989	131,817	113,997
	1,322,563	1,095,875	1,045,334	911,420	797,637
Operating income	193,940	184,373	180,498	165,810	174,569
Other income and deductions:					
Allowance for other funds (total funds 1976 and prior) used during construction *(Note 1)*	39,063	28,971	21,660	20,711	29,376
Income tax refunds *(Note 10)*	—	—	—	8,986	—
Federal income tax *(Note 10)*	13,782	11,690	5,043	718	—
Other items (net)	524	1,545	(1,398)	533	2,153
	53,369	42,206	25,305	30,948	31,529
Income before interest charges	247,309	226,579	205,803	196,758	206,098
Interest charges:					
Interest on long-term debt	105,399	99,874	91,563	87,270	84,018
Other interest	4,416	1,573	2,892	1,039	7,285
Allowance for borrowed funds used during construction *(Note 1)*	(18,536)	(16,030)	(12,484)	—	—
	91,279	85,417	81,971	88,309	91,303
Net income	156,030	141,162	123,832	108,449	114,795
Dividends on preferred stock	27,844	28,660	25,705	23,546	19,430
Balance available for common stock	128,186	112,502	98,127	84,903	95,365
Dividends on common stock	92,136	81,261	74,033	65,642	56,590
Retained earnings for the year	36,050	31,241	24,094	19,261	38,775
Miscellaneous charges *(Note 6)*	—	(1,180)	—	—	—
Retained earnings at beginning of year	367,895	337,834	313,740	294,479	255,704
Retained earnings at end of year	$ 403,945	$ 367,895	$ 337,834	$ 313,740	$294,479
Average number of shares of common stock outstanding *(in thousands)*	63,976	59,661	56,279	52,731	47,089
Per average share of common stock:					
Balance available for common stock	$ 2.00	$ 1.89	$ 1.74	$ 1.61	$ 2.03
Dividends paid	$ 1.44	$ 1.36½	$ 1.31½	$ 1.24	$ 1.21

( ) Denotes deduction.

CONSOLIDATED BALANCE SHEET

NIAGARA MOHAWK POWER CORPORATION AND SUBSIDIARIES

At December 31,	In thousands of dollars 1979	1978
ASSETS		
Utility plant, at original cost *(Note 3 and Page 26)*	$4,218,528	$3,905,374
Less accumulated depreciation and amortization *(Note 2)*	1,110,563	1,021,417
	3,107,965	2,883,957
Other property and investments	16,149	14,535
Current assets:		
Cash, including time deposits of $650 and $5,595, respectively	8,527	10,786
Accounts receivable (less allowance for doubtful accounts of $2,400 and $2,000, respectively)	179,490	127,219
Materials and supplies, at average cost:		
Coal and oil for production of electricity	109,278	70,232
Other	35,543	29,736
Prepayments	6,709	4,383
	339,547	242,356
Deferred debits:		
Unamortized debt expense	14,124	13,848
Deferred recoverable energy costs	44,170	27,966
Other	6,982	6,450
	65,276	48,264
	$3,528,937	$3,189,112
LIABILITIES		
Capitalization *(Note 6):*		
Common stockholders' equity:		
Common stock—$1 par value; authorized 85,000,000 shares; issued 67,952,043 shares and 62,180,277 shares, respectively	$ 67,952	$ 62,180
Premium on capital stock	716,386	646,878
Capital stock expense	(10,558)	(10,977)
Retained earnings *(Page 16)*	403,945	367,895
	1,177,725	1,065,976
Redeemable preferred stock *(Note 7 and Page 27)*	189,650	198,600
Non-redeemable preferred stock *(Page 27)*	210,000	210,000
Long-term debt *(Page 26)*	1,443,056	1,414,997
Total capitalization	3,020,431	2,889,573
Current liabilities:		
Short-term debt *(Note 4)*	82,040	24,000
Long-term debt due within one year *(Page 26)*	88,500	10,450
Sinking fund requirements on redeemable preferred stock *(Note 7)*	6,950	1,800
Accounts payable	118,727	86,854
Customers' deposits	4,934	4,902
Accrued taxes	25,537	22,184
Accrued interest	30,727	28,605
Accrued vacation pay	14,569	13,228
Other	17,315	8,385
	389,299	200,408
Deferred credits:		
Income tax refunds *(Note 10)*	21,606	21,606
Other	11,933	10,945
	33,539	32,551
Accumulated deferred Federal income taxes *(Note 10)*	85,668	66,580
Commitments and contingencies *(Note 12)*	—	—
	$3,528,937	$3,189,112

( ) Denotes deduction.

