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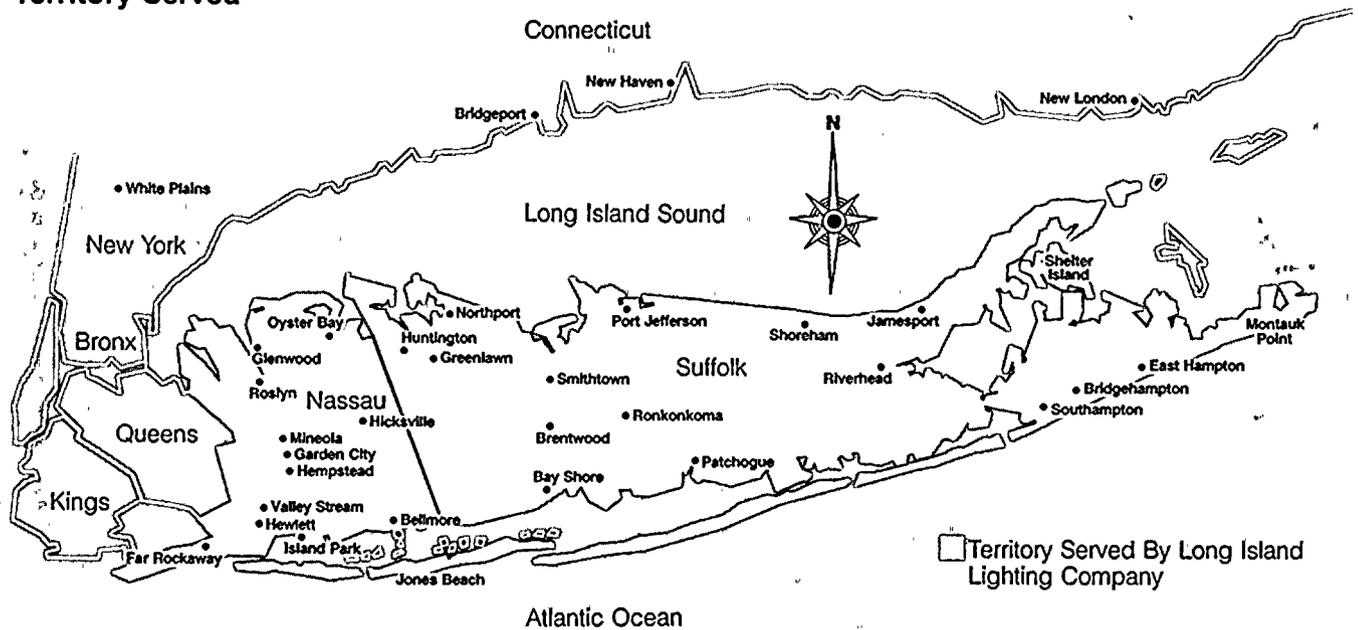
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## The Cover

LILCO has a tradition of responding to community needs, not only in supplying energy, but in providing leadership for the betterment of the community. LILCO crews can be seen day and night throughout Long Island's neighborhoods, connecting new electric or gas lines and services, improving established service lines, or trouble-shooting to restore service or to prevent future outages. LILCO people work hard to provide the most adequate and reliable service possible. And, because they are partners in our Long Island community, they work in their home towns, at the fire stations, churches, and town halls to keep the Island strong and prosperous by devoting their time and energies where they are needed most.

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## Territory Served



LILCO supplies electric and gas service in Nassau and Suffolk Counties and the Rockaway Peninsula in Queens County, all on Long Island, New York. The 1,230 square mile service area contains a population of approximately 2.7 million persons, about 95,000 of whom live in Queens County. Nassau and Suffolk Counties together constitute a federally-designated Standard Metropolitan Statistical Area (SMSA) which is among the highest in per capita income of the more than 280 SMSA's of the nation and ranks in the top twelve such areas, including metropolitan New York, Los Angeles and Chicago, in population, total income and retail sales. About 70% of all workers resident in Nassau-Suffolk are employed within the two counties. While the area served is predominantly residential, the Company receives significant commercial and industrial electric revenues. Although electronics and aerospace are the largest manufacturing industries in the area, about 85% of total employment is non-manufacturing.

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**Highlights 1981 — A Year of Significant Progress**

**Contents**

	1981	1980	1979	Percent Increase or (Decrease)	
				1981/1980	1980/1979
<b>Earnings Per Share</b> increased 2¢ in 1981, increased 12¢ in 1980.	\$ 2.55	\$ 2.53	\$ 2.41	0.8%	5.0%
<b>Indicated Annual Dividend</b> Rate on common stock increased 8¢ in June 1981 and in June 1980.	\$ 1.94	\$ 1.86	\$ 1.78	4.3	4.5
<b>Income for Common Stock</b> (millions of dollars)	\$ 198.9	\$ 164.9	\$ 128.8	20.6	28.0
<b>Average Common Shares</b> Outstanding (millions)	78.0	65.1	53.4	19.7	22.1

Permanent Electric Rates increased \$9.1 million annually effective February 14, 1981, and \$183.1 million annually effective May 29, 1981, (including \$90.0 million effective November 27, 1980, on a temporary basis).  
Gas Rates increased \$8.6 million annually effective November 1, 1981.

The Nuclear Regulatory Commission issued its Safety Evaluation Report on Shoreham and the independent federal Advisory Committee on Reactor Safeguards informed the Nuclear Regulatory Commission that, subject to satisfactory completion of plant systems and training programs, Shoreham can be operated at full power "without undue risk to the health and safety of the public." Hearings with respect to the operating license are expected to begin in mid-1982.

Almost 90% of about 300 mechanical and electrical systems associated with Shoreham had been turned over from the construction forces to the startup team for testing by the end of 1981. Of the 175 preoperational tests required to be completed before loading fuel, about one-half had been started by the end of 1981. The tests require integration of various numbers of the 300 systems.

Total cash proceeds of \$42.7 million, before deduction of litigation expenses and payments to New York State Electric & Gas Corporation for its share in the Jamesport nuclear project, were received in partial settlement of LILCO's litigation against Westinghouse Electric Corporation initiated in 1975 because of the failure of Westinghouse to deliver uranium concentrates.

The petition placing Bokum Resources Corporation (BRC) into involuntary bankruptcy was granted. BRC has appealed this decision. An order dismissing the BRC counterclaims for \$1.05 billion against the petitioning creditors, including LILCO, was also granted without prejudice.

The United States Department of Energy rescinded its proposed orders which would have prohibited the burning of oil at LILCO's Northport Power Station and terminated the related proceedings.

A record \$525.5 million was raised during 1981 through the external sale of LILCO long-term securities.

Customers saved \$125.4 million during 1981 as a result of LILCO's purchases of economy power from other utilities, use of natural gas to generate electricity, and operation of the Company's Environmental Quality Control Systems.

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**Charles R. Pierce**  
*Chairman of the Board and  
 Chief Executive Officer*



**Wilfred O. Uhl**  
*President*

## Letter to Shareowners

In 1981 we made substantial progress toward achieving the dual goals of adequate return for shareowners and rate stability for customers in the face of persistent negative external forces. The effects of these external forces often tended to overshadow the many positive accomplishments achieved by the Company, but if we look beyond the negatives, we can see that this really was a year of significant progress.

Abnormal inflation, high interest rates, and fuel price increases continued in 1981, but some developments warrant optimism as we look ahead. There are indications that the oppressive inflationary spiral of the last several years is moderating. Oil prices peaked in March 1981 and declined 20% by year-end. There seems, further, to be a growing realization at the federal level of the need to revise regulatory controls as they relate to both financial and plant construction requirements, if the utility industry is to effectively meet its service obligations. Finally, our Long Island service area continues to display resiliency in the face of uncertain economic conditions, exhibiting strength in employment, buying power and labor skills.

Earnings results for 1981 showed a small improvement over the previous year as earnings per share increased two cents to \$2.55. For the 22nd time in the past 23 years the dividend rate on the common stock was increased, to eight cents, from \$1.86 to \$1.94 on an annual basis. While these improvements are modest, they should be judged in the context of the difficult economic environment of 1981 and by the fact that they were attained while the Company was involved in the largest financing program in its history, totalling \$525 million. The success in raising this record amount of capital in unstable financial markets is a significant indicator of investor support. The fact that it was accomplished without an earnings decline is a source of satisfaction.

Rate increases of \$183.1 million in electric and \$8.6 million in gas revenues, granted respectively in May and November 1981, benefited cash flow and earnings results. As long as inflationary pressures sustain high interest rates and outpace our ability to hold down operating costs, the need for rate increases will inevitably continue. In this regard, we propose to file for increases in gas and electric rates in February 1982, to go into effect early in 1983. Our ability to meet our obligations to customers and shareowners depends largely on regulatory treatment that recognizes the special difficulties that an inflationary economy imposes upon utility operations. The response of regulatory authorities essentially determines how well we can maintain investor support and how available capital funds will be to meet customer needs. While it is understandably difficult for regulators today to withstand the pressures which seek to keep utility rates low at any cost, the cost of succumbing to those pressures is exceedingly high — lower investment ratings, and greater financing costs that lead ultimately to higher rates for consumers.

Brightening signs in the regulatory sector are the indications at the federal level of a better understanding of the utility industry's financial situation, action to improve tax treatment, and much delayed reform of nuclear plant licensing regulations. In this connection, we are hopeful of a timely start and expeditious handling of the Nuclear Regulatory Commission (NRC) hearings on our Shoreham Nuclear Power Station operating license. Major steps in this process were completed during the year with the issuance of a Safety Evaluation Report by the NRC staff and a favorable Shoreham recommendation to the NRC from the independent Advisory Committee on Reactor Safeguards. Our expectation is that the NRC public hearings should begin in the spring. A timely conducted hearing would allow fuel loading in the fall of 1982. Commercial operation should follow some six months later.

Construction of Shoreham is proceeding on a parallel schedule with licensing. All of the heavy construction work is complete and the plant is now undergoing comprehensive testing of all plant equipment. Thus far, the testing program has gone extremely well. However, many things could still interfere with timely operation, including the possibility of licensing delay, but signs are now positive. About two months after fuel load Shoreham will begin to produce Long Island's first nuclear generated electric power. Even before full commercial operation it will begin to reduce oil consumption and fuel cost.

The decline in oil prices last year has encouraged some to reflect on the possibility that the oil supply crisis has passed or at least become permanently tolerable. This is not a correct reading of the situation. It is quite clear that the stability or instability of the world's oil supply is a function of international affairs over which our nation has very limited control, and that the choice to use oil as a diplomatic weapon is an always present danger. The uncertainty of its supply and the volatility of its price remain our customers' single biggest burden. We have continued, therefore, to proceed in our plan to minimize reliance on oil as our basic generating fuel. Replacing oil with the use of nuclear energy, of course, is the centerpiece of this program, through the operation of Shoreham and our involvement as a partner in the Nine Mile Point 2 nuclear project in upstate New York.

While Shoreham will provide the single most effective way to reduce our dependence on oil by replacing some 8 million barrels of oil per year, we are looking into a wide range of energy supply strategies that will free our customers from the manipulations of the OPEC suppliers. An important part of this planning is the Company's effort to provide customers as much immediate relief from high oil costs as possible through the purchase of non-oil produced power from neighboring electric systems and the use of surplus natural gas in our power plants in place of oil. This, plus the cost-savings that result from our being able to use less expensive oil in connection with the operation of the Environmental Quality Air Control monitoring system, resulted in a total of some \$125 million in savings to LILCO electric billpayers in 1981 alone. We are continuing, as well, our investigation into the feasibility of reconverting to coal LILCO power plants at Port Jefferson and Island Park, which were originally designed as coal-burning units. This investigation includes not only

analysis of the economics of coal conversion but also a full environmental review to assure the protection of neighboring communities. We are also involved in new coal use technologies such as coal/oil mixture and coal/water slurry which may permit the practical utilization of coal at the large Northport plant, which was not designed for coal burning.

Progress continues to be made, as well, in reducing our community's reliance on oil at the consumer level. 1981 again saw substantial numbers of Long Island homeowners turn from oil to natural gas to meet home heating needs. In the last three years the number of LILCO residential gas space heating customers increased by 31,000, or 22.4%, prompted largely by concern with the uncertainty of supply and price associated with oil. While we might expect the price advantage of gas to narrow in the years ahead as gas deregulation becomes more widespread, the anticipation is that gas heating will remain at least price competitive with oil heating. Other Company programs include the aggressive promotion of such energy efficient devices as heat pumps and solar water heating systems, and the strengthening of our home energy audit and consumer conservation seminar programs, all of which are designed to increase efficient energy use and lessen oil dependency.

In looking back at 1981, one of the most encouraging developments has been our Long Island community's sustained economic health. The diversification of its economy has enabled it to successfully resist the business uncertainties experienced in other parts of the nation. Total area employment increased last year and 1982 business activity is predicted to grow at a rate double that of the country as a whole. The relationship of our Company with the community is a close one. A strong and prosperous Long Island is important to the health of LILCO, and we supply the essential energy services that allow the economy to run efficiently. But our role on Long Island is, of course, more than energy supplier. We are, at both the corporate and employee level, members of the community and have the opportunity to serve Long Island in two ways. In this report, we show examples of how Company employees serve the community at home as well as on the job. These examples are just a small look at the community service tradition of LILCO people who are the foundation of our Company's strength.

*Charles R. Pierre*

Chairman and Chief Executive Officer

*Walter D. White*

President

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## 1981 — A Year of Significant Progress

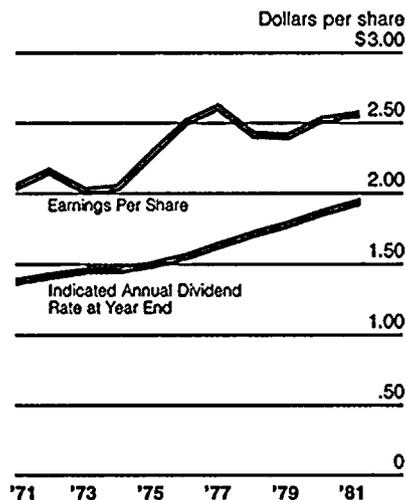
These are difficult times for many Americans. But, confident of the individual's potential to influence for good and for change, people are drawing from inherent strengths and resources to meet today's trying circumstances. In recent years, LILCO has faced a series of challenges — oil embargoes, cost increases, changing governmental regulations, and limitations on natural gas availability — in meeting its legal mandate to provide adequate and reliable electric and gas service. The successful response to these many challenges is a tribute to the Company's basic strength — the skill and dedication of LILCO people. Because of the dedication and hard work on the part of all LILCO's 5,800 employees, 1981 was a year of significant progress, and we face 1982 with optimism.

### Financial Progress

#### Earnings and Dividends

Long Island Lighting Company's ability to provide adequate and reliable electric and gas service to Long Island depends heavily on the continued support of investors. The need for investor support is perhaps greater today than ever before, as capital-intensive utilities nationwide are finding it most difficult to operate within complex regulatory restrictions and under severe financial conditions. Therefore, LILCO's commitment is to protect its investors' interests as it meets its service objectives to its customers. Significant progress toward this commitment was made in 1981.

#### Earnings and Dividends



Earnings per share have been increased in 19 of the last 23 years. The dividend rate on the common stock has been raised in 22 of the last 23 years. The current indicated annual dividend rate of \$1.94 per share represents a payout to shareholders of 76% of 1981 earnings per share. The Company estimates that approximately 63% of the dividends paid in 1981 were not taxable as ordinary income because they represented a return of capital. A substantial portion of the common stock dividends to be paid in 1982 is estimated to be a return of capital.

Income for the common stock rose to \$198.9 million from \$164.9 million in 1980, or 20.6%, while the average number of common shares outstanding was 19.7% higher. Earnings per share increased from \$2.53 in 1980 to \$2.55 in 1981. In June 1981, the dividend rate on the common stock was raised for the 22nd year in the last 23 years. The increased quarterly dividend of 48½¢ per share provides an indicated annual dividend rate of \$1.94 per share. The previous indicated annual rate was \$1.86 per share. The Company's estimate is that approximately 63% of the common stock dividends paid in 1981 represented a return of capital. In addition, based on preliminary estimates, a substantial portion of the dividends to be paid on the common stock during 1982 is currently expected to represent a return of capital.