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

NIAGARA MOHAWK POWER CORPORATION AND SUBSIDIARIES

In thousands of dollars

For the year ended December 31,	1979	1978	1977	1976	1975	Total
Financial resources were provided by:						
Operations:						
Net income	$156,030	$141,162	$123,832	$108,449	$ 114,795	$ 644,268
Charges (credits) to income not requiring (not providing) working capital—						
Depreciation	84,212	80,683	77,113	77,629	69,228	388,865
Allowance for funds used during construction	(57,599)	(45,001)	(34,144)	(20,711)	(29,376)	(186,831)
Amortization of nuclear fuel	28,090	27,107	21,458	22,555	11,481	110,691
Provision for deferred Federal income taxes (net)	14,566	7,955	13,333	14,628	11,800	62,282
	225,299	211,906	201,592	202,550	177,928	1,019,275
Outside financing:						
Sale of common stock	75,266	70,462	21,522	70,105	72,557	309,912
Sale of preferred stock	—	74,000	—	30,000	70,000	174,000
Sale of mortgage bonds	118,500	31,500	125,000	—	100,000	375,000
Sale of promissory note (net)	—	—	2,338	5,671	10,839	18,848
Issuance of long-term notes payable	—	—	15,000	18,000	—	33,000
Increase (decrease) in short-term debt	58,040	(15,200)	(1,550)	(8,114)	(117,786)	(84,610)
	251,806	160,762	162,310	115,662	135,610	826,150
Other sources:						
Sale of utility plant *(Note 5)*	—	34,955	—	—	53,366	88,321
Deferred recoverable energy costs	(16,204)	(3,015)	4,654	8,785	(591)	(6,371)
Income tax refunds	—	1,885	300	(8,686)	1,241	(5,260)
Sale of uranium *(Note 3)*	35,987	—	—	—	—	35,987
(Increase) decrease in working capital other than short-term debt *(see below)*	33,660	22,006	1,667	30,465	(122,388)	(34,590)
Miscellaneous (net)	5,313	(5,049)	52	4,203	7,592	12,111
	58,756	50,782	6,673	34,767	(60,780)	90,198
Total resources provided	$535,861	$423,450	$370,575	$352,979	$ 252,758	$1,935,623
Financial resources were used for:						
Construction additions	$347,544	$277,758	$264,913	$195,676	$ 194,155	$1,280,046
Nuclear fuel	26,986	38,522	25,018	87,026	11,959	189,511
Allowance for funds used during construction	(57,599)	(45,001)	(34,144)	(20,711)	(29,376)	(186,831)
Net additions	316,931	271,279	255,787	261,991	176,738	1,282,726
Reduction of long-term debt	90,000	10,450	13,250	—	—	113,700
Reduction of preferred stock *(Note 6)*	8,950	31,800	1,800	1,800	—	44,350
Dividends	119,980	109,921	99,738	89,188	76,020	494,847
Total resources used	$535,861	$423,450	$370,575	$352,979	$ 252,758	$1,935,623
(Increase) decrease in working capital other than short-term debt:						
Cash	$ 2,259	$ (4,207)	$ 475	$ 13,620	$ (3,067)	$ 9,080
Accounts receivable	(52,271)	(5,364)	(5,250)	(11,041)	(16,310)	(90,236)
Receivable from plant sharing	—	—	—	12,402	(12,402)	—
Income tax refund claims	—	8,391	(1,353)	(300)	15,639	22,377
Coal and oil for production of electricity	(39,046)	9,710	(13,017)	(15,433)	(626)	(58,412)
Other materials and supplies	(5,807)	(3,369)	(1,490)	1,193	1,213	(8,260)
Long-term debt due within one year	78,050	200	10,250	—	(103,867)	(15,367)
Sinking fund requirements on redeemable preferred stock	5,150	—	—	1,800	—	6,950
Accounts payable	31,873	7,823	1,001	18,982	(855)	58,824
Accrued taxes and interest	5,475	4,349	9,317	6,205	2,435	27,781
Other (net)	7,977	4,473	1,734	3,037	(4,548)	12,673
	$ 33,660	$ 22,006	$ 1,667	$ 30,465	$(122,388)	$ (34,590)

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 (PSC) and the Federal Energy Regulatory Commission (FERC) 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 to regulated public utilities, and are in accordance with the accounting requirements and ratemaking practices of the regulatory authorities. (See Note 12).

Utility Plant: The cost of additions to utility plant and of replacements of retirement units of property is capitalized. Cost includes direct material, labor, overhead and an allowance for funds used during construction (AFC). The cost of current repairs and maintenance is charged to expense. Whenever utility plant is retired, its original cost, together with the cost of removal, less salvage, is charged to accumulated depreciation.

Allowance for Funds Used During Construction: The Company capitalizes AFC in amounts equivalent to the cost of funds devoted to plant under construction (8% for the period January 1, 1975 through June 30, 1976, 9% for the period July 1, 1976 through December 31, 1978, 9.25% for the period January 1, 1979 through October 31, 1979 and 9.6% effective November 1, 1979). As a result of rate proceedings, effective December 1, 1976 for its Oswego Steam Station Unit #6 and Nine Mile Point Nuclear Station Unit #2 and July 1, 1978 for capitalized costs associated with its investment in N M Uranium, Inc. (see Note 3), the Company began computing AFC at a rate which is reduced to reflect the income tax effect of the borrowed funds component of AFC. The net of tax rate was 7.2% through December 31, 1978, 7.5% from January 1, 1979 through October 31, 1979 and 7.75% thereafter.

Effective January 1, 1977, FERC revised its accounting procedures for determining the AFC rate and required segregation of AFC into its two component parts, borrowed funds and other funds. The revision had no effect on income in 1977. The Company, since January 1, 1977, has reflected the borrowed funds component in the Interest Charges section of the income statement. The Company has not reclassified AFC into its borrowed and other funds components for periods prior to January 1, 1977.

Depreciation and Nuclear Generating Plant Decommissioning Costs: For accounting purposes, depreciation is computed on the 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.

As a result of a PSC rate decision, estimated decommissioning costs (costs to take the plant out of service in the future) of the Company's Nine Mile Point Nuclear Station Unit #1 began to be recovered in rates and charged to operations in July 1978 through revised depreciation charges. The change in the annual nuclear plant depreciation rate, from 4.00% to 4.33%, reflects an increase in the estimated service life of the plant from 25 to 30 years and the establishment of an allowance for decommissioning costs at the annual rate of 1% of the plant's cost. Prior to July 1978, decommissioning costs were not charged to current operations and were not recognized in rates charged to customers. There is no assurance that the additional revenues provided by the decommissioning allowance will ultimately aggregate a sufficient amount to decommission the plant. The Company believes that decommissioning costs, if higher than currently provided, will ultimately be recovered in the rate process, although no such assurance can be given.

Amortization of Nuclear Fuel: The cost of nuclear fuel, plus estimated disposal cost, is charged to operating expenses on the basis of the quantity of heat produced for the generation of electric energy. These costs are charged to customers through base rates or through the fuel adjustment clause. Until June 1979, the Company had assumed that spent nuclear fuel would be disposed of by reprocessing and that uranium recovered through such reprocessing would have value. At that time, because of proposed Federal action and because there is no reprocessing facility in operation, the Company abandoned its reprocessing plans in favor of a permanent storage assumption. The Company has concluded that under either its permanent storage assumption or the reprocessing assumption previously utilized, costs are approximately equal. The Company believes that nuclear fuel disposal costs, which may be higher than presently estimated, will continue to be recovered in the rate process, although no such assurance can be given.

Prior to 1978, estimated nuclear fuel disposal costs were deducted currently for Federal income tax purposes. Due to the uncertainties concerning disposal cost alternatives and attendant cost estimation criteria, beginning in 1978, the Company has assumed that nuclear fuel disposal costs are not currently deductible for Federal income tax purposes. Prior years' tax liabilities were not materially affected by such change in assumption. In December 1978, the PSC granted the Company permission to provide deferred taxes on the accounting-tax timing differences of current and prior period nuclear fuel disposal costs.

Revenues: Revenues are based on cycle billings rendered to certain customers monthly and others bi-monthly. The Company does not accrue revenues for energy sold and not billed at the end of any fiscal period. The Company's tariffs include electric and gas adjustment clauses under which energy and purchased gas costs, respectively, above or below the levels allowed in approved rate schedules are billed or credited to customers. The Company, as authorized by the PSC, charges operations for energy and purchased gas cost increases in the period of recovery. The PSC has periodically authorized the Company to make changes in its electric adjustment clause. As a result of such changes, a portion of deferred energy costs would not be recovered under the normal operation of the electric adjustment clause. However, the Company has been permitted to amortize and bill such portions to customers, through the electric adjustment clause, over 36 months from the effective date of each change.

Federal Income Taxes: The general policy, in accordance with PSC requirements, is to flow through the tax effect of timing differences between book and taxable income, that is, to record only income taxes currently payable. However, de-

ferred taxes are provided on benefits realized from the class life system of depreciation permitted under the Revenue Act of 1971 (shorter depreciable lives, repair allowance and cost of removal), on energy and purchased gas costs, on nuclear fuel disposal costs and on certain other items, as approved by the PSC (see Notes 3 and 10). No deferred taxes are provided for other depreciation differences (including accelerated methods of depreciation), except under necessity certificates in prior years, or for other items (such as taxes, a portion of AFC, pensions and certain other employee benefits) which are deducted currently for tax purposes but capitalized for accounting purposes.

Effective January 1, 1975, the benefits resulting from an increase in the investment tax credit from 4% to 10% and from the change in the limitation on the amount of credit which may be claimed in any year has been deferred. One-half of the 4% investment tax credits realized have been allocated to Other Income and Deductions, consistent with PSC directives. For the major projects specified in the AFC section above, the imputed tax benefit of the borrowed funds component of AFC has been credited to Other Income and Deductions.

As directed by the PSC, the Company deferred a portion of the increase in Federal income taxes for the year 1978 associated with the tax gain on the sale of a portion of its interest in the Roseton Steam Station. The PSC authorized the Company to recover increased taxes through its electric adjustment clause over a one-year period commencing July 1978.

Pension Plans: The cost of pension plans is based upon current costs, amortization of unfunded past service benefits over periods ranging from 15 to 40 years and amortization over 15 years of unfunded past service benefits arising from plan amendments, as determined by consulting actuaries.

NOTE 2. Depreciation

The percentage relationship between the total provision for depreciation and average depreciable property was 2.7% in 1979, 1978 and 1977 and 2.8% in 1976 and 1975. The Company makes depreciation studies on a continuing basis and adjusts the rates of its various classes of depreciable property, when considered appropriate, subject to PSC approval. Effective December 1, 1976, consistent with a PSC rate decision, electric depreciation provisions were modified resulting in a reduction in depreciation expense of $4,300,000 for the year 1977. As a result of the rate decision which became effective July 1, 1978, the electric depreciation provision for 1978 was increased approximately $1,100,000.

NOTE 3. N M Uranium, Inc.

During 1976, through a wholly-owned subsidiary, N M Uranium, Inc. (NMU), the Company purchased a 50 percent undivided interest in uranium deposits and associated mining equipment to be held by a jointly-owned mining venture. The venture is basically an operating arrangement whereby the Company pays its share of the capital and operating costs and in turn receives its proportionate share of production. Although acquisition of this interest was made primarily to provide a more assured future supply of nuclear fuel for the Nine Mile Point Nuclear Station Units #1 and #2, the Company has previously indicated it would sell a portion of the output to reduce net assets and associated carrying charges. In connection therewith, during 1979 the Company sold uranium produced by NMU for approximately $36,000,000. The Company expects to sell additional portions of the NMU output in the future. The investment in the subsidiary, which includes costs incurred since acquisition and AFC, has been reduced by the proceeds from the sale of uranium, net of tax. Such investment totaled $72,000,000 and $87,600,000 at December 31, 1979 and 1978, respectively, and is included in Nuclear Fuel in the consolidated financial statements.

On September 8, 1978, the PSC issued an order approving the Company's investment in NMU, its guaranty of the NMU notes and permitting, with prior approval, such subsequent advances as may be necessary to finance the uranium project. Further, effective July 1, 1978, all benefits associated with NMU accounting-tax timing differences have been deferred. The approval was subject to the condition that rates the PSC will approve in the future will reflect the cost of NMU uranium at the lower of cost or the market price. Subject to PSC approval, the comparison of cost to market will be on an aggregate basis over the life of the project. While management believes that such aggregate costs will be less than the aggregate market price of the uranium produced over the life of the project, no such assurance can be given.

NOTE 4. Short-term Debt and Compensating Balances

The Board of Directors has authorized the Company to obtain short-term unsecured loans of up to $250,000,000, including the issuance of commercial paper equal to the amount of unused bank lines of credit available to the Company. At December 31, 1979, the Company had available $233,500,000 of bank credit arrangements consisting of a $55,000,000 contractual commitment with several banks under a Credit Agreement, lines of credit of $103,500,000 and a Bankers Acceptance Facility Agreement of $75,000,000. All of these arrangements are renewable on an annual basis. The Credit Agreement and most of the lines of credit require the Company to maintain compensating balances which are averaged over time. Net of "float", approximately $5,300,000 of cash at December 31, 1979 represented compensating balances. The Company has elected to pay fees in lieu of maintaining compensating balances on its other lines of credit. The Bankers Acceptance Facility Agreement provides for the payment of fees only upon the issuance of each acceptance. Acceptances are used to finance the fuel oil inventory at one of the Company's generating stations.

On March 6, 1979, the Company entered into arrangements with Oswego Facilities Trust (OFT) providing for OFT to finance the acquisition of a fuel oil storage terminal at Oswego, New York and for construction of certain railroad loading and unloading facilities associated with the terminal. OFT has a $25,000,000 Letter of Credit Facility and Revolving Credit Agreement which are used to support its commercial paper obligations. The Company is obligated, under a Distribution Contract with OFT, to make certain payments for its use of these facilities and to purchase, or otherwise arrange for, the distribution of the facilities upon the termination of the Trust. The Letter of Credit Facility and Revolving Credit Agreement of OFT require payment of fees which are based upon the amount of commercial paper outstanding.

The following table summarizes additional information applicable to short-term debt:

	In thousands of dollars 1979	1978
At December 31:		
Short-term debt:		
Notes payable	$ —	$21,000
Commercial paper	68,040*	3,000
Bankers Acceptances	14,000	—
	$ 82,040	$24,000
Weighted average interest rate (1)	13.85%*	10.59%
For year ended December 31:		
Daily average outstanding	$ 35,888*	$10,744
Daily weighted average interest rate (1)	11.40%*	8.17%
Maximum amount outstanding	$102,100*	$39,200

(1)Excluding compensating balances and fees.
*Includes Oswego Facilities Trust

NOTE 5. Jointly-Owned Generating Facilities

The following table reflects the Company's share of jointly-owned generating facilities at December 31, 1979. The Company is required to provide financing for the units in process of construction and for any additions to the Roseton units. The Company's share of expenses associated with the Roseton units are included in the appropriate operating expenses in the consolidated statement of income.