#### Rate Increases

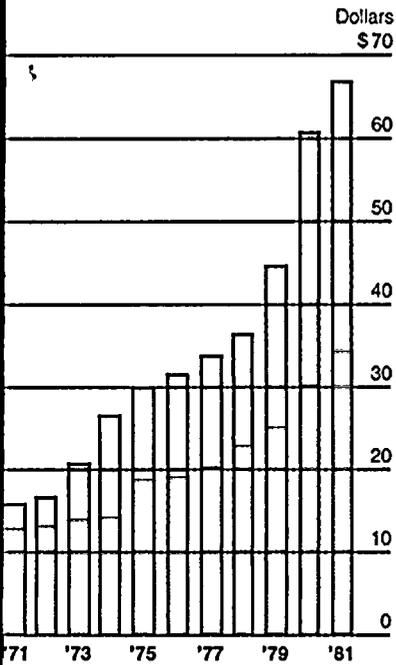
The Company's internal cash generation from its operations was strengthened by the favorable response of the New York State Public Service Commission (PSC) to the Company's May 1980 request for a \$228 million rate increase. The amount of permanent rate relief granted in May 1981 was \$183.1 million (including \$90 million of interim cash flow relief that became effective November 27, 1980). This permanent rate increase will help provide further improved service reliability, financial

flexibility, and the basis for needed continued construction financing, and a partial offset to the inflationary costs of providing electric and gas service. Included in the PSC rate order was an increase in the amount of Shoreham construction work in progress (CWIP) allowed in rate base from \$255 million to \$355 million. This makes a total of \$400 million CWIP that is currently allowed in electric rate base. Although this revision does not affect the level of Company earnings, it does improve cash flow and the quality of these earnings. The current effect on consumers of paying the interest and return for shareowners on this \$400 million of CWIP is only about 5% of their bill.

Effective November 1, 1981, the PSC granted an increase in gas rates of \$8.6 million.

The Company plans to file for increases in both electric and gas rates in February 1982, to offset the effect of inflation and to insure an adequate return to shareowners. As of the date of this printing, the amounts of these rate increases had not yet been determined. The new rates would become effective late in 1982 or early in 1983.

**Cost Components of Monthly Electric Bills to LILCO Residential Customers in December of Each Year**



In December 1981, the total electric bill for a LILCO residential customer using 600 kWh a month was \$67.48. This was four times the \$16.68 the same amount of energy cost in 1971. The non-fuel cost of energy included in the total bill in December 1981, was only 2.6 times what it was in 1971, but the fuel cost component was 10 times its 1971 level. As a result, the cost of fuel now represents nearly 50% of the average residential bill compared with 20% ten years ago.

The average LILCO residential customer's cost per kilowatt hour during 1981 was 34% higher than in 1980. This was due to the sharp rise in fuel costs late in 1980 and early in 1981, followed by a decline later in the year. As a result, the total residential electric bill for 600 kWh was only 10% higher in December 1981, than in December 1980. The current outlook for 1982 is for stable prices for both fuel oil and LILCO electricity.

**Record Financing Completed**

During 1981, LILCO successfully raised a record \$525.5 million through the external sale of long-term securities. These securities consisted of: General and Refunding Bonds with a total principal amount of \$300.0 million; preferred stock, \$25 par value, to provide \$65.0 million;

Don Gackenhelmer is committed to serving Long Islanders 24 hours a day.

Don is one of LILCO's supervising service operators, directing the maintenance of gas and electric service. While on shift, he makes sure that the lights go on and stay on.

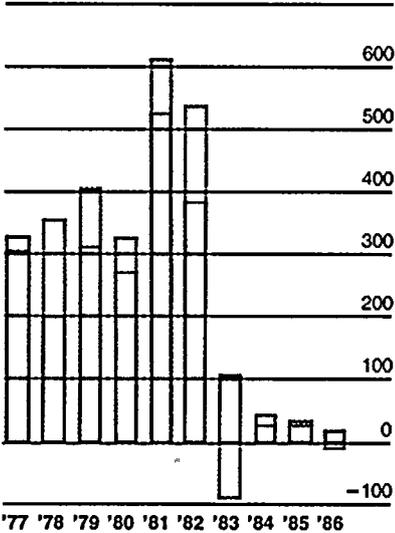
Off the job, Don serves the community as Lieutenant of Engine #288 and as an emergency medical technician with the Dix Hills Fire Department. Last year, his fire department answered 400 alarms and over 1,000 rescue calls — a lot of ringing phones in the middle of the night.

Don thinks this is all just part of doing his share. "Making sure the heat comes back on when it's bitter cold is vital," he says. "And there's no other feeling quite like the one that comes from getting a heart beating again."



**External Financing — Long Term**

□ Trusts  
 □ LILCO  
 Millions of Dollars  
 \$700



LILCO sold over one-half billion dollars of long-term securities in the capital markets in 1981. It also raised approximately \$90 million through borrowings from the lending banks of its Tri-Counties Construction financing trust. After Shoreham is in commercial operation, the need for such financing is expected to be sharply reduced, and the debt of the construction financing trust is planned to be prepaid. These prepayments as well as repayments to Tri-Counties Resources Trust for the consumption of nuclear fuel are reflected in the net amounts shown on the chart.

and \$160.5 million of common stock. The sales of common stock included \$128.2 million sold directly to the public, \$30.2 million sold to shareholders through the Company's Automatic Dividend Reinvestment Plan, and \$2.1 million sold through its Employee Stock Purchase Plan.

As a result of these sales, the total \$118 million of commercial paper and bank loans outstanding at December 31, 1980, was fully repaid, and LILCO entered 1982 with short-term investments totalling \$55.2 million, including \$13.2 million invested in its financing trusts.

**Recovery of New Haven Expenditures**

Following completion of hearings on the abandoned New Haven nuclear project, an administrative law judge of the PSC concluded that the co-owners, LILCO and New York State Electric & Gas Corporation (NYSEG), acted prudently in proceeding with the project. Therefore, the judge recommended that the PSC authorize amortization and recovery of the full project costs in rates. He also recommended the continuation of AFC until such rate recovery begins and approval to earn a return on the unamortized balance of the project costs. The Company's share of the New Haven nuclear expenditures was approximately \$31.8 million at December 31, 1981, after reduction by \$15.7 million for estimated tax effects. A decision of the PSC is expected shortly.

**Settlement Reached with Westinghouse**

An outstanding financial issue was resolved when litigation begun by the Company against Westinghouse Electric Corporation in November 1975 was settled favorably in April 1981. The Company began this litigation after Westinghouse advised its customers, including LILCO, that it would not fulfill its commitments for delivery

of nuclear fuel. Initial partial cash payments totalling \$42.7 million were made to LILCO in 1981. In addition, the settlement includes an option to purchase up to 200,000 pounds of uranium per year from 1987 through 1991, and the option to purchase fuel fabrication services, uranium conversion services, and other goods, materials and services, all at advantageous prices to the Company. Approximately 29% of the settlement proceeds have been or will be paid by LILCO to NYSEG toward its share of the Westinghouse uranium intended for the now cancelled Jamesport plant. Additional cash payments may be forthcoming as a result of the settlement in 1981 of litigation commenced by Westinghouse against a number of uranium producers.

**Bokum Resources Corporation**

The Westinghouse contract was an agreement LILCO entered into in 1973 to provide a long-term domestic supply of nuclear fuel for electric generation at prices favorable to the Company. After Westinghouse announced it did not intend to honor its nuclear fuel commitments, the Company initially contracted with Bokum Resources Corporation (BRC) in 1976 for deliveries of replacement uranium.

LILCO began a foreclosure action against BRC in November 1980, after it became clear that the mining firm could not complete the uranium mine and mill and deliver the uranium concentrates pursuant to BRC's contract with LILCO. This foreclosure action was stayed pending a decision on the petition of LILCO and other creditors in June 1981, to the United States Bankruptcy Court for the District of New Mexico for a reorganization of BRC under bankruptcy law. These legal steps were taken to preserve the interests of Long Island Lighting by protecting advances, loans, and related interest totalling \$82.3 million made by the Company to finance the Bokum uranium mine and mill. A federal bankruptcy court granted the petition of creditors, including LILCO, in December 1981, and declared BRC bankrupt. BRC has appealed this decision. Also in December 1981, \$1.05 billion of counterclaims BRC had made against the creditors who filed the bankruptcy petition were dismissed without prejudice. Additional BRC counterclaims totalling \$710 million are still pending.

The BRC mill complex is nearly complete and is licensed subject to limited conditions. The mine and mill complex stands above substantial proven reserves of uranium, of which LILCO contracted for 10 million pounds, enough to fuel Shoreham throughout its life. Additional expenditures will be required to make the mine and mill complex initially operational.

For further information about BRC and associated litigation including indemnification of officers and directors, see Note 7 of the Notes to Financial Statements.

## Progress in Reducing Oil Dependence

Significant progress was continued in 1981 toward LILCO's objective of reducing its dependence on oil-fired generation.

### Shoreham Nuclear Power Station

The Shoreham Nuclear Power Station, the Company's most important near-term contribution to its goal of providing electricity from energy sources other than foreign oil, is nearing completion. When in full operation, Shoreham is expected to displace 8 million barrels of oil a year, or about one-third of the oil LILCO currently would require to generate all its system electric requirements.

By the end of 1981, almost 90% of the plant's mechanical and electrical systems had been turned over to startup teams, which run the numerous tests required to assure readiness for plant operation, and over one-half of the preoperational tests required to be completed on integrated combinations of these systems prior to loading nuclear fuel had been started. Nuclear fuel is expected to be loaded in the reactor in late September 1982. Commercial operation is anticipated six months thereafter.

The application for an operating license for the Shoreham Nuclear Power Station was docketed by the Nuclear Regulatory Commission (NRC) in January 1976. Following five years of intensive examination of Shoreham, the NRC staff issued its initial Safety Evaluation Report (SER) in April 1981. A supplement to the SER was issued in September 1981. While a number of issues remain to be resolved prior to loading fuel, the SER confirmed that, upon resolution of these issues, LILCO will be technically and financially qualified to operate the plant.

The SER also found that the operating staff for the plant has been in place for many years with staffing levels at fuel load that are expected to exceed NRC requirements. LILCO training has utilized special programs developed for the Company by the Brookhaven National Laboratory and has emphasized training assignments at operating nuclear stations similar to Shoreham. In addition, both the General Electric simulator and simulators at other nuclear power stations continue to be utilized extensively by the operating staff to enhance their safety training. LILCO will install a simulator to replicate Shoreham in order to maintain this training at a high level.

Further, the SER found that LILCO has a considerable pool of experienced people currently in the construction, engineering, and startup organizations at the site who, following fuel load, will be incorporated into the long-term support of the plant operation. Thus, the experience gained in construction and in bringing the station on-line will be applied to assure continued safe and reliable plant operation.



LILCO's Consumer Education Center is located in Levittown, but Jean Hersey takes energy tips to consumers all over Long Island. She conducts a series of approximately 30 different home and energy management classes in six Nassau and Suffolk locations throughout the year. Topics include energy conservation, fire safety, solar and nuclear energy, and electrical wiring. "Long Islanders have a great interest in energy. Our class enrollment never shrinks, it just keeps growing."

In her hometown, Jean is active on the board of directors of the Glen Cove Boys and Girls Club at Lincoln House, where young people explore their athletic and artistic talents. She's enthusiastic in her support of the club and the community — "There's always something good happening there."

Andy Matura is committed to making Long Island a better place to live. As a LILCO environmental scientist, his job is to see that Long Island's air quality is preserved. In the community, he and his wife Kathleen, who also works for LILCO, are leaders in organizing the March of Dimes "Super Walks" that have raised thousands of dollars to better the lives of those who are less fortunate.



The second major step leading to an operating license for Shoreham was successfully completed in October 1981 when LILCO met with the independent federal Advisory Committee on Reactor Safeguards (ACRS). Following a visit to the plant site and presentations by senior nuclear personnel on such subjects as compliance with changes required following the incident at Three Mile Island in 1979, engineering, plant operation, training, and emergency planning, the ACRS issued a recommendation for a full power operating license subject to resolution of the same issues set forth in the SER.

The third and last effort in obtaining an operating license is successful completion of public hearings before the Atomic Safety and Licensing Board. Many plants in similar positions have not required such hearings when successful SER and ACRS letters have been received. However, intervenors have filed contentions on various aspects of Shoreham plant design, construction, and operation, as well as preparedness planning. Hearings on these matters are expected to begin in the spring of 1982. The actions of the intervenors could delay receipt of the operating license. Possible delays in completing construction could also delay fuel loading. Each one month delay in commercial operation of Shoreham will add \$35-40 million to its cost.

Emergency preparedness efforts for Shoreham are well under way. An exercise to test state, county, and LILCO plans will be conducted. The Federal Emergency Management Agency and the NRC will evaluate the results of this exercise before an operating license is issued.

## Nine Mile Point 2

The Nine Mile Point Nuclear Unit 2 (NMP-2), under construction near Oswego, New York, will further reduce LILCO's dependence on foreign oil by about 2 million barrels, or about 8%, per year, and will further stabilize the cost of electricity to LILCO customers. LILCO has an 18%, or 195 MW, share in the unit being built by Niagara Mohawk Power Corporation. The co-owners estimate a construction cost of \$2.4 billion, exclusive of financing costs. Of that total, \$1.0 billion had been spent at December 31, 1981.

The PSC ordered public hearings to review two 1981 studies concerning the economic, financial, and construction status of NMP-2: an independent audit of cost and schedule prepared by Theodore Barry & Associates (TB&A), as consultants to the PSC; and the PSC staff's own economic analysis of alternatives. TB&A concluded that a 1986 commercial operation date was possible but, in their opinion, schedule slippage of a year was likely, and future regulatory and economic uncertainties exist which could add significantly to the ultimate cost and the time required for completion. The staff report concluded that completion of NMP-2 is warranted when compared with alternate plans for new coal-fired facilities, even if construction costs are substantially in excess of those estimated by the co-owners. A PSC decision following the hearings, which began in early December 1981, and were completed by year's end, is expected early in 1982.



## Jamesport

In 1980, LILCO's and NYSEG's joint petition to build two nuclear electric-generating units at Jamesport, New York, previously approved by the NRC, was denied by the New York State Board on Electric Generation Siting and the Environment. However, the Jamesport Siting Board did grant a certificate to build an 800 MW coal-fired plant at the Jamesport site. NYSEG decided not to participate in a coal-fired project at Jamesport. In October 1981, LILCO accepted the Jamesport Siting Board certification, subject to certain conditions. These conditions include an allowance of one year's time to seek new partners and to conduct studies of the plant's optimum size and completion date. The Siting Board has not yet acted on the Company's conditional acceptance.

In early 1981, LILCO and NYSEG petitioned the PSC for authority to amortize and recover in rates the nuclear-related portion of the Jamesport project expenditures. No action was requested regarding amortization of the coal-related portion pending a determination with regard to construction of a coal plant.

The two companies were authorized by the PSC to continue to accrue allowance for funds used during construction (AFC) on the Jamesport costs pending either the completion of the certified coal unit or the abandonment of the entire project. The PSC deferred action on the amortization request. The Company's share of the Jamesport nuclear expenditures was approximately \$44.7 million at December 31, 1981, after reduction by \$15.9 million for estimated tax effect.

## Coal

The Company continues to investigate the conversion of some of its existing generating stations to coal as well as the construction of a new coal-burning plant at Jamesport to provide fuel cost savings and energy independence.

During 1981, the United States Department of Energy rescinded its proposed orders that would have prohibited continued burning of oil at the Northport Power Station and terminated the related proceedings. The Company had requested rescission of these proposed orders on the grounds that coal conversion would have been economically disastrous. Company studies indicate that under certain conditions conversion of two of the Port Jefferson and the two Barrett units to coal would be economic. No final decision has been made by LILCO concerning these conversions.