	Percentage ownership	In thousands of dollars Utility plant	Accumulated depreciation	Construction work in progress
Roseton Steam Station Units #1 and 2 *(a)*	30	$101,488	$14,213	$ 2,275
Oswego Steam Station Unit #6 *(b)*	76	—	—	222,882
Nine Mile Point Nuclear Station Unit #2 *(b) (d)*	41	—	—	313,304
Sterling Nuclear Station *(c) (d)*	22	—	—	18,962

(a) The Company sold to Central Hudson Gas and Electric Corporation ¼ of its original 40% ownership for book value of approximately $30,400,000 in December 1978. Central Hudson is obligated from time to time to acquire additional portions of the Company's interest.

(b) During 1975, the Company sold a 24% interest in the ownership of Unit #6 and a 59% interest in the ownership of Unit #2 for book value of approximately $53,400,000 and, in 1978, sold certain additional property associated with these units, for book value of approximately $4,600,000. (See Note 12).

(c) During 1975, the Company purchased a 22% interest in the ownership of Rochester Gas & Electric Corporation's Sterling Nuclear Station for an initial investment of approximately $4,300,000. (See Note 12).

(d) Excludes amounts spent for nuclear fuel.

NOTE 6. Capital Stock

In 1978, the authorized shares of common stock were increased by 20,000,000. Premium on capital stock increased $69,500,000 in 1979 and $65,400,000 in 1978 from the sale of 5,771,766 and 5,057,636 shares of common stock, respectively. As a result of the foregoing and the 1978 issuance of 1,600,000 shares of $25 par value perferred stock, 8.375% series, and 1,360,000 shares of $25 par value preference stock, 7.75% series, capital stock expense increased $200,000 in 1979 and $600,000 in 1978.

In August 1978, $30,000,000 (300,000 shares) of 11.75% series preferred stock was redeemed. In accordance with a PSC directive, the $3,500,000 call premium on the redemption was charged to capital stock expense and is being amortized over the life of the 7.75% preference series. Expenses of issuing the 11.75% preferred series of $1,200,000 were charged to retained earnings.

NOTE 7. Redeemable Preferred Stock

Certain of the Company's preferred and preference stock series provide for a mandatory sinking fund for the annual redemption, at par, as follows:

		Number of shares	Beginning
Preferred $100 par value	7.45% Series	18,000	June 30, 1977
	10.60% Series	20,000	March 31, 1980*
Preferred $25 par value	8.375% Series	100,000	April 1, 1983
	9.75% Series	66,000	October 1, 1980
Preference $25 par value	7.75% Series	140,000	September 30, 1980

These series also have optional sinking funds through which the Company may redeem, at par, a like amount of additional shares (limited to 120,000 shares of the 7.45% series and 300,000 shares of the 9.75% series). The mandatory sinking fund for the 7.75% series increases by 20,000 shares and 80,000 shares beginning September 30, 1982 and 1984, respectively.

The Company's five year mandatory sinking fund redemption schedule is as follows:

Series	Par Value	Thousands of dollars 1980	1981	1982	1983	1984
7.45%	$100	$1,800	$1,800	$1,800	$ 1,800	$ 1,800
10.60%	$100	*	2,000	2,000	2,000	2,000
8.375%	$ 25	—	—	—	2,500	2,500
9.75%	$ 25	1,650	1,650	1,650	1,650	1,650
7.75%	$ 25	3,500	3,500	4,000	4,000	6,000
		$6,950	$8,950	$9,450	$11,950	$13,950

*Sinking fund requirements for 1980 have been met by the advance purchase of preferred stock during 1979.

NOTE 8. Pension Plans

The Company and its subsidiaries have non-contributory pension plans covering substantially all their employees. The total pension cost was $28,900,000 for 1979, $25,700,000 for 1978, $22,500,000 for 1977, $20,800,000 for 1976 and $18,800,000 for 1975 (of which $6,800,000 for 1979, $5,800,000 for 1978, $4,700,000 for 1977, $3,900,000 for 1976 and $3,300,000 for 1975, was included in construction costs).

The Company's policy is to fund pension costs accrued. Preliminary studies indicate that the estimated amount of unfunded vested benefits at December 31, 1979 exceeded the net assets of the plans by approximately $104,000,000.

NOTE 9. Information Regarding the Electric and Gas Businesses

The Company is engaged in the electric and gas utility businesses. Certain information regarding these segments is set forth in the following table. General corporate expenses, property common to both segments and depreciation of such common property have been allocated to the segments in accordance with practices established for regulatory purposes. Identifiable assets includes net utility plant, materials and supplies and deferred recoverable energy costs. Corporate assets consist of other property and investments, cash, accounts receivable, income tax refund claims, prepayments, unamortized debt expense and other deferred debits.

	In thousands of dollars				
	1979	1978	1977	1976	1975
Operating revenues: Electric	$1,211,068	$1,020,313	$ 987,760	$ 863,012	$ 795,917
Gas	305,435	259,935	238,072	214,218	176,289
Total	$1,516,503	$1,280,248	$1,225,832	$1,077,230	$ 972,206
Operating income before taxes: Electric	$ 200,718	$ 188,236	$ 176,819	$ 159,425	$ 168,468
Gas	27,868	27,260	25,803	24,281	20,731
Total	$ 228,586	$ 215,496	$ 202,622	$ 183,706	$ 189,199
Pretax operating income, including AFC: Electric	$ 257,954	$ 233,006	$ 210,810	$ 180,077	$ 197,788
Gas	28,231	27,491	25,956	24,340	20,787
Total	286,185	260,497	236,766	204,417	218,575
Income taxes	34,646	31,123	22,124	17,896	14,630
Other income and deductions	14,306	13,235	3,645	10,237	2,153
Interest charges	109,815	101,447	94,455	88,309	91,303
Net income	$ 156,030	$ 141,162	$ 123,832	$ 108,449	$ 114,795
Depreciation: Electric	$ 74,957	$ 71,750	$ 68,400	$ 69,128	$ 60,936
Gas	9,255	8,933	8,713	8,501	8,292
Total	$ 84,212	$ 80,683	$ 77,113	$ 77,629	$ 69,228
Construction expenditures (including nuclear fuel):					
Electric	$ 351,972	$ 301,583	$ 277,828	$ 272,422	$ 196,956
Gas	22,558	14,697	12,103	10,280	9,158
Total	$ 374,530	$ 316,280	$ 289,931	$ 282,702	$ 206,114
Identifiable assets: Electric	$2,981,005	$2,717,224	$2,552,446	$2,359,038	$2,174,452
Gas	315,951	294,667	290,876	285,642	285,846
Total	3,296,956	3,011,891	2,843,322	2,644,680	2,460,298
Corporate assets	231,981	177,221	175,732	171,620	192,327
Total assets	$3,528,937	$3,189,112	$3,019,054	$2,816,300	$2,652,625

NOTE 10. Federal and Canadian Income Taxes

Current Federal Tax Expense: The current Federal tax expense includes credits of $2,600,000 for investment tax credit generated in 1979 and carried back to 1978.

Income Tax Refunds: The Company received refunds in 1974 and 1975 totaling $21,400,000, including interest, as a result of the retroactive adoption of "guideline" lives in computing tax depreciation for the years 1966 through 1968. In a 1976 Opinion and Order on a Company rate proceeding, the PSC directed that $12,400,000 of the amounts received for the years 1966 through 1968 be treated as a reduction in rate base. The PSC, however, reserved the right to treat such amount differently in future rate proceedings contingent on the then prevailing circumstances. During 1976, the portion of the refunds and interest for the years 1966 through 1968, previously included in Deferred Credits totaling approximately $9,000,000 ($.17 per share), that was no longer subject to a future contingency, was credited to Other Income and Deductions.

In 1978, the Company received a refund of $9,200,000, including interest net of tax, resulting from the settlement of all audit issues for the year 1969, including the adoption of the "guideline" method of depreciation. The total tax refunds and interest recorded in Deferred Credits at December 31, 1979 approximated $21,600,000. In the Company's current rate case the PSC is considering the proper accounting and ratemaking treatment of such total amount.

Income Tax Assessment: In October 1972, the Company paid a net assessment of $16,800,000 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 has instituted suit for recovery of this amount.

Net Operating Loss: During 1977, 1976 and 1975, the Company utilized for Federal income tax purposes $300,000,

$20,100,000 and $22,600,000, respectively, of net operating tax loss carryforwards.

Investment Tax Credits: The Company has deferred the net benefit of investment tax credits approximating $15,100,000 ($.24 per share), $6,900,000 ($.12 per share), $6,100,000 ($.11 per share), $4,800,000 ($.09 per share) and $12,500,000 ($.27 per share) for the years ended December 31, 1979, 1978, 1977, 1976 and 1975, respectively, in accordance with the general policy as stated in Note 1.

The Company has unused credits at December 31, 1979 of approximately $19,900,000 which may be utilized to reduce current tax expense in subsequent years until they expire in 1986.

The oil-fired Oswego Unit #6 attained in-service status for Federal income tax purposes in late 1979. As a result, investment tax credit in the amount of $14,400,000 was generated and became available for use. The commercial in-service date of the unit is presently estimated to be in the first quarter of 1980. In his Recommended Decision (issued on December 6, 1979) in the Company's current rate case, the Administrative Law Judge recommended that Oswego Unit #6 investment tax credit not be recognized in 1979 when such credits would normally be recognized under the Company's previously approved Federal income tax accounting policies. Instead, such investment tax credit would be recognized coincident with the plant being recognized for ratemaking purposes.

Although the Company opposes the Judge's recommendation, the Company has deferred the effect of Oswego Unit #6 investment tax credit pending final decision of the PSC, expected in early March 1980. The effect of such deferral on the 1979 results of operations was to increase tax expense and thereby decrease income by $6,500,000 ($.10 per share). The Company is unable to predict the ultimate outcome of this matter.

Summary Analysis:

	In thousands of dollars				
	1979	1978	1977	1976	1975
Components of Federal and Canadian income taxes					
Current tax expense:					
Federal	$ 1,618	$ 7,608	$ 434	—	—
Canadian	4,680	3,870	3,314	$ 2,550	$ 2,830
	6,298	11,478	3,748	2,550	2,830
Deferred Federal income tax expense	28,348	19,645	18,376	15,346	11,800
Income taxes included in operating expenses	34,646	31,123	22,124	17,896	14,630
Deferred Federal income taxes included in Other Income and Deductions	(13,782)	(11,690)	(5,043)	(718)	—
Total	$20,864	$19,433	$17,081	$17,178	$14,630
Timing differences resulting in deferred Federal income taxes *(see Note 1)*					
Depreciation	$ 8,227	$22,753	$ 7,146	$ 6,223	$ 1,313
Cost of removal of property	(1,010)	2,310	245	566	(899)
Investment tax credit	15,149	6,899	6,077	4,847	12,523
Recoverable energy and purchased gas costs	(239)	7,012	69	3,650	(477)
Necessity certificates	(700)	(700)	(700)	(700)	(700)
Nuclear fuel disposal cost	(5,388)	(28,411)	—	—	—
Sales and loans of nuclear fuel	(5,678)	—	—	—	—
Gain on Roseton sale	3,962	(3,962)	—	—	—
Other	243	2,054	496	42	40
Deferred Federal income taxes (net)	$14,566	$ 7,955	$13,333	$14,628	$11,800
Reconciliation between Federal and Canadian income taxes and the tax computed at prevailing U.S. statutory rate on income before income taxes					
Computed tax	$81,372	$77,086	$67,638	$60,301	$62,124
Reduction attributable to flow-through of certain tax adjustments:					
Depreciation	13,329	13,931	19,703	19,741	20,123
Allowance for funds used during construction	26,496	21,601	16,389	9,942	14,100
Taxes, pensions and employee benefits capitalized for accounting purposes	10,202	8,537	7,071	5,731	7,920
Real estate taxes on an assessment date basis	2,178	560	1,042	2,813	3,035
Investment tax credit	2,775	10,874	9,500	—	—
Income tax refunds	—	—	619	4,313	—
Deferred taxes provided at other than the statutory rate	6,752	1,824	(7,351)	(5,905)	6,083
Other	(1,224)	326	3,584	6,488	(3,767)
	60,508	57,653	50,557	43,123	47,494
Federal and Canadian income taxes	$20,864	$19,433	$17,081	$17,178	$14,630

NOTE 11. Supplementary Information to Disclose the Effects of Changing Prices (Unaudited)

Continued inflation, resulting in a decline in the purchasing power of the dollar, has become one of our nation's principal concerns. Inflation has an enormous impact on all sectors of the economy, including consumers, wage earners, investors, government and industry.