Coal/water slurry (CWS) is finely pulverized coal mixed with water to form an oil-like fuel. LILCO has organized and heads a research team investigating the feasibility of burning CWS as a utility fuel. CWS may prove to be attractive because it is potentially less costly to convert a plant to CWS burning than to solid coal burning, and it eliminates many of the impacts on the community of burning coal. Adelphi University's Center for Energy Studies is part of the research team and is conducting laboratory tests on coal/water mixes of various types. EBASCO, Inc. is studying necessary power plant modifications to permit use of CWS as a generating fuel. (Modifications could include a new fuel unloading system and the addition of agitators in storage tanks to prevent the CWS mixture from separating.) Babcock and Wilcox, a major boiler manufacturer, is investigating the impact of CWS burning on boiler performance. Acting as a consultant on the project is Combustion Processes, Inc., a company experienced with CWS research.

Lionel Smith is a man totally involved in the health and welfare of his community. As Pastor of the Faith Missionary Baptist Church in Greenlawn, he provides spiritual leadership to young and old.

As a LILCO lineman, Lionel sees much of the Long Island world from a bucket truck. Like other LILCO linemen, neither snow nor rain nor heat slows his efforts as he works to provide Long Island's electrical needs.



## Natural Gas

Increased availability of natural gas and conservation of gas by present customers has allowed LILCO to offer this fuel to additional existing gas customers converting from oil heat to gas heat. At the end of 1981, a total of 168,900 LILCO customers were heating their homes using natural gas, 31,000, or 22.4%, more than three years earlier. This increased use of natural gas displaces over 650 thousand barrels (nearly 28 million gallons) of home heating oil annually.

## Additional Gas Supply

LILCO joined 13 other northeastern utilities to form Boundary Gas, Inc. in July 1980. Boundary Gas was established to import Canadian gas and transport it through existing interstate pipelines. Canadian gas reserves provide an additional supply to offset interstate pipeline curtailments in the next decade. LILCO's share of the purchases from TransCanada Pipelines, Ltd., will be 8.4 billion cubic feet per year, about 13% of LILCO's current contractual gas supplies. All required filings have been submitted to the appropriate Canadian and United States governmental agencies. Decisions of these agencies with regard to export and import of this gas are expected late in 1982. Canadian gas is expected to begin arriving on Long Island in late 1983.

## Other Alternatives

Other alternatives to utilizing nuclear, oil, and coal on the LILCO system include natural gas, purchases of economy power, and various research projects.

For the past two years, substantial quantities of natural gas have been burned to generate electricity during non-winter months in certain plants, thereby displacing more expensive imported oil as a fuel. Although economics and the availability of natural gas for this purpose might not allow this arrangement to continue, to date it has been quite beneficial to LILCO's customers. In 1980 and 1981, LILCO saved its customers \$18.1 million and \$22.7 million, respectively, by burning natural gas instead of oil to generate electricity and saved 3.4 and 3.9 million barrels of oil, respectively.

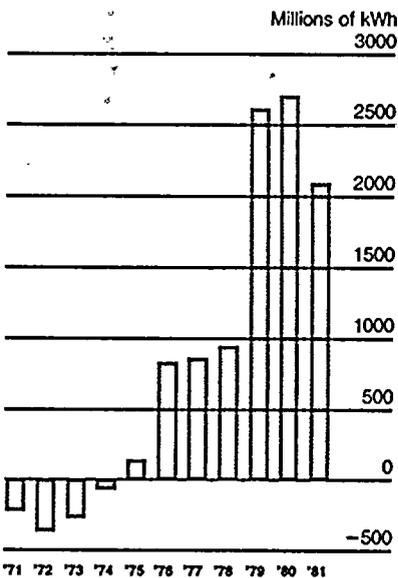
The Company continues its campaign to hold down increases in the cost of electricity to Long Islanders by purchasing nuclear, coal, and hydro power when available from Canada and other utilities through the New York Power Pool and New England. An important part of this is LILCO's involvement in the New York Power Pool's economic dispatch program. Every five minutes, the program automatically distributes the generation of member companies throughout New York State using telemetered information from each member. This maximizes the efficiency of electric generation and minimizes its production costs. Through such purchases, LILCO was able to reduce customers' bills by \$51.6 million in 1980 and \$54.4 million in 1981 and displace 6.0 and 4.8 million barrels of oil, respectively.

The Company contributed over \$2.5 million in 1981 to the Electric Power Research Institute (EPRI) for research into and development of new technologies to meet Long Island's present and future electric needs in environmentally and economically acceptable ways. These funds supported investigations into fuels research, such as coal gasification and liquefaction; solar and other renewable resource and improved fossil-fired technologies; environmental studies including the causes and effects of acid rain; and energy conservation and more efficient transmission and distribution systems.

Another EPRI project in which LILCO is involved is a study on wind turbine siting. Working with Battelle Laboratories, LILCO is providing the meteorological and land-use data to establish a method of evaluating potential wind turbine sites. This study will aid other utilities seeking wind turbine sites in their own service territories. LILCO personnel participate in many of these studies through various EPRI committees.

Five miles west of Montauk Point, at the Ocean Science Laboratory, stands a 160 foot instrument tower. This Department of Energy/LILCO tower has been collecting wind-energy data for five years. LILCO is pursuing plans to erect another tower one-half mile from the Montauk lighthouse. One year of simultaneous readings collected from the two towers will verify whether or not winds in the area are strong and consistent enough to power a 2-3 MW wind turbine.

#### Net Power Purchased by LILCO from Other Utilities



In each of the last seven years, LILCO has been able to purchase substantial quantities of power from other utilities more economically than it could generate the power by burning fuel oil in its own power plants. These purchases have saved LILCO customers \$175.5 million over the seven-year period, including \$54.4 million in 1981.

## Progress in LILCO Response to Community Needs

LILCO is concretely demonstrating its commitment to meeting the challenges facing the Long Island community in a variety of ways.

### Efficiency and Service Reliability

To offset rising electric generating costs, LILCO has aggressively pursued an innovative program with a goal of performing required maintenance work in an even more expeditious and cost effective manner.

To spearhead this effort, a production planning center was established to more effectively schedule overhaul work and improve worker productivity, while a training center was established to insure that mechanic skill levels are further enhanced. To identify and solve persistent operating problems affecting the efficiency of Northport, LILCO's largest generating station, a technical services group was also established. The result of this group effort coupled with innovative maintenance practices initiated by plant personnel resulted in an annual fuel savings to our customers of \$8.5 million in 1981.

The electric submarine cables connecting Connecticut and Long Island are an important link in maintaining the lowest possible cost for electric energy. During severe cold weather, the cable system was damaged when navigational buoys embedded in moving ice floes dragged their anchors across the cables. Historically, repair work involved the installation of sophisticated cable repair joints requiring the skills of foreign technicians. However, in 1981, this repair was completed utilizing a newly designed cable joint developed by LILCO which permitted the joints to be installed by LILCO personnel. This effort resulted in timely restoration of the cables with a savings of approximately \$1.0 million over the previous techniques.

Service reliability is improved by LILCO's year-round tree trimming program. Branches that may tangle electrical wires are trimmed back, and trees are pruned to grow away from existing lines. This lessens damage to lines caused by falling limbs during ice storms, snow fall or high winds. In 1981, LILCO refined its productivity incentive program with a net improvement of approximately 10% in performance over the previous year's planned tree trim activity.

A new job classification, senior lineman splicer, calls for the skills of an overhead lineman and an underground cable splicer in one individual. This combination enables the Company to use smaller crew units to maintain and repair electrical lines. The economic benefits and efficiency of service brought about by this more flexible work force should be evident especially during peak work load conditions such as storms or power interruptions, when a greater amount of work can be accomplished by fewer men in the field.

Certain customers are classified as a Critical Facility. This notation indicates that the customer merits special consideration during periods of restoration of electric service lost during emergencies. Included in this classification are police, fire stations, hospitals, water pumping stations and certain individuals who have a medical problem that requires some type of electrical apparatus for life support. In 1981, all Critical Facility customers were field surveyed during the Company's annual Emergency Restoration field exercise. Priority attention is given to these customers during periods of emergency.

During 1981, six new VHF radio frequencies were licensed and placed in service, and 362 mobile radio units were converted to operate on four of these six new frequencies. This culminated the first year's activities of a three-year plan to improve both routine and emergency communications. These communications improvements will not only help improve LILCO service, but will also be a boon to the Long Island community as well. They will enable LILCO personnel to more rapidly contact the nearest customer service headquarters and request assistance via their direct telephone links to fire, police, and other emergency service units.

LILCO's unique Computer Assisted Restoration of Electric Service system (CARES) has also contributed to service efficiency. By input of customer telephone numbers, the CARES system shows a customer's location on a graphic computer map display that matches LILCO's service area maps. This helps to pinpoint service interruptions so that they can be analyzed and crews dispatched appropriately, saving time and money throughout the LILCO system. CARES was initially implemented in 1980 on a limited area basis and was expanded system wide in 1981.

## Economy in General Operations

Efficient LILCO operations benefit the whole Long Island community by helping to keep the cost of energy as low as possible.

As an example, LILCO's Environmental Quality Control system (EQUAC) constantly measures the sulfur dioxide content of the air, indicating when LILCO can burn less expensive higher sulfur oil. This monitoring enables LILCO to keep fuel costs down by burning a less expensive fuel without damaging air quality. Long Island's excellent air quality is maintained, and LILCO customers save money. The EQUAC system has saved LILCO customers over \$300 million since 1973, when the 14 air-sampling stations were put into operation. In 1981, EQUAC saved Long Islanders \$48 million in fuel costs.

Significant gains were made during 1981 in improving the effectiveness of existing billing meters. Modernization of certain electric and gas meters, and improved techniques to verify meter accuracy, will result in additional annual revenue of \$1.8 million.

LILCO processes over 7 million customer bill payments annually. The Company has been using an automated check processing system since 1972. During 1981, this system was upgraded, bringing a 60% increase in productivity over the former processing system. The processing system enables LILCO to deliver customers' checks directly to the bank upon which they were drawn, on the same day they are received. This yields an annual cost savings of approximately \$0.8 million.

**Rita Louise enjoys reaching out and meeting people face to face.**

Working in a busy LILCO district office, she meets a steady stream of new people every day. She tries to see that each person leaves her office feeling positive about doing business with the Company.

Rita also spreads good will with the LILCO Energy Makers, LILCO employees who travel throughout Long Island providing musical entertainment for a variety of organizations and groups of senior citizens and children. Involved with the ensemble since its inception, Rita believes it's an excellent way to bring a little entertainment and happiness to others.



## LILCO in the Community

LILCO responds in many other ways to provide services to its customers and the community.

LILCO's Balanced Billing plan, started in 1979, was developed to respond to customer needs. The plan balances out seasonal energy bills by spreading yearly energy costs into 12 level payments. This program was expanded in 1981. Over 125,000 LILCO customers now manage their energy expenses with Balanced Billing. In addition, a newly designed LILCO bill carries more billing information and is easier to read.

The Home Energy Assistance Program (HEAP) grants federal funds to help qualified individuals pay heating or utility expenses. In 1981, LILCO produced and distributed information on the HEAP program in its bill enclosures, in a special brochure titled, "L.I.G.H.T. — Long Islanders Get Help Tips," and by taking ads in weekly and daily newspapers. Long Islanders received over \$1.5 million in aid through the HEAP program in 1981.

In 1977 New York State passed the Home Insulation and Energy Conservation Act (HIECA). HIECA mandated that all New York State utilities (municipals excluded) provide subsidized energy audits and loans for eligible homeowners or tenants. From June 1978, through December 31, 1981, LILCO completed 24,000 on-site home energy audits.

The Company also lends a hand by funding events such as the "Ability is Ageless" job fair held in September. LILCO Chairman Charles Pierce was honorary General Chairman of the fair, which suggested job opportunities as well as job ideas.

For years, LILCO buildings, grounds, and properties have been used to support bicycle paths, Boy Scout meetings, parks, summer camps, boat ramps, farms, nurseries, and vegetable gardens. Selected right-of-ways are landscaped to harmonize with surrounding neighborhoods. Many appear to be extensions of an adjacent homeowner's property. Each parcel is used to maximize the benefits of the land to the community.

In June 1981, the 216-year old Ella Hallock farmhouse and outbuildings located on LILCO's Jamesport property were donated to Hallockville, Inc., a community organization pledged to preserve the historic homestead as a living museum and cultural center. In this way, a remnant of the once-active farming hamlet of Hallockville, Long Island will not be lost.

Nearly two decades ago, in hopes of bolstering the dwindling osprey population on Long Island, LILCO began placing nesting platforms atop poles in eastern Long Island. Ospreys are fish hawks that are native to Long Island but their numbers had decreased due to ingestion of the insecticide DDT. In 1965, only four fledglings hatched at a favored Gardiners Island nesting site. DDT spraying was halted in 1966, and records show that 126 osprey chicks were hatched on Long Island during 1981. The ospreys are finding the LILCO platforms the perfect spot to nest.



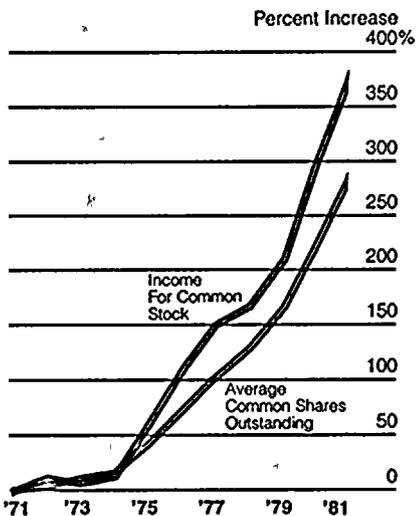
## Financial Analysis

This analysis discusses matters of significance in the Company's Financial Statements, which follow, with regard to results of operations, capital requirements, and liquidity for the last three years.

### Results of Operations

**Earnings:** Earnings per share have been increased in 19 of the past 23 years. For 1981, earnings of \$2.55 per share were 2¢ above the \$2.53 earned in 1980 and 14¢ above the \$2.41 earned in 1979. Income for common stock of \$198.9 million in 1981 was \$34.0 million, or 20.6%, greater than in 1980, more than offsetting the 19.7% increase in the average number of common shares outstanding. Income for common stock of \$164.9 million in 1980 was \$36.1 million, or 28.0%, greater than in 1979, more than offsetting the 22.1% increase in the average number of common shares outstanding. The increases in average common shares outstanding indicated in the foregoing reflect the sale of 9.0 million shares in April 1981, 8.1 million shares in July 1980, and 7.5 million common shares in 1979 and continuing sales through the Company's Automatic Dividend Reinvestment and Employee Stock Purchase Plans totalling 2.3 million shares during 1981, 1.6 million shares during 1980, and 1.2 million shares during 1979. The increases in income for common stock, which include increases in LILCO allowance for funds used during construction (AFC), reflect the inflationary impact of higher costs of capital and additional capital raised. The current level of rates charged customers has not been significantly affected by the factors which have resulted in the increases in income.

### Income for Common Stock and Average Common Shares Outstanding



Since 1971, LILCO has increased its income for common stock 374% while the average number of common shares outstanding has risen 286%. In the period 1971-1981, inclusive, LILCO sold 10 issues of common stock to the public totaling 51.8 million shares. An additional 8.1 million shares were sold to shareowners through the Automatic Dividend Reinvestment Plan and to employees. Based on the current estimate of future capital requirements, no additional common stock is expected to be sold with the exception of the balance contained in this year's financing program and continued sales through dividend reinvestment and to employees.

**Dividends:** The dividend rate on the common stock has been raised annually for the last 23 years with the exception of 1974. The quarterly dividend rate was raised from 44½¢ to 46½¢ per share in June 1980 and to 48½¢ per share in June 1981. These actions increased the indicated annual dividend rate by 8¢ each year to \$1.94 in 1981 from \$1.86 in 1980 and \$1.78 in 1979.

Although the Company contemplates the continuation of quarterly dividend payments, the payment of future dividends will depend upon future earnings, the financial condition of the Company, and other factors. (See "Rate Increases" and "Capital Requirements and Liquidity.")

Quarterly dividends were paid as follows during the last three years:

Payment Dates	Paid Per Share		
	1981	1980	1979
Feb. 1	46½¢	44½¢	42½¢
May 1	46½¢	44½¢	42½¢
Aug. 1	48½¢	46½¢	44½¢
Nov. 1	48½¢	46½¢	44½¢
Total Paid	\$1.90	\$1.82	\$1.74

The Company estimates that for federal income tax purposes certain percentages of the dividends paid in 1981, 1980, and 1979 represented a return of capital and, therefore, may not be taxable as ordinary income. These percentages are 63% of the common stock and none of the dividends paid on all series of preferred stock in 1981, 100% of the common stock and 100% of the dividends paid on all series of preferred stock in 1980, and 100% of the common stock and 63% of the dividends paid on all series of preferred stock in 1979. Such estimates are subject to audit by the Internal Revenue Service. Whether or not any portion of future common stock dividends will constitute a return of capital is dependent upon future rate relief, the resultant earnings of the Company, the size of the Company's construction program, the amount of construction work in progress (CWIP) permitted in rate base, and changes in income tax laws, including those which became law in August 1981. The Company currently estimates that a substantial portion of the common stock dividends to be paid in 1982 will represent a return of capital.

The trends of earnings, dividends, and coverage of interest and fixed charges over the past six years are provided in the Summary of Operations, Table 1, in the section of this report entitled "Selected Financial Data." Information with regard to the electric and gas segments of the Company's business for the most recent three years is provided in Note 9 of the Notes to Financial Statements. Additional data for prior years for both electric and gas operations is contained in the various tables of "Selected Financial Data."

**Revenues:** Total revenues, including the recovery of fuel costs, increased \$387.9 million, or 30.4%, to \$1,664.8 million in 1981 from \$1,276.9 million in 1980. The gain in 1980 over 1979 was \$231.4 million, or 22.1%. Revenues realized from sales of electricity and gas to the various classes of the Company's customers are shown in detail in Tables 2 and 3 of "Selected Financial Data."

The principal factors causing these revenue increases were:

(Dollars in Millions)	Increase from Prior Year	
	1981	1980
	\$	\$
(1) Fuels and Purchase Power	\$213.6	\$173.3
(2) Rate Increases	153.4	48.0
(3) Changes in Energy Sales and Other	20.9	10.1
<b>Total</b>	<b>\$387.9</b>	<b>\$231.4</b>

Additional information about these factors:

(1) **Fuel Costs:** Changes between periods in the costs of electric fuels, purchased power, and gas fuels were influenced primarily by (a) the mix of each fuel used and (b) increases in the cost of the fuels.

(a) During 1981 and 1980, the Company substantially decreased the use of high-cost, low-sulphur-content oil to generate electricity on its own system by purchasing record amounts of power from other utilities, and by burning substantial volumes of natural gas. Purchased power displaced 4.8 million barrels in 1981 and 6.0 million barrels in 1980. Burning gas displaced 3.9 million barrels of oil in 1981 and 3.4 million barrels in 1980. The Company estimates that these actions saved customers a total of \$77.1 million in 1981 and \$69.7 million in 1980 compared to the estimated cost of generating an equivalent amount of power on the LILCO system with oil.

The mix of fuels and purchases for providing the Company's electric system energy requirements during 1981 and 1980 were as follows:

	1981	1980
Oil	64%	61%
Gas	16	14
Purchases	20	26
<b>Total</b>	<b>100%</b>	<b>100%</b>

(b) The cost of fuels and the increases in cost during 1981 and 1980 were:

(Dollars in Millions)	1981 Total Cost*	Increase from Prior Year*			
		1981		1980	
		\$	%	\$	%
Electric Fuels	\$588.2	\$199.7	51.4 %	\$103.7	36.4%
Purchased Power	131.6	(0.9)	(0.7)	27.7	26.5
Gas	145.5	14.8	11.4	41.9	47.2
<b>Total</b>	<b>\$865.3</b>	<b>\$213.6</b>	<b>32.8 %</b>	<b>\$173.3</b>	<b>36.2%</b>

\*Includes fuel cost adjustment deferred.

The average unit prices of fuels and the increases in average unit prices between current and prior comparable periods were as follows:

	1981 Average Unit Price*	Increase from Prior Year*			
		1981		1980	
	Unit Cost	%	Unit Cost	%	
<b>For Electric Operations</b> ¢/kWh					
Fuels consumed for net generation	5.02¢	1.58¢	45.9%	0.87¢	33.9%
Purchased power	4.60¢	0.92¢	24.9	0.68¢	22.7
<b>For Gas Sendout —</b> \$/mcf	\$2.90	\$0.32	12.4%	\$0.68	36.1%

\*Includes fuel cost adjustment deferred.

Additional fuel data for prior years is contained in Tables 4 and 5 of "Selected Financial Data."

(2) **Rate Increases:** Total revenues net of the above fuel costs increased \$174.3 million, or 27.9%, in 1981 to \$799.5 million and \$58.1 million, or 10.3%, in 1980 to \$625.2 million.

The principal factor affecting these revenues net of fuels was rate increases. Permanent annual electric rates were increased by a total of \$192.2 million in 1981, \$25.1 million in 1980, and \$31.4 million in 1979. Permanent annual gas rates were increased \$17.1 million annually in 1979.

On May 26, 1981, the PSC issued its order in the permanent phase of the Company's request to increase electric rates by \$228 million annually. The salient features of this order were:

(a) The amount of rate relief granted was \$183.1 million, an increase of 13.6% over revenues forecasted in the rate case for the 12 months ending April 30, 1982. The new rates became effective May 29, 1981. These rates include \$90 million of interim cash flow relief effective November 27, 1980. All of this interim rate relief was derived from normalization of income tax deductions of interest related to LILCO's Tri-Counties Resources and Construction Trusts, and Shoreham-related items not previously permitted to be normalized. As a result of this normalization, the additional revenues were offset by deferred income tax expense. Thus, there was no effect on earnings, but cash flow and coverage of interest charges before taxes were improved.

(b) Returns of 16.0% on common equity and 12.21% overall were allowed. These returns were based on a common equity ratio representing 42.72% of total capitalization exclusive of Trust obligations.

(c) The amount of Shoreham CWIP allowed in rate base was raised from \$255 million to \$355 million, making a total of \$400 million of CWIP currently allowed in electric rate base. Revenues will be increased and AFC will be reduced correspondingly.

(d) The deferral of the federal income tax benefits associated with the interest on amounts financed through the Company's Tri-Counties Construction and Resources Trusts, real property taxes, and certain construction costs associated with Shoreham, granted in the interim phase of the case, was continued in the permanent rates, and provides cash flow relief.

(e) The Company was allowed to transfer an additional 3.0¢ per kWh of fuel costs into base rates and to amortize and recover approximately \$35 million of unrecovered deferred fuel costs.

(f) The Company was permitted to file for a second step increase in February 1982 to recoup increases in property taxes.

On May 15, 1981, LILCO filed an application with the PSC to increase gas rates by \$9.2 million, or 2.5%, annually. On October 27, 1981, the PSC authorized an increase in the Company's gas rates, effective November 1, 1981, designed to provide \$8.6 million in additional gas revenues annually. The Company is permitted to file a second stage filing in July 1982 to reflect increases in property taxes and wages.

(3) **Changes In Energy Sales:** Consumption by residential customers accounts for approximately 45% of the Company's annual system kWh sales of electricity. This is one of the highest proportions of such sales in the electric utility industry, and contributes to relatively stable operations of the Company. As a result of conservation of energy use, however, the 1.3% decrease in residential sales in 1981 from 1980 was caused by a 2.0% decrease in average use and a 0.7% growth in average customers. The 1.0% increase in residential sales in 1980 over 1979 was primarily due to the 0.9% growth in average customers. The 1.0% rise in commercial-industrial sales in 1981 reflected a 0.2% decrease in average use and a 1.2% gain in average customers. The gain in 1980 of 2.2% was comprised of a 1.0% increase in average use and a 1.2% gain in average customers.

Electric Sales	1981 Total kWh Sales (Millions)	Increase or (Decrease) from Prior Year			
		1981		1980	
	kWh (Millions)	%	kWh (Millions)	%	
<b>System Sales</b>					
Residential	5,581	(74)	(1.3)%	56	1.0%
Commercial and Industrial	6,494	63	1.0	140	2.2
Other	540	(56)	(9.4)	19	3.4
<b>Total System Sales</b>	<b>12,615</b>	<b>(67)</b>	<b>(0.5)</b>	<b>215</b>	<b>1.7</b>
Power Pool Sales	772	(111)	(12.5)	30	3.6
<b>Total Sales</b>	<b>13,387</b>	<b>(178)</b>	<b>(1.3)%</b>	<b>245</b>	<b>1.8%</b>

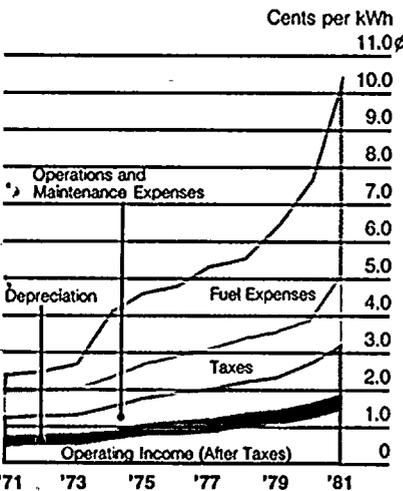
Approximately 70% of the Company's annual system mcf sales of gas results from consumption by space heating customers. Accordingly, total gas system revenues and sales are heavily influenced by seasonal temperature variations between periods and the availability of gas for sale to interruptible customers. The number of degree days billed in 1981 was 1.3% above those in 1980, while the average use of gas by space heating customers was 0.2% lower in 1981 than in 1980. Thus, conservation partially offset the effect of a 7.4% increase in the number of average gas heating customers served and limited the growth in sales of gas for this purpose to 7.2%. Firm sales in 1981 reflect only a part of the winter consumption by the customers who converted from oil to gas for space heating during the year. Sales of gas available to non-firm customers are reflected in interruptible sales in the table below. The record amount of gas sent out on any one day, 371.8 million cubic feet on January 4, 1981, was exceeded on January 11 and 17, 1982, when 383.2 and 402.5 million cubic feet, respectively, were sent out. The stable level of total firm gas system energy sales over several years prior to 1980 was primarily due to restrictions on the addition of new gas load due to limitations on gas supply.

Gas Sales	Increase or (Decrease) from Prior Year				
	1981		1980		
	1981 Total mcf Sales (Millions)	mcf (Millions)	%	mcf (Millions)	%
<b>Firm System Sales</b>					
Space Heating	34.8	2.3	7.2 %	1.4	4.4 %
Non-space Heating	7.6	0.1	1.3	0.4	5.5
<b>Total Firm</b>	<b>42.4</b>	<b>2.4</b>	<b>6.1</b>	<b>1.8</b>	<b>4.6</b>
Interruptible	6.0	(1.3)	(17.5)	1.8	33.7
<b>Total System Sales</b>	<b>48.4</b>	<b>1.1</b>	<b>2.5 %</b>	<b>3.6</b>	<b>8.2 %</b>
<b>Degree Days Billed</b>	<b>4,975</b>	<b>65</b>	<b>1.3 %</b>	<b>298</b>	<b>6.5 %</b>

Additional energy sales data for prior years is contained in Tables 6 and 7 of "Selected Financial Data."

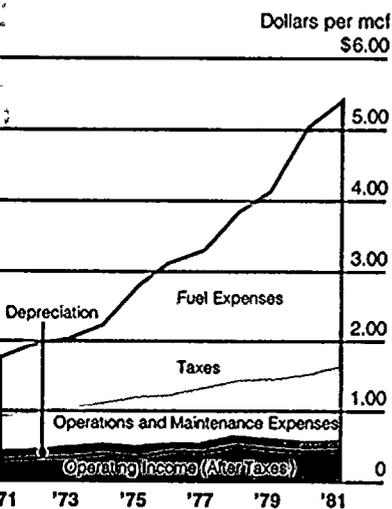
**Operations and Maintenance Expenses:** Total operations and maintenance expenses exclusive of fuels and purchased power increased \$36.8 million, or 19.4%, in 1981 to \$226.5 million and \$18.9 million, or 11.0%, in 1980 to \$189.7. Approximately 57% of these total costs in 1981 represented employee wages and benefits. The Company has 5,800 employees, about 4,200 of whom belong to either Local 1049 or Local 1381 of the International Brotherhood of Electrical Workers (A.F.L.-C.I.O.). As a result of collective bargaining negotiations between the Company and the unions in 1980, a general wage increase of 8.70% became effective July 1, 1980, and a general wage increase of 8.25% became effective July 1, 1981. The current contracts expire June 30, 1982.

#### Use of Electric Revenue



LILCO's average revenue per kWh sold has risen 333% from 2.42¢ in 1971 to 10.48¢ in 1981. About 60% of this increase has been due to the increased cost of the fuel component, which rose 896% during the period and accounted for about one-half of the revenue in 1981. This increase would have been significantly greater without the purchases of economy power, the burning of gas, and the burning of high sulfur oil through the Company's Environmental Quality Air Control system.

#### Use of Gas Revenue



LILCO's average revenue per mcf of gas sold has increased by \$3.65, or 206%, to \$5.42 in the last 10 years. Two-thirds of this increase was due to the 457% increase in the cost of gas, which now accounts for over half of the total price of gas.

About one-half of the increase in 1981 and almost all of the increase in 1980 in operations and maintenance expenses exclusive of fuels and purchased power was due to inflation. The other one-half of the increase in 1981 was due principally to additional maintenance on electric generating facilities and additional research and development expenses. Information concerning the effects of inflation on the Company's operation is contained in Note 11 of the Notes to Financial Statements. Additional expense data is contained in Table 8, and operating ratio information is contained in Table 9 of "Selected Financial Data."

**Other Items:** Other items such as depreciation, operating taxes, interest expense (both long-term and short-term) and preferred dividend requirements in aggregate increased \$92.7 million, or 21.1%, to \$531.5 million in 1981, from \$438.8 million in 1980, somewhat offset by a \$65.3 million increase in total AFC. The gain in 1980 over 1979 was \$62.7 million, or 16.7%, somewhat offset by a \$46.0 million increase in total AFC. Increases in depreciation generally result from the addition of plant in service. Increases in operating taxes are largely due to higher property taxes resulting from the addition of new plant and increased property tax rates, as well as higher state and local gross income and franchise taxes on increased revenues. Increases in interest charges and preferred stock dividends result primarily from the sale of additional securities and from increased Trust borrowings used to finance the Company's continuing construction and nuclear fuel programs. Interest charges on Trust obligations are capitalized and vary with changes in the lending rates of the Trust's credit banks. Such charges are offset by AFC related to Trust interest so there is no effect on the net income of the Company.

AFC represents the cost of borrowed funds for construction purposes and a reasonable rate upon a utility's other funds when so used. AFC, thus, represents a non-cash credit to income. The amount of AFC (including AFC corresponding to interest on Trust obligations) fluctuates from period to period with changes in the cost of money, the level of construction activity, the amount of CWIP included in rate base, and modifications in regulatory policy. The amount of electric CWIP included in rate base (on which the Company is allowed to earn a cash return in lieu of non-cash AFC) was increased, effective May 29, 1981, from \$300 million to \$400 million. The total average amount of CWIP allowed in rate base was \$358.3 million in 1981 and \$304.1 million in 1980 and 1979 including the \$309.2 million related to Shoreham in 1981 and \$255.0 million in 1980 and 1979.