The consolidated financial statements are based on historical events and transactions when the purchasing power of the dollar was substantially different than at the present. The effects of inflation on most utilities, including Niagara Mohawk, are most significant in the areas of depreciation and utility plant and amounts owed on borrowed funds.

In recognition of the fact that users of financial reports need to have an understanding of the effects of inflation on a business enterprise, the accounting profession's standard setting body has issued a statement requiring that inflation adjusted data be presented in 1979 annual reports to stockholders. The following supplementary information is supplied in accordance with the requirements of such statement for the purpose of providing certain information about the effects of both general inflation and changes in specific prices. It should be viewed as an estimate of the approximate effect of inflation, rather than as a precise measure.

Statement of Income from continuing operations adjusted for changing prices for the year ended December 31, 1979

	In thousands of dollars		
	Conventional historical cost	Constant dollar average 1979 dollars	Current cost average 1979 dollars
Operating revenues	$1,516,503	$1,516,503	$1,516,503
Fuel for electric generation	380,101	380,101	380,101
Electricity purchased	159,453	159,453	159,453
Gas purchased	196,711	196,711	196,711
Depreciation	84,212	186,432	242,256
Other operating and maintenance expenses	467,440	467,440	467,440
Federal and Canadian income taxes	34,646	34,646	34,646
Interest charges	91,279	91,279	91,279
Other income and deductions—net	(53,369)	(53,369)	(53,369)
	1,360,473	1,462,693	1,518,517
Income (loss) from continuing operations (excluding reduction to net recoverable cost)	$ 156,030	$ 53,810*	$ (2,014)
Increase in specific prices (current cost) of utility plant held during year**			$ 588,420
Reduction to net recoverable cost		$ (308,561)	(42,609)
Effect of increase in general price level			(798,548)
Excess of increase in general price level over increase in specific prices after reduction to net recoverable cost			(252,737)
Gain from decline in purchasing power of net amounts owed		227,257	227,257
Net		$ (81,304)	$ (25,480)

*Including the reduction to net recoverable cost, the income (loss) from continuing operations on a constant dollar basis would have been $(254,751) for 1979.

**At December 31, 1979, current cost of utility plant, net of accumulated depreciation, was $6,440,205 while historical cost or net cost recoverable through depreciation was $3,186,205.

Constant dollar amounts attempt to adjust for general inflation and represent historical costs stated in terms of dollars of equal purchasing power, as measured by the Consumer Price Index for all Urban Consumers. Current cost amounts reflect the changes in specific prices of plant from the date the plant was acquired to the present and differ from constant dollar amounts to the extent that specific prices have increased more or less rapidly than prices in general.

The current cost of utility plant net of accumulated depreciation and amortization, represents the estimated cost of replacing existing plant assets in kind. Since existing utility plant is not expected to be replaced precisely in kind due to technological changes, current cost does not necessarily represent the replacement cost of the Company's utility plant. The portion of the accumulated amortization relating to disposal costs of nuclear fuel was not used in the calculation of current costs but rather reclassified to a monetary liability. In most cases, current costs were determined by indexing surviving plant dollars by the Handy-Whitman Index of Public Utility Construction Costs. However, when an account could not be indexed by Handy-Whitman, other appropriate indices were used. The current year's provision for depreciation and amortization on the constant dollar and current cost amounts of utility plant was determined by applying the Company's average annual depreciation rates to the indexed plant amounts.

Fuel inventories, the cost of fuel used in generation, and electricity and gas purchased have not been restated from their historical cost in nominal dollars. The recovery of energy and purchased gas costs are limited to historical costs through the operation of the Company's electric and gas adjustment clauses. For this reason fuel inventories and deferred recoverable energy costs are effectively monetary assets. As prescribed, income taxes were not adjusted.

The Company is subject to the jurisdiction of regulatory commissions in the determination of a fair rate of return on its investment. Current ratemaking policy provides for the recovery of historical costs. Therefore, the cost of utility

plant, stated in terms of constant dollars or current cost, that exceeds the historical cost of plant is not presently recoverable in rates as depreciation, and is reflected as a reduction to net recoverable cost. While the ratemaking process gives no recognition to the current cost of replacing utility plant, based on past practices, the Company believes it will be allowed to earn on the increased cost of its net investment when replacement of facilities actually occurs.

To properly reflect the economics of rate regulation in the Statement of Income from Continuing Operations, the reduction of net utility plant to net recoverable cost should be offset by the gain from the decline in purchasing power of net amounts owed on borrowed funds. During a period of inflation, holders of monetary assets suffer a loss of general purchasing power while holders of monetary liabilities experience a gain. The gain from the decline in purchasing power of net amounts owed is primarily attributable to the substantial amount of debt which has been used to finance utility plant. Since the depreciation on this plant is limited to the recovery of historical costs, the Company does not have the opportunity to realize a holding gain on debt and is limited to recovery only of the embedded cost of debt capital.

Five year comparison of selected supplementary financial data adjusted for effects of changing prices

	In thousands of average 1979 dollars				
Years ended December 31,	1979	1978	1977	1976	1975
Operating revenues	$1,516,503	$1,425,046	$1,468,972	$1,374,179	$1,311,754
Historical cost information adjusted for general inflation					
Income (loss) from continuing operations (excluding reduction to net recoverable cost)	$ 53,810				
Income (loss) per common share (after dividend requirements on preferred stock and excluding reduction to net recoverable cost)	$ 0.41				
Net assets at year-end at net recoverable cost	$1,304,929				
Current cost information					
Income (loss) from continuing operations (excluding reduction to net recoverable cost)	$ (2,014)				
Income (loss) per common share (after dividend requirements on preferred stock and excluding reduction to net recoverable cost)	$ (0.47)				
Excess of increase in general price level over increase in specific prices after reduction to net recoverable cost	$ 252,737				
Net assets at year-end at net recoverable cost	$1,304,929				
General information					
Gain from decline in purchasing power of net amounts owed	$ 227,257				
Cash dividends declared per common share	$ 1.44	$ 1.52	$ 1.58	$ 1.58	$ 1.63
Market price per common share at year-end	$ 12.63	$ 15.58	$ 18.73	$ 18.34	$ 17.54
Average consumer price index	217.5	195.4	181.5	170.5	161.2

NOTE 12. Commitments and Contingencies

Construction Program: The Company presently estimates that the construction program for the years 1980 through 1982 will require approximately $744,000,000, excluding AFC and certain overheads capitalized. At December 31, 1979, substantial construction commitments existed, including those for the Company's share of Unit #2 at Nine Mile Point Nuclear Station and the Sterling Nuclear Station.