LILCO AFC (excluding AFC related to Trust interest) totalled \$148.0 million in 1981, \$109.9 million in 1980, and \$80.1 million in 1979, representing 74%, 67%, and 62% of income for common stock in each year, respectively. Included in income for the years 1981, 1980, and 1979, respectively, were \$5.3 million, \$4.2 million, and \$3.8 million of AFC related to the New Haven project and \$8.4 million, \$6.4 million, and \$5.3 million of AFC for nuclear related costs for the Jamesport project. (See Note 7 of the Notes to Financial Statements.)

Changes in federal income taxes are due principally to variations in net income before income taxes, recognition of investment tax credits, and the deduction of interest on Trust obligations and items capitalized for financial statement purposes that are allowed as current deductions on the Company's tax returns. The deferral of tax benefits associated with the rate increase effective November 27, 1980, was the prime component in the increase in 1981 in the provision for federal income taxes. (See Notes 1 and 6 of the Notes to Financial Statements.)

### Capital Requirements and Liquidity

**Financial Objectives:** The electric utility industry is one of the most capital intensive industries in the world. Very large amounts of capital must be obtained to construct new generating facilities to meet customer demands for energy and, in the future, to convert existing oil-fired generating facilities to coal to reduce this nation's dependence upon imported foreign oil. To provide this capital, electric utilities customarily issue short-term debt, which is repaid periodically with the proceeds from the sale of long-term securities and from funds provided through internal cash generated from operations. A general objective in the industry is that internal cash generation from operations (as described under Capital Provided) should provide about 50% of the total funds required for construction. LILCO management concurs with this objective. LILCO's financial corporate objectives also include: (1) retirement of all short-term debt at least once a year; (2) in the normal course of events, a maximum amount of short-term debt outstanding not exceeding \$100 million unless the Company has the clear ability to refinance completely such short-term debt with long-term securities; and (3) maintenance of capitalization ratios of (a) not over 50% long-term debt, including the Trusts, (b) 10-12½% preferred and preference stock, and (c) 40-37½% common stock and retained earnings.

(1) In recent years, including 1981, the Company has essentially met these objectives, with the exception of the level of internal cash generation from operations. No short-term debt has been outstanding at least once in each of the last seven years, including at year-end 1975-1979, inclusive, and 1981. At the end of 1980, however, \$100.0 million of bank loans under the Company's \$250 million Revolving Credit Agreement and \$18.0 million of commercial paper were outstanding. At the end of 1981, the Company had short-term investments totalling \$55.2 million, including \$13.2 million invested in its financing Trusts.

(2) During 1981, 1980, and 1979, the maximum aggregate amount of bank loan and commercial paper borrowings at any one month-end was \$187.1 million at February 1981, \$126.9 million at June 1980, and \$121.7 million at August 1979. The daily averages of total bank loan and commercial paper borrowings were \$95.8 million, \$59.4 million, and \$41.8 million, respectively. The approximate weighted average interest rates (excluding the effects of compensating balances and commitment fees) on revolving credit and commercial paper borrowings were 18.2%, 14.0%, and 11.2%, respectively, in 1981, 1980, and 1979. (See Note 5 of the Notes to Financial Statements.)

(3) At December 31, 1981, the Company's capitalization ratios were: (a) 47.9% long-term debt, including the Trusts; (b) 14.2% preferred stock (no preference stock outstanding); and (c) 37.9% common stock and retained earnings.

**Capital Requirements:** Total capital requirements for 1981 and those estimated for 1982 and the total for the five years 1982-1986, inclusive, are as follows:

(Dollars in Millions)	Actual		Estimated
	1981	1982	1982-1986*
<b>LILCO Construction Requirements</b>			
Electric — Shoreham	\$ 403	\$ 439	\$ 512
— Other production	22	42	320
— Other	47	53	550
<b>Total electric</b>	<b>472</b>	<b>534</b>	<b>1,382</b>
Gas	23	18	80
Common	7	16	91
<b>Total LILCO construction (Incl. AFC)</b>	<b>502</b>	<b>568</b>	<b>1,553</b>
<b>Less AFC</b>	<b>(148)</b>	<b>(194)</b>	<b>(448)</b>
<b>Total LILCO construction (Excl. AFC)</b>	<b>354</b>	<b>374</b>	<b>1,105</b>
<b>Trust Requirements (1)</b>			
Nine Mile Point 2	94	128	519
Less capitalized interest	(50)	(62)	(257)
Nuclear fuel	21	27	186
Less capitalized interest	(20)	(17)	(93)
<b>Total construction and nuclear fuel (Excl. AFC &amp; capitalized interest)</b>	<b>399</b>	<b>450</b>	<b>1,460</b>
<b>Refunding Requirements</b>			
Senior Securities	68	84	413
Resources Trust	28	2	119
Construction Trust	—	—	500
<b>Total capital requirements (Excl. AFC)</b>	<b>495</b>	<b>536</b>	<b>2,492</b>
<b>Repay Short-term Debt</b>	<b>118</b>	<b>—</b>	<b>10</b>
<b>Short-term Investment</b>	<b>55(2)</b>	<b>—</b>	<b>185</b>
<b>Loans to BRC</b>	<b>1</b>	<b>—</b>	<b>—</b>
<b>Other</b>	<b>11</b>	<b>—</b>	<b>—</b>
<b>Total Capital Requirements (Excl. AFC and capitalized interest)</b>	<b>\$ 680</b>	<b>\$ 536</b>	<b>\$2,687</b>

(1) See Notes 4 and 7 of the Notes to Financial Statements.

(2) Includes \$13 million invested in the Trusts.

For additional data on construction expenditures for prior years, see Table 10 of "Selected Financial Data."

**Capital Provided:** The capital provided to meet LILCO's construction requirements is as follows:

(Dollars in Millions)	Actual		Estimated
	1981	1982	1982-1986
<b>External Financing — Long-term</b>			
G&R bonds	\$300	\$200	\$ 280
Preferred stock	65	—	—
Common stock			
— public sales	128	159	159
— ADRP, ESPP	32	29	149
<b>Total</b>	<b>525</b>	<b>388</b>	<b>588</b>
Trusts	45	89(3)	368
<b>Total External — Long-term</b>	<b>570</b>	<b>477</b>	<b>956</b>
Short-term Debt	—	—	10
Short-term Investment	—	42	67
Westinghouse Settlement	43	—	—
Internal Cash Generation			
from Operations (1)	19	(26)	1,392
Other Internal Funds			
Generation (2)	48	33	262
<b>Total Capital Provided</b>	<b>\$680</b>	<b>\$536</b>	<b>\$2,687</b>

- (1) Includes:
- (a) Retained earnings (net income less dividends on preferred and common stock)
  - (b) Depreciation
  - (c) Deferred and other federal income taxes
- Less:
- (d) Allowance for funds used during construction
- (2) Includes:
- (a) Other sources of funds from operations
  - (b) Changes in working capital
  - (c) Other non-cash sources (net)
- (3) Includes \$13 million to repay LILCO's investment in the Trusts.

Internal cash generation from operations provided 5% of total construction expenditures in 1981. For this purpose, construction includes (1) LILCO construction less AFC plus (2) construction expenditures of Tri-Counties Construction Trust for the Company's share of Nine Mile Point 2 less interest capitalized by the Trust plus (3) net expenditures of Tri-Counties Resources Trust for nuclear fuel less interest capitalized by the Trust. For 1982, and for the five years 1982-1986, internal cash generation from operations is estimated to provide negative 6% but average 95%, respectively, of total construction requirements (excluding AFC).

The Company's ability to continue its planned construction program, including the completion of Shoreham, depends upon the ability of the Company to sell long-term securities in planned amounts. Assuming Shoreham is adequately reflected in rates in 1983, the Company's earnings, coverages, and cash flow are expected to improve substantially. Thereafter, the Company's financial position will depend upon the extent of expenditures required to convert existing or build new generating units to burn coal.

When Shoreham begins commercial operation, the Company anticipates that fuel savings resulting from the displacement of higher cost oil with nuclear fuel will offset, in part, rates reflecting the costs of the Shoreham investment to be placed in rate base. The degree of offset will be dependent on the cost of fuel oil at that time. If the net result of Shoreham's operation would be to cause a substantial initial increase in rates, the Company may propose a rate treatment which would reduce that impact on customers. The evaluation of any proposal will be based on obtaining rate relief adequate to maintain the financial integrity of the Company.

For information with regard to the Company's actions to recover its costs in the New Haven and Jamesport nuclear projects and to protect its investment in Bokum Resources Corporation, see Note 7 of the Notes to Financial Statements.

For additional data on the Company's capitalization and other Balance Sheet items, see Table 11 of "Selected Financial Data."

For quarterly data on the market prices of the Company's securities during the past three years, see Table 12 of "Selected Financial Data."

**Balance Sheet****Assets**

At December 31 (In thousands of dollars)		1981	1980	1979
<b>Utility Plant</b>	Electric	\$1,705,033	\$1,647,627	\$1,568,311
	Gas	319,534	296,604	284,467
	Common	77,425	75,105	72,351
	Construction work in progress	2,153,832	1,757,898	1,444,631
	Nuclear fuel in process	36	13	—
	Construction and nuclear fuel in trusts	406,542	318,649	242,201
		<u>4,662,402</u>	<u>4,095,896</u>	<u>3,611,961</u>
	Less — Accumulated depreciation, depletion and amortization	620,616	573,765	526,992
	<u>Total Net Utility Plant</u>	<u>4,041,786</u>	<u>3,522,131</u>	<u>3,084,970</u>
<b>Other Property and Investments</b>	Nonutility property, principally at cost	2,863	1,694	1,879
	Investment in subsidiary companies, at equity	547	398	379
	Other investments and deposits	58,773	54,870	74,731
	<u>Total Other Property and Investments</u>	<u>62,183</u>	<u>56,962</u>	<u>76,989</u>
<b>Current Assets</b>	Cash	10,023	5,910	8,620
	Temporary cash investments	42,200	200	3,480
	Special deposits	602	1,579	12,427
	Accounts receivable (less allowance for doubtful accounts of \$4,342,000, \$3,188,000 and \$3,147,000)	155,620	142,522	115,855
	Accrued revenue on accounts billed bimonthly	19,553	16,117	13,867
	Materials and supplies at average cost	27,736	27,808	24,605
	Fuel oil at average cost	68,662	50,149	42,320
	Gas in storage at average cost	36,145	27,926	24,323
	Prepayments	1,318	1,167	1,205
	<u>Total Current Assets</u>	<u>361,859</u>	<u>273,378</u>	<u>246,708</u>
<b>Deferred Charges</b>	Electric fuel cost adjustment deferred	4,188	39,219	22,709
	Other	38,136	26,056	28,210
	<u>Total Deferred Charges</u>	<u>42,324</u>	<u>65,275</u>	<u>50,919</u>
	<u>Total Assets</u>	<u>\$4,508,152</u>	<u>\$3,917,746</u>	<u>\$3,459,582</u>

See Notes to Financial Statements.

**Report of Independent Accountants**

To the Shareowners and Board of Directors of Long Island Lighting Company

In our opinion, the financial statements appearing on pages 20 to 31 present fairly the financial position of Long Island Lighting Company at December 31, 1981, 1980 and 1979, and the results of its operations and the changes in its financial position for each of the five years of the period ended December 31, 1981, 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

Jericho, New York  
February 1, 1982

**Capitalization and Liabilities**

December 31 (In thousands of dollars)	1981	1980	1979
<b>Capitalization</b>			
Long-term debt	\$1,492,629	\$1,264,677	\$1,274,722
Unamortized premium and (discount) on debt	(2,349)	(39)	24
	<u>1,490,280</u>	<u>1,264,638</u>	<u>1,274,746</u>
Preferred stock — redemption required	414,650	361,250	294,100
Preferred stock — no redemption required	158,083	158,968	160,090
Treasury stock at cost	(569)	(186)	—
Total Preferred Stock	<u>572,164</u>	<u>520,032</u>	<u>454,190</u>
Common stock	406,853	349,907	301,116
Premium on capital stock	724,241	619,333	520,324
Capital stock expense	(42,107)	(35,140)	(30,138)
Retained earnings	439,285	391,113	346,001
Total Common Shareowners' Equity	<u>1,528,272</u>	<u>1,325,213</u>	<u>1,137,303</u>
Total Capitalization	<u>3,590,716</u>	<u>3,109,883</u>	<u>2,866,239</u>
<b>Trust Obligations</b>	<u>439,425</u>	<u>348,935</u>	<u>287,308</u>
<b>Current Liabilities</b>			
Current maturities of long-term debt	72,048	60,044	20,040
Sinking fund requirements on preferred stock	11,600	7,850	7,850
Notes payable	—	118,000	24,836
Accounts payable	152,930	110,306	96,383
Accrued taxes, (including federal income tax of \$2,307,000, \$2,062,000 and \$2,092,000)	28,526	38,762	32,467
Accrued interest	40,216	27,820	22,195
Customer deposits	9,769	8,606	8,080
Dividends payable	46,104	36,515	30,864
Total Current Liabilities	<u>361,193</u>	<u>407,903</u>	<u>242,715</u>
<b>Deferred Credits</b>			
Accumulated deferred income tax reductions	106,795	43,821	55,698
Other	6,091	2,239	1,661
Total Deferred Credits	<u>112,886</u>	<u>46,060</u>	<u>57,359</u>
<b>Reserves for Claims and Damages</b>	<u>3,932</u>	<u>4,965</u>	<u>5,961</u>
<b>Commitments and Contingencies</b>	<u>—</u>	<u>—</u>	<u>—</u>
<b>Total Capitalization and Liabilities</b>	<u>\$4,508,152</u>	<u>\$3,917,746</u>	<u>\$3,459,582</u>

See Notes to Financial Statements.

## Statement of Income

For Year Ended December 31 (In thousands of dollars)	1981	1980	1979	1978	1977
<b>Revenues</b>					
Electric	\$1,402,719	\$1,039,666	\$ 860,798	\$ 738,339	\$ 682,9
Gas	262,113	237,272	184,700	160,632	141,0
<b>Total Revenues</b>	<b>1,664,832</b>	<b>1,276,938</b>	<b>1,045,498</b>	<b>898,971</b>	<b>824,0</b>
<b>Expenses</b>					
Operations — fuel and purchased power	865,352	651,726	478,416	365,307	350,4
Operations — other	158,267	132,207	118,644	104,384	97,2
Maintenance	68,253	57,503	52,206	44,660	40,9
Depreciation, depletion and amortization	60,065	56,668	54,060	51,192	45,0
Operating taxes	198,979	172,916	153,706	141,160	131,5
Federal income tax — current	(1,008)	(2,915)	(2,267)	7,297	7,8
Federal income tax — deferred and other	89,036	14,205	19,749	24,183	15,3
<b>Total Expenses</b>	<b>1,438,944</b>	<b>1,082,310</b>	<b>874,514</b>	<b>738,183</b>	<b>688,4</b>
<b>Operating Income</b>	<b>225,888</b>	<b>194,628</b>	<b>170,984</b>	<b>160,788</b>	<b>135,6</b>
<b>Other Income and (Deductions)</b>					
Allowance for other funds used during construction	113,648	80,993	58,086	47,294	44,6
Other income and (deductions)	(1,084)	5,002	4,129	(1,026)	(1,
Federal income tax credit — current	(1,128)	(2,985)	(2,417)	3,498	4,9
Federal income tax credit — deferred and other	29,855	24,910	17,855	9,471	11,6
<b>Total Other Income and (Deductions)</b>	<b>141,291</b>	<b>107,920</b>	<b>77,653</b>	<b>59,237</b>	<b>61,1</b>
<b>Income Before Interest Charges</b>	<b>367,179</b>	<b>302,548</b>	<b>248,637</b>	<b>220,025</b>	<b>196,7</b>
<b>Interest Charges and (Credits)</b>					
Interest on long-term debt	134,174	113,679	101,889	91,195	80,5
Other interest	19,631	12,710	7,119	5,720	5,0
Allowance for borrowed funds used during construction	(34,358)	(28,859)	(22,034)	(18,883)	(21,1
Interest capitalized by trusts	69,876	42,730	26,496	3,562	
Allowance for borrowed funds used during construction — trusts	(69,876)	(42,730)	(26,496)	(3,562)	
<b>Total Interest Charges and (Credits)</b>	<b>119,447</b>	<b>97,530</b>	<b>86,974</b>	<b>78,032</b>	<b>64,4</b>
<b>Net Income</b>	<b>247,732</b>	<b>205,018</b>	<b>161,663</b>	<b>141,993</b>	<b>132,3</b>
Preferred stock dividend requirements	48,830	40,103	32,851	30,688	27,7
<b>Income for Common Stock</b>	<b>\$ 198,902</b>	<b>\$ 164,915</b>	<b>\$ 128,812</b>	<b>\$ 111,305</b>	<b>\$ 104,59</b>
<b>Average Common Shares Outstanding — (000)</b>	<b>77,988</b>	<b>65,138</b>	<b>53,366</b>	<b>45,670</b>	<b>40,38</b>
<b>Earned per Common Share</b>	<b>\$ 2.55</b>	<b>\$ 2.53</b>	<b>\$ 2.41</b>	<b>\$ 2.44</b>	<b>\$ 2.5</b>
<b>Dividends Declared per Common Share</b>	<b>\$ 1.92</b>	<b>\$ 1.84</b>	<b>\$ 1.76</b>	<b>\$ 1.70</b>	<b>\$ 1.6</b>

See Notes to Financial Statements.