Sterling Nuclear Station: The Company has been sharing in the costs of constructing the jointly-owned Sterling Nuclear Station generating facility (see Note 5). On January 23, 1980, the New York State Board on Electric Generation Siting and the Environment (Siting Board) voted to vacate the construction permit it had issued two years ago, because it could no longer find a public need for the proposed plant. Since the Siting Board has withdrawn certification of the proposed plant, the project will be discontinued. Through December 31, 1979, the Company's cost associated with the Sterling Nuclear Station, when reduced for Federal income taxes, approximated $13,000,000. The Company has petitioned the PSC to seek recovery of these and all subsequently incurred costs associated with cancellation of this project. While management believes such costs will be recovered, no such assurance can be given.

Nine Mile Point Nuclear Station Unit #2: In January 1980, the Company and the other joint-owners of Nine Mile Point Nuclear Station Unit #2 (see Note 5) rescheduled the date of planned commercial operation from 1984 to 1986. The new construction schedule was made necessary by a number of continuing technical and regulatory uncertainties and a decision to reevaluate geologic design criteria. A revised cost estimate has not yet been prepared to reflect the new completion date, however, it is reasonable to expect a significant increase in cost based on the new construction schedule.

Litigation: Several electric customers have brought suit against the Company and the Power Authority of the State of New York (PASNY) requesting that certain power purchased from PASNY be allocated exclusively for their benefit and are asking monetary damages for the difference between rates charged by the Company and rates that would otherwise have been charged if this power had been furnished to them over the past six years. In the opinion of management, the ultimate liability, if any, resulting from this suit will not materially affect the consolidated financial statements of the Company.

FERC Audit: The staff of FERC has conducted a compliance audit of the Company covering the years 1973 through 1978. Among other things, a question concerning the base cost of nuclear fuel on which AFC should be applied was raised. If the associated recommended adjustment is sustained by FERC, the resulting reduction in retained earnings would approximate $13,000,000 through 1978. The Company believes that the adjustment is not justified and is contesting it. The recommended adjustment results from the FERC staff taking exception to regulatory accounting treatment prescribed by the PSC, the Company's primary rate setting body. Although FERC has ratemaking jurisdiction over only 6% of the Company's electric revenues, representing sales to other electric systems, it has the power to prescribe books of account on which reports to stockholders are based. Due to the extensive jurisdiction which the PSC has over the Company's affairs, it is the opinion of the Company that the financial statements based on the requirements of the PSC represent the proper presentation of the financial position and the results of operations of the Company.

NOTE 13. Quarterly Financial Data (Unaudited)

Operating revenues, operating income, net income and earnings per common share by quarters for 1979 and 1978 are shown in the following table. The Company, in its opinion, has included all adjustments (consisting only of normal recurring accruals except for giving effect to the deferral of Oswego Unit #6 investment tax credit during the quarter ending December 31, 1979—see Note 10) necessary for a fair statement of the results of operations for the quarters. Due to the seasonal nature of the utility business, the annual amounts are not generated evenly by quarter during the year.

	In thousands of dollars			
Quarters ended	Operating revenues	Operating income	Net income	Earnings per common share
December 31				
1979	$416,066	$41,570	$28,005	$.31
1978	$321,788	$33,881	$26,977	$.32
September 30				
1979	$335,944	$34,764	$25,511	$.29
1978	$276,442	$37,571	$27,273	$.32
June 30				
1979	$352,107	$50,114	$41,878	$.56
1978	$309,666	$47,976	$35,527	$.49
March 31				
1979	$412,386	$67,492	$60,636	$.86
1978	$372,352	$64,945	$51,385	$.78

SUMMARY OF UTILITY PLANT

	In thousands of dollars		
At December 31,	1979	%	1978
Utility plant:			
Electric plant	$2,859,533	68	$2,680,999
Nuclear fuel *(Note 3)*	206,206	5	215,207
Gas plant	367,652	9	350,029
Common plant	63,920	1	59,726
Construction work in progress	721,217	17	599,413
Total utility plant	$4,218,528	100	$3,905,374

LONG-TERM DEBT

	In thousands of dollars	
At December 31,	1979	1978
First Mortgage Bonds:		
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	125,000
3⅜% Series due December 1, 1981	15,000	15,000
3½% Series due February 1, 1983	25,000	25,000
3¼% Series due October 1, 1983	40,000	40,000
3⅛% Series due August 1, 1984	25,000	25,000
10⅝% Series due September 1, 1985	47,000	47,000
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
9½% Series due December 1, 2003	50,000	31,500
9.95% Series due September 1, 2004	100,000	—
10.2% Series due March 1, 2005	44,000	47,000
8.35% Series due August 1, 2007	75,000	75,000
8⅝% Series due December 1, 2007	50,000	50,000
Paul Smith's Electric Light & Power & Railroad Company First Mortgage Bonds:		
4½% Series due July 1, 1979	—	450
5½% Series due May 1, 1985	450	450
Promissory Note, 8% Series A due June 1, 2004	46,600	46,600
Notes payable:		
7¾% due in equal installments, November 1, 1979 and 1980	6,000	12,000
Prime rate plus ½% (not to exceed 7½%) due in equal quarterly installments through April 1, 1984	11,250	13,750
Unamortized premium	6,256	6,697
Total long-term debt	1,531,556	1,425,447
Less long-term debt due within one year	88,500	10,450
	$1,443,056	$1,414,997

PREFERRED STOCK

Cumulative preferred stock, authorized 3,400,000 shares, $100 par value and 9,600,000 shares, $25 par value
Cumulative preference stock, authorized 4,000,000 shares, $25 par value

At December 31,	In thousands of dollars 1979	1978	Redemption price per share (Before adding accumulated dividends) December 31, 1979	Eventual Minimum
Non-redeemable (optionally redeemable)				
Preferred $100 par value				
3.40% Series; 200,000 shares	$ 20,000	$ 20,000	$103.50	$103.50
3.60% Series; 350,000 shares	35,000	35,000	104.85	104.85
3.90% Series; 240,000 shares	24,000	24,000	106.00	106.00
4.10% Series; 210,000 shares	21,000	21,000	102.00	102.00
4.85% Series; 250,000 shares	25,000	25,000	102.00	102.00
5.25% Series; 200,000 shares	20,000	20,000	102.00	102.00
6.10% Series; 250,000 shares	25,000	25,000	103.00	101.00
7.72% Series; 400,000 shares	40,000	40,000	107.37	102.36
	$210,000	$210,000		
Redeemable (mandatorily redeemable—Note 7)				
Preferred $100 par value				
7.45% Series; 546,000 and 564,000 shares	$ 54,600	$ 56,400	106.01	100.00
10.60% Series; 380,000 and 400,000 shares	38,000	40,000	110.60	102.65
Preferred $25 par value				
8.375% Series; 1,600,000 shares	40,000	40,000	26.98	25.00
9.75% Series; 1,200,000 shares	30,000	30,000	27.055	25.00
Preference $25 par value				
7.75% Series; 1,360,000 shares	34,000	34,000	*	25.00
	196,600	200,400		
Less sinking fund requirements	6,950	1,800		
	$189,650	$198,600		

Not redeemable until October 1, 1981.

FINANCIAL STATISTICS

	1979	1978
Capitalization ratios:		
Common stock equity	39.0%	36.9%
Preferred stock	13.2	14.1
Long-term debt	47.8	49.0
Ratio of earnings to fixed charges	2.61	2.58
Ratio of earnings to fixed charges and preferred stock dividends	2.03	1.95
Other ratios—% of operating revenues:		
Maintenance and depreciation	12.1	12.6
Taxes	13.3	14.3
Operating income	12.8	14.4
Balance available for common stock	8.5	8.8
Ratio of depreciation reserve to gross utility plant	26.3%	26.2%
Ratio of mortgage bonds to net utility plant	47.0%	46.7%

ELECTRIC AND GAS STATISTICS

Electric capability

Thermal — At January 1,	Thousands of kilowatts 1980	%	1979
Coal fuel			
Huntley, Niagara River	785	11	785
Dunkirk, Lake Erie	585	8	585
Total coal fuel	1,370	19	1,370
Residual oil fuel			
Albany, Hudson River	400	6	400
Oswego, Lake Ontario	1,200	17	1,190
Roseton, Hudson River	360	5	360
Middle distillate oil fuel			
20 Combustion turbine and diesel units	354	5	354
Total oil fuel	2,314	33	2,304
Nuclear fuel			
Nine Mile Point, Lake Ontario	610	9	610
Purchased—firm contract			
Power Authority—			
FitzPatrick, Lake Ontario	154	2	176
Total nuclear fuel	764	11	786
Total thermal sources	4,448	63	4,460
Hydro			
Owned and leased hydro stations (81)	733	10	733
Purchased—firm contracts			
Power Authority—Niagara River	1,122	16	1,122
Power Authority—St. Lawrence River	115	2	115
Power Authority—			
Blenheim-Gilboa Pumped Storage Plant	550	8	550
Other	76	1	76
Total hydro sources	2,596	37	2,596
Total capability*	7,044	100	7,056

	1979	1978
Electric peak load during year	5,641	5,485

*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.

Electricity generated and purchased *(Millions of kw-hrs.)*

	1979	%	1978	%
Thermal				
Generated				
Coal	7,275	20	7,016	20
Oil	8,534	24	8,691	25
Nuclear	3,005	8	4,467	13
Purchased—Nuclear from				
Power Authority	722	2	886	2
Total thermal	19,536	54	21,060	60
Hydro				
Generated	3,641	10	3,472	10
Purchased from Power Authority	8,263	23	8,563	24
Total hydro	11,904	33	12,035	34
Other purchased power— various sources	4,621	13	2,118	6
Total generated and purchased	36,061	100	35,213	100

	1979	1978
Electric sales *(Millions of kw-hrs.)*		
Residential	8,269	8,127
Commercial	9,279	9,117
Industrial	12,471	12,187
Municipal service	274	276
Other electric systems	3,022	2,675
	33,315	32,382
Electric revenues *(Thousands of dollars)*		
Residential	$ 357,818	$ 319,667
Commercial	393,173	333,862
Industrial	312,833	258,649
Municipal service	23,832	21,515
Other electric systems	83,188	59,445
Miscellaneous	40,224	27,175
	$1,211,068	$1,020,313
Electric customers *(Average)*		
Residential	1,206,469	1,197,060
Commercial	130,119	128,481
Industrial	2,906	2,873
Other	3,189	2,257
	1,342,683	1,330,671
Residential *(Average)*		
Annual kw-hr. use per customer	6,854	6,790
Cost to customer per kw-hr.	4.33¢	3.93¢
Annual revenue per customer	$296.58	$267.04

	1979	1978
Gas sales *(Thousands of dekatherms)*		
Residential	51,895	54,793
Commercial	23,415	23,734
Industrial	17,109	15,630
Other gas systems	4,199	3,845
	96,618	98,002
Gas revenues *(Thousands of dollars)*		
Residential	$176,567	$158,599
Commercial	71,139	60,794
Industrial	46,260	32,422
Other gas systems	10,014	6,858
Miscellaneous	1,455	1,262
	$305,435	$259,935
Gas customers *(Average)*		
Residential	383,617	382,691
Commercial	29,009	28,451
Industrial	525	522
Other	2	2
	413,153	411,666
Residential *(Average)*		
Annual use per customer *(dekatherms)*	135.3	143.2
Cost to customer *(per dekatherm)*	$3.40	$2.89
Annual revenue per customer	$460.27	$414.43
Maximum day gas sendout *(dekatherms)*	750,666	655,408

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James Bartlett
Executive Vice President

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Senior Vice President

James J. Miller
Senior Vice President

John H. Terry
Senior Vice President, General Counsel and Secretary

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Adam F. Shaffer
Assistant Controller

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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

Retired as of Dec. 31, 1979

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Consultant (formerly Vice President—Research and Development, Environmental Matters), Syracuse

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Senior Partner, Jaeckle, Fleischmann & Mugel, attorneys-at-law, Buffalo

Lauman Martin
Consultant (formerly Senior Vice President and General Counsel), Syracuse

Baldwin Maull
Director of various corporations, New York

Martha Hancock Northrup
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President, L.A. Swyer Company, Inc., builders and construction managers, Albany

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President and Chief Executive Officer, Merchants Insurance Group, Buffalo

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NIAGARA MOHAWK
300 ERIE BOULEVARD WEST
SYRACUSE, NEW YORK 13202

Whiteface Mountain and other rugged Adirondack peaks rise in distance as Niagara Mohawk line mechanic works on new 115,000-volt line built to meet energy demands of 1980 Olympic Winter Games at Lake Placid. Construction of 10-mile circuit, achieved in only a few months time, was termed "spectacular accomplishment" in report by N.Y. State Public Service Commission.