## Shareowners' Equity

December 31 (In thousands of dollars)	1981	1980	1979	1978	1977
<b>Statement of Retained Earnings</b>					
Balance, January 1	\$ 391,113	\$ 346,001	\$ 311,838	\$ 279,157	\$ 242,147
Added — Net income for the year	247,732	205,018	161,663	141,993	132,310
Less — Cost of issuance of retired preferred stock	—	—	—	—	1,335
Less — Capital stock expense	1	1	1	—	—
Less — Cash dividends declared:					
Preferred stock	49,289	39,701	32,215	30,651	27,223
Common stock	150,270	120,204	95,284	78,661	66,742
Balance, December 31	\$ 439,285	\$ 391,113	\$ 346,001	\$ 311,838	\$ 279,157
<b>Common Stock Par Value \$5 per Share</b>					
Shares authorized	110,000,000	80,000,000	80,000,000	80,000,000	60,000,000
Shares issued and outstanding	81,370,597	69,981,436	60,223,283	51,414,352	44,041,453
Increase in shares outstanding	11,389,161	9,758,153	8,808,931	7,372,899	6,402,068
Increases in \$5 Par Value	\$ 56,946	\$ 48,791	\$ 44,044	\$ 36,865	\$ 32,010
Increases in Premium on capital stock	104,908	99,009	77,971	91,124	88,348
Increases in Capital stock expense	6,967	5,002	1,817	1,211	8,713
<b>Preferred Stock</b>					
<b>Par Value \$100 per Share, Cumulative:</b>					
Shares authorized	7,000,000	5,050,000	5,050,000	5,050,000	5,050,000
Shares issued and outstanding	3,633,330	3,700,675	3,770,403	3,064,993	3,024,360
Shares subscribed	—	—	—	—	70,000
1% Series B	\$ 10,000	\$ 10,000	\$ 10,000	\$ 10,000	\$ 10,000
2.5% Series D	7,000	7,000	7,000	7,000	7,000
3.5% Series E	20,000	20,000	20,000	20,000	20,000
3.5% Series F	5,000	5,000	5,000	5,000	5,000
3% Series H	20,000	20,000	20,000	20,000	20,000
4% Series I Convertible	6,083	6,968	8,090	11,499	14,436
12% Series J	25,000	25,000	25,000	25,000	25,000
30% Series K	30,000	30,000	30,000	30,000	30,000
40% Series L*	31,850	32,900	33,950	35,000	35,000
40% Series M*	35,000	35,000	35,000	35,000	35,000
50% Series Q*	38,400	43,200	48,000	48,000	48,000
50% Series R*	60,000	60,000	60,000	60,000	60,000
30% Series S*	75,000	75,000	75,000	—	—
Total Par Value \$100	\$ 363,333	\$ 370,068	\$ 377,040	\$ 306,499	\$ 309,436
<b>Par Value \$25 per Share, Cumulative:</b>					
Shares authorized	14,400,000	7,200,000	7,200,000	7,200,000	7,200,000
Shares issued and outstanding	8,840,000	6,310,000	3,400,000	3,400,000	3,400,000
Shares held in treasury	34,800	10,000	—	—	—
1.47 Series O*	\$ 46,000	\$ 48,000	\$ 50,000	\$ 50,000	\$ 50,000
1.43 Series P	35,000	35,000	35,000	35,000	35,000
1.31 Series T*	75,000	75,000	—	—	—
1.25 Series U*	65,000	—	—	—	—
Total Par Value \$25	221,000	158,000	85,000	85,000	85,000
Less — Sinking fund requirements	11,600	7,850	7,850	1,050	—
Less — Treasury stock at cost	569	186	—	—	—
Total Preferred Stock	\$ 572,164	\$ 520,032	\$ 454,190	\$ 390,449	\$ 394,436

See Notes to Financial Statements.  
 Redemption required, see Note 3.

## Statement of Changes in Financial Position

For Year Ended December 31 (In thousands of dollars)	1981	1980	1979	1978	1977
<b>Source of Funds</b>					
<b>Operations</b>					
Net income	\$ 247,732	\$ 205,018	\$ 161,663	\$ 141,993	\$ 132,300
Principal noncash charges and (credits) to income:					
Depreciation, depletion and amortization	60,070	56,668	54,060	51,192	45,000
Deferred and other federal income taxes	59,181	(10,705)	1,894	14,712	3,600
Allowance for funds used during construction	(148,006)	(109,852)	(80,120)	(66,177)	(65,800)
Other	8,473	9,145	9,023	8,478	7,200
Interest capitalized by trusts	69,876	42,730	26,496	3,562	—
Allowance for borrowed funds used during construction — trusts	(69,876)	(42,730)	(26,496)	(3,562)	—
<b>Funds Provided from Operations</b>	<b>227,450</b>	<b>150,274</b>	<b>146,520</b>	<b>150,198</b>	<b>122,400</b>
<b>Long-term Financing</b>					
Long-term debt	300,000	50,000	119,100	75,287	85,000
Preferred stock	65,399	75,114	75,000	—	108,000
Common stock	161,409	147,676	121,999	127,862	120,300
Trust obligations	90,490	61,628	97,705	159,603	30,000
<b>Other</b>					
Increase in short-term debt	—	93,164	24,836	—	—
Decrease in working capital	—	45,353	—	29,534	70,000
Other sources	12,824	27,337	2,719	2,046	6,180
<b>Total Source of Funds</b>	<b>\$ 857,572</b>	<b>\$ 650,546</b>	<b>\$ 587,879</b>	<b>\$ 544,530</b>	<b>\$ 472,740</b>
<b>Use of Funds</b>					
Construction expenditures	\$ 501,894	\$ 422,473	\$ 392,062	\$ 292,519	\$ 359,400
Nuclear fuel expenditures	23	13	(3,675)	(42,169)	23,900
Construction and nuclear fuel in trusts	87,893	76,448	76,698	165,503	—
Less — Allowance for funds used during construction (AFC)	148,006	109,852	80,120	66,177	65,800
Construction and Nuclear fuel expenditures, less AFC	441,804	389,082	384,965	349,676	317,500
Dividends on preferred stock	49,289	39,701	32,215	30,651	27,200
Dividends on common stock	150,270	120,205	95,284	78,661	66,700
Reduction of long-term debt	72,048	60,044	20,040	—	—
Preferred stock conversions and retirements	12,867	9,159	11,259	2,937	44,900
Decrease in short-term debt	118,000	—	—	—	—
Increase in working capital	17,191	—	13,749	—	—
Electric fuel cost adjustment deferred	(35,031)	16,510	14,578	(6,801)	(80,000)
Other investments and deposits	3,903	—	6,632	67,646	20,000
Capital stock expense	8,144	6,179	2,994	2,388	8,700
Cost of removal	3,797	4,638	2,367	4,074	1,500
Other uses	15,290	5,028	3,796	15,298	6,600
<b>Total Use of Funds</b>	<b>\$ 857,572</b>	<b>\$ 650,546</b>	<b>\$ 587,879</b>	<b>\$ 544,530</b>	<b>\$ 472,740</b>
<b>Increase (Decrease) in Working Capital by Element</b>					
Cash	\$ 4,113	\$ (2,715)	\$ 1,405	\$ (1,126)	\$ (60,000)
Temporary cash investments	42,000	(3,280)	480	3,000	—
Special deposits	(977)	(10,848)	9,519	(2,746)	(9,200)
Accounts and notes receivable	13,098	26,668	(25,190)	45,791	9,500
Accrued revenue	3,436	2,250	2,822	523	—
Materials, supplies, gas in storage and fuel	26,660	14,635	28,022	(4,315)	4,400
Prepayments	151	(39)	187	(126)	—
Current maturities on long-term debt	(12,004)	(40,004)	(20,003)	(37)	—
Sinking fund requirement on preferred stock	(3,750)	—	(6,800)	(1,050)	—
Accounts payable	(42,624)	(13,923)	32,902	(58,585)	(60,000)
Accrued taxes	10,236	(6,295)	(1,064)	(4,591)	(70,000)
Accrued interest	(12,396)	(5,625)	(3,696)	(2,584)	(1,700)
Customer deposits	(1,163)	(526)	45	174	800
Dividends payable	(9,589)	(5,651)	(4,880)	(3,862)	(3,100)
<b>Net Increase (Decrease)</b>	<b>\$ 17,191</b>	<b>\$ (45,353)</b>	<b>\$ 13,749</b>	<b>\$ (29,534)</b>	<b>\$ (70,000)</b>

See Notes to Financial Statements

**Note 1. Summary of Significant Accounting Policies**

The accounting records of the Company are maintained in accordance with the Uniform Systems of Accounts prescribed by the Public Service Commission of the State of New York (PSC) and the Federal Energy Regulatory Commission (FERC).

**Utility Plant**

Additions to and replacements of utility plant are recorded at original cost, which includes material, labor, overheads, and an allowance for the cost of funds used during construction (AFC). The cost of renewals and betterments relating to units of property is added to utility plant. The cost of property replaced, retired, or otherwise disposed of is deducted from utility plant and, generally, together with dismantling costs less any salvage, is charged to accumulated depreciation. The cost of repairs and minor renewals is charged to maintenance expense. Mass properties (such as poles, wire, and meters) are accounted for on an average unit cost basis by year of installation.

**Allowance for Funds Used During Construction**

The Uniform Systems of Accounts define AFC, which is not an item of current cash income, as the net cost of borrowed funds for construction purposes and a reasonable rate upon the utility's other funds when so used. AFC is computed monthly on that portion of construction work in progress (CWIP) which is not included in the Company's rate base. The Company computes AFC on its Shoreham Unit at a rate which reflects the income tax effect of the interest portion of AFC. In 1978, the Company adopted the FERC method for calculating AFC.

The average annual AFC rate, without giving effect to compounding or the reduced Shoreham net of tax rate, was 9.38%, 9.72%, 9.99%, 10.54%, and 11.52% for the years 1977 through 1981, respectively. The Shoreham net of tax annual AFC rate, without giving effect to compounding, was 7.63%, 7.93%, 8.21%, 8.70%, and 9.69% for the years 1977 through 1981, respectively.

In compliance with a FERC order, the Company allocates the portion of AFC relating to borrowed funds to the Interest Charges and (Credits) section of the Statement of Income.

**Depreciation**

The provisions for depreciation result from the application of straight-line rates to the original cost, by groups, of depreciable properties in service. The rates are determined by annual age-life studies of depreciable properties. Depreciation accruals were equivalent to 3.2% for electric and 2.3% for gas of respective average depreciable plant costs for the five years 1977 through 1981.

**Revenues**

Revenues are recorded when billed. Billings are rendered on a monthly or bimonthly cycle basis. The Company accrues estimated revenues for customers billed bimonthly in the month in which they normally are not billed.

The Company's tariffs for electric service include a fuel adjustment clause under which electric rates charged to most customers are adjusted to reflect changes in the average cost of fuels and of certain purchased power costs. The Company's tariffs for gas service contain a comparable clause.

**Deferred Fuel Cost Adjustments**

The Electric Fuel Cost Adjustment represents the difference between actual fuel costs and the fuel costs allowed in the Company's base tariff rates. The Company, to achieve a proper

matching of costs and revenues, defers this difference along with the related income tax effects to those future periods in which it will be billed to customers. The Company's tariffs for gas service contain comparable adjustments. The Company believes that the PSC will continue to permit the recovery of deferred fuel costs.

**Federal Income Taxes**

The Company's general policy is to reflect as income tax expense the amount of income taxes currently payable; however, in certain instances authorized by the PSC, provision is made for income tax effects of the differences between net income before income taxes and taxable income, as disclosed in Note 6.

The major items which are part of the deferred tax provision are as follows:

- Income tax deductions for reduced depreciation lives permitted by the Revenue Act of 1971.
- Income tax deductions for deferred fuel cost.
- Income tax deductions associated with cancelled nuclear projects at Jamesport and New Haven.
- Income tax deductions for interest on amounts financed through the Company's Tri-Counties Construction and Resources Trusts.
- Income tax deductions for real property taxes and certain construction costs associated with Shoreham.
- Income tax deductions for increased tax depreciation on post-1980 asset additions mandated by the Economic Recovery Tax Act of 1981.
- The increases in investment tax credits under the Tax Reduction Act of 1975.

Investment tax credits allowable under the Revenue Act of 1971 are accounted for as a reduction of federal income tax expense. The basis of accounting for these credits was modified by PSC rate orders, the effect of which has been to recognize a cumulative total of \$13,422,000 of additional credits for financial accounting and rate-making purposes for the three years ended 1980. (See Note 6.) The balance is being amortized over 36 months beginning in June 1981. The utilization of such additional credits for tax purposes, however, continues to be subject to the provisions of the Internal Revenue Code.

**Capitalization-Premiums, Discounts, and Expenses**

Premiums or discounts and expenses related to the issuance of long-term debt are amortized over the lives of the issues. Capital stock expense related to that portion of preferred stock required to be redeemed is written-off as an adjustment to retained earnings or, if redeemed below par value, as a gain on reacquired capital stock in Premium on capital stock. Such gain was \$513,000 and \$114,000 at the end of 1981 and 1980, respectively.

**Reserves for Claims and Damages**

Losses arising from claims against the Company, from extraordinary storm losses, and from certain equipment damage are partially self-insured. Provisions to the reserves are based upon experience, risk of loss, and/or specific orders of the PSC.

**Note 2. Retirement Plan**

The Company maintains a pension plan which covers most employees. The total costs related to the plan were \$14,418,000, \$12,946,000, \$11,694,000, \$10,732,000, and \$9,712,000 for the years 1981 through 1977 (of which \$3,901,000, \$3,699,000, \$3,344,000, \$2,904,000, and \$2,826,000 were included in construction costs), respectively. The costs are determined as the amount needed to meet current service costs and to amortize unfunded past service costs over a 30 year period. All pension costs are borne by the Company. The Company makes annual contributions to the plan equal to

the amounts accrued for costs related to the plan. A comparison of accumulated plan benefits and plan net assets for the Company's defined benefit plan is presented below:

	1981	January 1, 1980	1979
Actuarial present value of accumulated plan benefits:			
Vested	\$214,726,000	\$192,491,000	\$179,758,000
Nonvested	8,203,000	6,175,000	5,527,000
Total	\$222,929,000	\$198,666,000	\$185,285,000
Net assets available for benefits	\$190,322,000	\$166,225,000	\$150,184,000

The weighted average assumed rate of return used in determining the actuarial present value of accumulated plan benefits was 6% for all years.

In addition to the retirement plan, in 1981 the Company began providing, without contribution from such employees, supplemental death and retirement benefits for officers and other key executives. Death benefits are currently provided by insurance; retirement benefits, which are not available until 1986, are unfunded. The unfunded liability for these benefits for the year 1981 is immaterial.

### Note 3. Capital Stock

Of the 110,000,000 shares of authorized common stock, 543,337 shares were reserved for sale to employees, 6,065,107 shares were committed to the Automatic Dividend Reinvestment Plan, and 334,415 shares were reserved for conversion of the Series I Convertible Preferred Stock at \$18.19 per share. The Series I Convertible Preferred Stock is not considered, under generally accepted accounting principles, to have a dilutive effect on earnings per share.

In December 1977, the Company refunded its 13% Series N Preferred Stock with the issuance of 7.50% Series Q Preferred Stock. In accordance with a PSC order, the cost of issuance of Series N was charged to Retained Earnings and the cost of issuance of Series Q and the \$8,000,000 call premium of Series N was charged to Capital Stock Expense and is being amortized and recovered in the Company's rates over seven years, the term of the Series Q issue.

Redemption of Series L, M, O, Q, R, S, T, and U Preferred Stock is provided for through varying sinking fund provisions, certain of which commenced in 1979. The aggregate amount of preferred stock required to be redeemed in each of the years 1982 through 1986 is \$11,600,000, \$11,600,000, \$38,038,000, \$10,638,000, and \$13,638,000, respectively.

In 1980, the shareowners eliminated their mandatory preemptive rights and authorized a new class of non-participating Preference Stock, par value \$1 per share, ranking junior to the Preferred Stock.

### Note 4. Trust Obligations

The Company has arrangements with Tri-Counties Resources Trust and Tri-Counties Construction Trust to finance, respectively, the Company's nuclear fuel program and its share of the costs of construction of a nuclear plant, Nine Mile Point 2. The Resources Trust and the Construction Trust are primarily financed by revolving credit loans which, together with certain term loans, provide for borrowings of up to \$135,000,000 and \$300,000,000, respectively, which have been fully utilized at December 31, 1981. The aggregate Trust Obligations of \$439,425,000 at December 31, 1981 includes \$4,425,000 of accrued interest. Company loans to the Resources Trust and Construction Trust totaled \$8,582,000 and \$4,636,000, respectively, at December 31, 1981. The revolving credit loan of the Resources Trust matures in September 1985 and provides

that the maturity date automatically will be extended by one additional year each September unless the lending banks decline in writing. The Construction Trust loan is payable according to a repayment schedule beginning not earlier than March 31, 1985, and ending not later than June 30, 1988. The Trusts may, with available funds not immediately needed for such financing, make certain investments, including investments in the Company's promissory notes. The Trusts' total obligation of \$439,425,000 at December 31, 1981, is comprised of \$394,325,000 for financing construction and nuclear fuel expenditures and \$45,100,000 invested in the Company for general corporate purposes.

The Company is obligated to purchase nuclear fuel owned by the Resources Trust, or heat from such fuel. Similarly, the Company is obligated to reimburse the Construction Trust for nuclear fuel and construction just prior to Nine Mile Point 2 going into operation. Upon termination of either Trust, the Company is obligated to purchase the Trust assets.

The Resources Trust's interest on borrowings in 1981 was calculated principally at 105% of the prevailing prime rate. In 1981, the Construction Trust's interest was calculated at 105% (during the first six months) and at 108% (during the last six months) of the prevailing prime rate. The Trusts' interest costs on borrowings utilized to finance construction and nuclear fuel are reflected in the Company's Construction and Nuclear Fuel in Trust accounts and are deducted currently for tax purposes on the Company's tax return. The Company has negotiated additional credit as well as alternative and lower borrowing rates for both Trusts that are expected to become effective early in 1982.

The Trusts' average annual interest rates (excluding commitment fees) on average borrowings of \$381,614,000, \$314,360,000, \$231,500,000, and \$69,062,000 (excluding loans from the Company) outstanding during the years 1981, 1980, 1979, and 1978 were 19.4%, 15.6%, 13.2%, and 10.6%, respectively. Of the total average borrowings, \$45,100,000, \$45,100,000, \$35,018,000, and \$39,303,000 related to general corporate purposes for the respective periods.

### Note 5. Short-term Loans and Compensating Balances

The Company has authority from FERC to issue up to a total of \$400,000,000 in notes to banks and commercial paper. The Company has a Revolving Credit Agreement with several banks permitting the Company to borrow up to \$250,000,000 through January 24, 1985. Borrowings are at a fluctuating interest rate equal to each participating bank's prime or alternate base rate until January 1982, and thereafter at 105% of such rate until maturity. In addition, the Company pays a commitment fee of 1/2 of 1% per annum on the average daily unused portion of each bank's commitment. The Company maintains compensating balances, which are not legally restricted, averaging 5% of each bank's commitment, or at the Company's option, provides a combination of equivalent balances and fees in lieu thereof. The Revolving Credit Agreement is used to back up 100% of the commercial paper outstanding.

Net of average "float", compensating balances at December 31, 1981 amounted to approximately \$3,102,000. There were no borrowings from banks outstanding at December 31, 1981 and \$100,000,000 outstanding at December 31, 1980.

Commercial paper is issued at various discount rates and usually matures within 30 to 45 days. No commercial paper was outstanding at December 31, 1981 and \$18,000,000 was outstanding at December 31, 1980. No commercial paper or borrowings from banks were outstanding at December 31, 1979.

**Note 6. Federal Income Taxes**

The Federal income tax amounts included in the Statement of Income differ from the amounts which result from applying the statutory Federal income tax rate to Net Income before income tax. The reasons are as shown below:

(In thousands of dollars)	1981		1980		1979		1978		1977	
	Amount	% of Pre-tax Income	Amount	% of Pre-tax Income	Amount	% of Pre-tax Income	Amount	% of Pre-tax Income	Amount	% of Pre-tax Income
Federal income tax, per Statement of Income — current	\$ (1,008)		\$ (2,915)		\$ (2,267)		\$ 7,297		\$ 7,860	
Included in other income and deductions — current	1,128		2,985		2,417		(3,498)		(4,973)	
<b>Total Current</b>	<b>120</b>		<b>70</b>		<b>150</b>		<b>3,799</b>		<b>2,887</b>	
Deferred and other (See Note 1)										
Accelerated tax depreciation	(1,967)		4,740		2,010		692		662	
Fuel cost adjustments	(7,072)		5,330		1,502		(3,604)		(1,309)	
Investment tax credits — Tax Reduction Act of 1975	32,568		38		2,385		11,461		6,328	
Interest capitalized by Trusts	18,038		—		—		—		—	
Shoreham overheads	7,196		—		—		—		—	
Westinghouse settlement	(2,847)		—		—		—		—	
Cancelled nuclear projects	(24,743)		31,060		—		—		—	
Tax benefit of net operating loss	42,283		(45,390)		(782)		—		—	
Additional investment tax credits	5,911		(10,512)		(5,007)		2,097		—	
Other items, net	(10,186)		4,029		1,786		4,066		(2,025)	
<b>Total Deferred</b>	<b>59,181</b>		<b>(10,705)</b>		<b>1,894</b>		<b>14,712</b>		<b>3,656</b>	
<b>Total</b>	<b>59,301</b>		<b>(10,635)</b>		<b>2,044</b>		<b>18,511</b>		<b>6,543</b>	
<b>Net income</b>	<b>247,732</b>		<b>205,018</b>		<b>161,663</b>		<b>141,993</b>		<b>132,310</b>	
<b>Income Before Taxes</b>	<b>\$307,033</b>		<b>\$194,383</b>		<b>\$163,707</b>		<b>\$160,504</b>		<b>\$138,853</b>	
Statutory Federal income tax	\$141,235	46.0%	\$ 89,416	46.0%	\$ 75,305	46.0%	\$ 77,042	48.0%	\$ 66,649	48.0%
Reductions in Federal income tax resulting from:										
Excess of tax depreciation over book depreciation	(2,402)	(0.8)	(2,808)	(1.4)	(4,147)	(2.5)	(6,830)	(4.3)	(10,967)	(7.9)
AFC, which does not constitute taxable income	(68,093)	(22.2)	(50,526)	(26.0)	(36,855)	(22.5)	(31,765)	(19.8)	(31,585)	(22.7)
Costs charged to plant but deducted currently	(2,973)	(1.0)	(12,105)	(6.2)	(11,567)	(7.1)	(10,142)	(6.3)	(10,143)	(7.3)
Property taxes deducted on a lien date basis	(4,428)	(1.4)	(4,655)	(2.4)	(961)	(0.6)	(2,266)	(1.4)	(1,911)	(1.4)
Interest capitalized by Trusts	1,832	0.6	(17,964)	(9.3)	(12,262)	(7.5)	(1,666)	(1.0)	—	—
Investment tax credits	(9,758)	(3.2)	(11,632)	(6.0)	(9,811)	(6.0)	(5,973)	(3.7)	(10,257)	(7.4)
Other items, net	3,878	1.3	(361)	(0.2)	2,342	1.4	111	—	4,757	3.4
<b>Total Federal income tax expense</b>	<b>\$ 59,301</b>	<b>19.3%</b>	<b>\$ (10,635)</b>	<b>(5.5)%</b>	<b>\$ 2,044</b>	<b>1.2%</b>	<b>\$ 18,511</b>	<b>11.5%</b>	<b>\$ 6,543</b>	<b>4.7%</b>

Certain originating timing differences included in the deferred income tax provision above are in part shown net of investment tax credit. In addition, the year 1981 reflects \$33,800,000 of unused investment tax credit offset against previously existing deferred tax credit balances.

At December 31, 1981, the Company had an investment tax credit carryforward for financial statement purposes, in accordance with PSC orders, of approximately \$81,500,000. In accordance with the Company's accounting policy, approximately \$62,700,000 of the carryforward will be deferred when recognized. The amount of ITC carryforward available as credits to tax returns for years after 1980 is \$149,600,000. These credits expire by 1996. Furthermore, the Company has net operating losses of approximately \$16,000,000 for tax return purposes which expire by 1995.

**Note 7. Commitments and Contingencies****Nuclear Power Plants**

The Company is constructing a nuclear plant at Shoreham, N.Y. and has an 18 percent share in Nine Mile Point 2, under construction by Niagara Mohawk Power Corp. in Oswego, N.Y. The Shoreham plant is currently scheduled to begin commercial operation in 1983 at an estimated total cost of \$2.5 billion. Nine Mile Point 2 is currently scheduled to begin commercial operation in 1986, with the Company's share of that project estimated to be \$925 million. Both estimates are exclusive of nuclear fuel.

Operation of each nuclear plant is subject to receipt of an operating license. Hearings on the issuance of the operating license for Shoreham are expected to begin in mid-1982. Further delays in the schedule as well as increased costs for completion may be encountered before commercial operation of Shoreham can begin. Consequently, current estimates of the

total cost of the Shoreham project remain subject to continuing review and revision. Approximately \$1.98 billion has been spent on the project through December 31, 1981.

Consulting engineers selected by the PSC to provide an independent assessment of the Nine Mile Point 2 project have concluded that schedule slippage of a year beyond 1986 for the commercial operation of the plant is likely and that future regulatory and economic uncertainties exist which could add significantly to the ultimate cost and the time required for completion of the project. Approximately \$295.0 million has been spent by the Company for its share of the project through December 31, 1981.

The PSC is presently conducting separate proceedings respecting the Shoreham and Nine Mile Point 2 plants. The Shoreham proceeding is reviewing the prudence of the total project costs. The Company is unable to evaluate the likelihood of an unfavorable outcome of the proceeding or to estimate the financial impact, if any, upon the Company. The Company

believes that the PSC will support the Company's efforts to complete Shoreham at the earliest possible date and that it can demonstrate to the PSC that the costs of Shoreham have been prudently incurred. The Nine Mile Point 2 proceeding will consider the financial requirements and economic impact of completing the project. The report with respect to Nine Mile Point 2 is expected in early 1982.

#### **Nuclear Fuel**

Expenditures for procurement of nuclear fuel, including advances for the purchase of uranium concentrates from Bokum Resources Corporation, (BRC), totaled \$111.6 million at December 31, 1981.

#### **Bokum Resources Corporation**

In 1976 and 1978, the Company made long-range commitments with BRC to purchase ten million pounds of uranium concentrates. Furthermore, the Company agreed to provide loans to BRC for the development of a uranium mine and ore-processing mill in New Mexico. BRC did not deliver the uranium concentrates as agreed and is in default under certain provisions of its contracts with the Company. On June 12, 1981, the Company and several other creditors of BRC petitioned a United States Bankruptcy Court for a reorganization of BRC under Chapter 11 of the United States Bankruptcy Code. An order granting the petition for bankruptcy was filed by the Court on December 21, 1981, and BRC has filed an appeal. In response to the petition for reorganization, BRC filed counterclaims against the petitioning creditors including the Company, for \$1.05 billion in the aggregate and reasserted the counterclaims against the Company for \$710 million previously alleged in an action commenced by the Company in November 1980 to foreclose the Company's interest in the BRC mine and mill properties. An order dismissing the counterclaims for \$1.05 billion against the petitioning creditors was also granted in December 1981 without prejudice. While the Company believes that both its claims against BRC and its defenses against the BRC counterclaims are meritorious, no assurance can be given as to the outcome of the litigation determining the Company's claims and BRC's counterclaims.

BRC has suspended all construction. The mill is virtually completed but construction of tailings disposal facilities would be required to comply with licensing requirements. As part of a plan to preserve the BRC properties, water pumps and equipment were removed from the partially completed mine, resulting in some water intrusion in the shaft. A significant additional investment will be required to start up construction activity and to complete the mine and mill.

The eventual disposition of the Company's investment in BRC and the viability of BRC as a source of nuclear fuel depend on many factors, including the market price for uranium. At present, the estimated cost to mine and mill uranium from BRC's properties substantially exceeds the spot-market price of uranium.

The Company's ability to recover its loans and advances to BRC through liquidation of the BRC properties or by completing and operating the mine and mill properties is dependent upon an increase in the market price for uranium to levels substantially higher than the 1978 market price levels. The Company believes that market conditions for uranium will begin to improve in the mid-1980's, but no assurance can be given that this will occur as expected, or that price levels will rise to a point where the operation of the mine and mill will be economically viable.

At December 31, 1981, the Company's claims against BRC totaled approximately \$82.3 million, including \$20 million of advance payments to BRC for uranium concentrates. Interest capitalized on these advance payments totaled approximately \$16.7 million. The Company ceased accruing further interest on its loans to BRC after filing of the bankruptcy petition in June 1981. However, interest continues to be capitalized on the advance payments. The Company has deferred interest in 1981 prior to the filing of the bankruptcy petition on substantially all of the BRC moneys and has applied to the PSC for approval of such accounting treatment.

To the extent that the moneys advanced or loaned to BRC or the interest capitalized on non-interest bearing advances are not applied as a credit against the purchase of other nuclear fuel, returned to the Company upon the sale or refinancing of the BRC properties, recovered through litigation, or offset by the Westinghouse settlement proceeds, a portion of which was received in 1981, the Company will apply to the PSC for appropriate rate relief. As a general rule, utility investments which have been prudently incurred may be recovered from ratepayers. The Company believes its investments in BRC were prudent. While the Company believes that the PSC should act favorably, it cannot predict the outcome of any proceedings before the PSC relating to BRC.

Two shareowners have commenced separate derivative actions against certain Company directors and officers, claiming negligence and breach of fiduciary duties by these officers and directors in connection with the BRC transactions. The Board of Directors of the Company has authorized a special litigation committee to conduct an independent investigation of the transactions between the Company and BRC and recommend to the Board appropriate actions to be taken in the best interest of the Company. A third shareowner of the Company, on behalf of herself and other shareowners similarly situated, commenced a class action against the Company, certain of its officers and directors, and certain of the underwriters of the Company's 1978 Common Stock offering, alleging a failure to disclose material information concerning the contracts and the financial arrangements between the Company and BRC. Through December 31, 1981, the Company had expended \$650,000 in defense of these claims. Of this amount, approximately \$400,000 was paid on behalf of all of the Company's directors (except Alan M. Fortunoff who is not a defendant in any of these actions) and its Senior Vice President — Finance. The Company had recovered \$143,000 of the \$650,000 through December 31, 1981, pursuant to its directors' and officers' liability insurance, with the National Union Fire Insurance Company of Pittsburgh, Pa. This insurance and insurance from the New England Reinsurance Corp., provides the Company with coverage for wrongful acts by directors and officers as well as indemnification for the Company and its directors and officers. The National Union Fire Insurance Company policy also provides fiduciary liability coverage for the Company, its directors and officers, and any employee deemed to be a fiduciary or trustee, for any alleged breach of fiduciary liability under the Employee Retirement Income Security Act of 1974. The total annual premium for these coverages, which are effective through August 26, 1982, is \$94,000.

Due to the many contingencies upon which the outcome of the BRC transactions and the related litigation are dependent, the Company cannot accurately measure either the probability of its realizing a loss on the investment in BRC, or the amount of that loss if it should occur. While under the most adverse circumstances such a loss could be material, the Company believes that the loss, if any, will not have a material adverse impact on the financial condition of the Company.

The Company initially entered into its contracts with BRC as a result of the failure of the Westinghouse Electric Corporation (Westinghouse) to deliver uranium concentrates. In 1981, the Company received total cash proceeds of approximately \$43 million in partial settlement of its resultant litigation against Westinghouse, before deduction of litigation expenses and payments to New York State Electric & Gas Corp. (NYSEG) toward its share in the Jamesport nuclear project. On November 24, 1981, at the Company's request, the PSC approved accounting treatment which could ultimately provide ratepayers with the benefits of the Westinghouse settlement. It is the Company's view that the value of the Westinghouse settlement is related to the Company's investment in BRC and, at an appropriate time, the Company anticipates that it will apply to the PSC to recognize such relationship. The Company cannot, however, predict the outcome of this application.

#### **Cancelled Nuclear Power Plants**

In 1980, New York State Boards on Electric Generation Siting

and the Environment, in separate proceedings, denied applications by the Company and NYSEG (co-owners) for nuclear plants proposed for construction at Jamesport, N.Y. and at New Haven, N.Y.

In the Jamesport proceeding, the Siting Board certified, as an alternative, an 800 megawatt coal-fired plant. In October 1981, NYSEG advised the Company and the Siting Board that it would not participate in the coal plant project. At the same time, the Company advised the Siting Board that it would accept the certificate for a coal plant with the understanding that the Company will attempt to find other partners for the project and will conduct further studies as to the optimum size and completion date for the plant with and without partners. The Company requested one year to complete these studies. The Siting Board has not acted on the Company's request.

The Company's share of costs incurred, after reduction for the estimated tax effects of \$15.9 million and \$15.7 million, for Jamesport and New Haven was approximately \$44.7 million and \$31.8 million, respectively, at December 31, 1981. In connection with the cancellation of Jamesport, the Company is negotiating with Westinghouse respecting the nuclear steam supply system (NSSS) which Westinghouse was to have furnished. Cancellation costs of the NSSS are expected to be substantial.

The Company has filed petitions with the PSC requesting rate relief to recover its share of the costs incurred for the Jamesport and New Haven projects. An administrative law judge issued a recommended decision to the PSC, finding that the Company and NYSEG acted prudently in proceeding with the New Haven project. The decision also recommends that the PSC authorize NYSEG and the Company to continue to accrue AFC on the project costs until recovery through rates begins, and to amortize and recover such costs, including carrying charges on any unamortized balance, over a period to be established in separate rate cases. In a separate proceeding, the PSC authorized the Company and NYSEG to continue to accrue and accumulate AFC on their respective shares of the expenditures for Jamesport until, in effect, certain matters concerning a proposed coal-fired plant at Jamesport are resolved. The Company cannot predict what the final outcome will be on the applications for amortization and rate recovery of the Jamesport or New Haven expenditures.

#### Other

The Company has entered into substantial long-range commitments for fuel and gas supply. The costs of fuel and gas supply are normally recovered from customers through provisions in the Company's rate schedules.

There are currently pending in the Federal courts, before the U.S. Equal Employment Opportunity Commission and the New York State Division of Human Rights, complaints by employees alleging that the Company has discriminated against them on the basis of race. The Company believes it has meritorious defenses to these complaints, but it cannot predict the ultimate outcome of these matters.

#### Note 8. Long-term Debt at December 31

The First Mortgage is a direct first lien on substantially all of the Company's properties. The lien of the G & R Mortgage on substantially all of the same properties is junior to the lien of the First Mortgage. All First Mortgage Bonds, issued on and after June 1, 1975 (Pledged Bonds), are held by the Trustee of the G & R Mortgage as additional security for G & R Bonds and are excluded from long-term debt because they do not create additional debt in the Company's capital structure.

The annual First Mortgage depreciation fund and sinking fund requirements estimated at \$145,000,000 and \$12,000,000, respectively, for 1981, are normally met by utilizing bondable property additions. However, by June 30, 1982, the Company presently estimates it will be required to deposit approximately \$35,000,000 in cash to satisfy these requirements; the remainder will be satisfied by the use of bondable property additions. The Company intends to withdraw such cash before

the end of 1982. Any cash deposited for the sinking and depreciation funds under the First Mortgage can be withdrawn through the use of Shoreham property additions after receipt of the operating license anticipated by September 1982 or through the use of non-Shoreham property additions. Such cash may also be used to retire part of \$70 million of First Mortgage Bonds which mature in late 1982. Similar requirements under the G & R Mortgage will continue to be satisfied by the use of bondable property additions.

#### Long-term Debt at December 31 (In thousands of dollars)

Rate of Interest	Series	Due	1981	1980	1979
<b>First Mortgage Bonds</b>					
3 %	A	1980	\$ —	\$ —	\$ 20,000
3%	E	1982	20,000	20,000	20,000
3½	F	1983	25,000	25,000	25,000
3½	G	1984	15,000	15,000	15,000
3%	H	1985	15,000	15,000	15,000
4%	I	1986	20,000	20,000	20,000
4%	J	1988	20,000	20,000	20,000
5	L	1991	25,000	25,000	25,000
4.40	M	1993	40,000	40,000	40,000
4%	N	1994	25,000	25,000	25,000
4.55	O	1995	25,000	25,000	25,000
5½	P	1996	40,000	40,000	40,000
5½	Q	1997	35,000	35,000	35,000
8.20	R	1999	35,000	35,000	35,000
9½	S	2000	25,000	25,000	25,000
7¼	U	2001	40,000	40,000	40,000
7½	V	2001	50,000	50,000	50,000
7%	W	2002	50,000	50,000	50,000
8½	X	2003	60,000	60,000	60,000
10	Y	1981	—	60,000	60,000
9¼	Z	1982	50,000	50,000	50,000
† Pledged First Mortgage Bonds			595,000	490,000	490,000
† Less — Pledged First Mortgage Bonds			595,000	490,000	490,000
			615,000	675,000	695,000
Less — Current maturities			70,000	60,000	20,000
<b>Total First Mortgage Bonds</b>			<b>545,000</b>	<b>615,000</b>	<b>675,000</b>
<b>General and Refunding Bonds</b>					
9¼ %	Series Due	1983	80,000	80,000	80,000
9%	Series Due	1984	90,000	90,000	90,000
9%	Series Due	2006	70,000	70,000	70,000
8½ %	Series Due	2006	50,000	50,000	50,000
8½ %	Series Due	2007	85,000	85,000	85,000
9.20%	Series Due	2008	75,000	75,000	75,000
9.75%	Series Due	1999	100,000	100,000	100,000
14¼ %	Series Due	2010	50,000	50,000	—
15.75%	Series Due	1991	100,000	—	—
17½ %	Series Due	2011	50,000	—	—
16¼ %	Series Due	1991	50,000	—	—
18 %	Series Due	2011	50,000	—	—
17 %	Series Due	1991	50,000	—	—
			900,000	600,000	550,000
Less — Current maturities			2,000	—	—
<b>Total General and Refunding Bonds</b>			<b>898,000</b>	<b>600,000</b>	<b>550,000</b>
<b>Other Long-term Debt</b>					
7½%	— Authority Financing Notes	2006	30,375	30,375	30,375
7.8%	— Authority Financing Note	2009	19,100	19,100	19,100
8½%	Promissory Notes	1985	202	246	287
Less — Current maturity on 8½% Promissory Notes			48	44	40
<b>Total Other Long-term Debt</b>			<b>49,629</b>	<b>49,677</b>	<b>49,722</b>
<b>Total Long-term Debt</b>			<b>\$1,492,629</b>	<b>\$1,264,677</b>	<b>\$1,274,722</b>

The aggregate of the Company's long-term debt due in the next five years is \$72,000,000 (1982), \$107,000,000 (1983), \$107,000,000 (1984), \$18,000,000 (1985) and \$23,000,000 (1986).

**Note 9. Segments of Business**

The Company is a public utility operating company engaged in the generation, distribution, and sale of electric energy and the purchase, distribution, and sale of natural gas.

(In millions of dollars)	1981			1980			1979		
	Electric	Gas	Total Company	Electric	Gas	Total Company	Electric	Gas	Total Company
<b>Operating Information</b> (Year ended December 31):									
Revenue	\$ 1,403	\$ 262	\$ 1,665	\$ 1,040	\$ 237	\$ 1,277	\$ 861	\$ 184	\$ 1,045
Expenses (excluding income tax)	1,117	234	1,351	860	211	1,071	699	158	857
Operating income (before income tax)	\$ 286	\$ 28	\$ 314	\$ 180	\$ 26	\$ 206	\$ 162	\$ 26	\$ 188
AFC and other			113			86			67
Interest charges			120			98			82
Income taxes — operating			88			11			99
Income taxes — nonoperating (credit)			(29)			(22)			(41)
Net income per accompanying Statement of Income			\$ 248			\$ 205			\$ 169
<b>Other Information</b> (Year ended December 31):									
Depreciation, depletion and amortization	\$ 53	\$ 7	\$ 60	\$ 50	\$ 6	\$ 56	\$ 48	\$ 6	\$ 54
Capital expenditures for construction and nuclear fuel	567	23	590	477	22	499	451	14	465
<b>Investment Information</b> (At December 31):									
Assets (a)	\$ 3,857	\$ 290	\$ 4,147	\$ 3,374	\$ 260	\$ 3,634	\$ 2,922	\$ 247	\$ 3,169
Nonutility plant			3			2			5
Other investments (b)	58	—	59	54	—	55	74	—	129
Assets utilized for overall Company operations			299			227			221
Total Assets			\$ 4,508			\$ 3,918			\$ 3,464

(a) Includes net utility plant and deferred charges (excluding common), materials and supplies, accrued revenues, gas in storage and fuel.

(b) Consisting of, in 1981, \$55,157,000 Bokum Resources Corporation, \$547,000 subsidiary companies (\$60,000 electric, \$487,000 gas), \$3,551,000 other investments; and in 1980, \$54,280,000 Bokum Resources Corporation, \$398,000 subsidiary companies (\$22,000 electric, \$376,000 gas), \$590,000 other investments; and in 1979, \$49,557,000 Bokum Resources Corporation, \$24,836,000 New Haven Units, \$379,000 subsidiary companies (\$21,000 electric, \$358,000 gas), \$338,000 other investments.

**Note 10. Quarterly Financial Information (Unaudited)**

(In millions of dollars except Earned per Common Share)	Operating Revenues	Operating Income	Net Income	Income for Common Stock	Earned per Common Share
<b>First Quarter</b>					
1981	\$ 452	\$ 63	\$ 64	\$ 52	\$ 0.7
1980	348	53	54	45	0.5
1979	266	50	47	39	0.5
<b>Second Quarter</b>					
1981	\$ 371	\$ 46	\$ 52	\$ 40	\$ 0.5
1980	271	42	43	34	0.5
1979	232	36	33	26	0.4
<b>Third Quarter</b>					
1981	\$ 449	\$ 79	\$ 85	\$ 74	\$ 0.9
1980	335	60	64	54	0.7
1979	292	57	54	46	0.6
<b>Fourth Quarter</b>					
1981	\$ 393	\$ 38	\$ 47	\$ 33	\$ 0.4
1980	323	40	44	32	0.4
1979	255	29	28	18	0.3

**Note 11. Supplementary Information Concerning the Effects of Inflation (Unaudited)**

Throughout the decades following World War II, the utility industry has constantly pointed out to economists, regulators, and law makers that calculating depreciation on the original cost of the utility plant would not permit the recovery of the cost required to replace a piece of equipment which became obsolete or fully depreciated if any degree of inflation were experienced over the life of the property. The solution suggested by the industry was to calculate depreciation on the reproduction cost of existing facilities, or to use a depreciation rate which reflects inflation. In an attempt to have information available to inform investors of the consequence of this inflationary erosion throughout the business world, the Financial Accounting Standards Board developed certain standards for quantifying and providing this information to investors. While we believe the concept has merit if it leads to wiser governmental decisions as to taxation and utility regulation, we wish to point out to our shareholders the theoretical nature of this information, and to suggest caution in its use for the purpose of making investment decisions in the utility field and for comparing one company to another in terms of expected future performance.

The data which follows reflect a restatement of the historical cost of property, plant, and equipment (by approximate year of expenditure), the related accumulated depreciation and depreciation expense. Income tax expense has not been restated for the effects of inflation. The effect of inflation on the Company's operations is shown in two ways: as measured for general inflation by using the Consumer Price Index for All Urban Consumers and more specifically as measured for that inflation which impacts the utility industry by using the Handy-Whitman Index for Public Utility Construction Costs.

**Effect of Inflation on Net Income and Common Stock Earnings Per Share**

(Average 1981 dollars, in thousands of dollars except Earned per Common Share)	Adjusted for General Inflation	Adjusted for Industry Inflation
1981 Net Income as shown on the Statement of Income	\$247,733	\$247,733
Increase in depreciation expense if adjusted for inflation	76,114	83,645
1981 Net Income as adjusted	\$171,619	\$164,088
Earned per Common Share as adjusted	\$ 1.57	\$ 1.48
Net Income as adjusted		
1980	\$154,555	\$144,830
1979	140,520	122,148
Earned per Common Share as adjusted		
1980	\$ 1.69	\$ 1.55
1979	1.87	1.52

**Effect of Inflation on Net Plant Investment**

The effect of 1981 general inflation, of about 9.2%, on the historical cost of the Company's January 1, 1981, undepreciated plant investment, less the \$76.1 million increase in depreciation expense shown above, amounted to \$249 million. If this were to be applied as a loss in 1981 to Net Income as adjusted for general inflation, it would have resulted in a net loss of \$77 million.

At December 31, 1981, the cost of property, plant, and equipment, net of accumulated depreciation, restated for general inflation since year of expenditure, was \$6.8 billion while historical cost net of accumulated depreciation was \$4.0 billion.

The effect of 1981 inflation which specifically affected the industry on the cost of replacing the Company's undepreciated plant investment (cost of replacing the Company's undepreciated plant investment was calculated by restating plant and related accumulated depreciation for industry inflation since year of expenditure) from the beginning to the end of the year, less the \$83.6 million increase in depreciation expense shown above, amounted to \$507 million. Further, the effect of 1981 general inflation, of about 9.2%, on the cost of replacing the Company's January 1, 1981, undepreciated plant investment amounted to \$549 million. In comparison, the effect of 1981 general inflation exceeded the effect of industry inflation by \$42 million. The effect of 1981 general inflation on the historical cost of the Company's January 1, 1981, undepreciated plant investment, less the \$83.6 million increase in depreciation expense shown above and less the \$42 million excess of general inflation over industry inflation, amounted to \$200 million. Similarly, the calculations for the years 1980 and 1979, when restated in average 1981 dollars, amounted to \$80 million and \$134 million, respectively. If the 1981 amount of \$200 million were to be applied as a loss in 1981, to Net Income as adjusted for industry inflation, it would have resulted in a net loss of \$36 million.

At December 31, 1981, the cost of property, plant, and equipment, net of accumulated depreciation, restated for industry inflation since year of expenditure was \$6.8 billion while historical cost net of accumulated depreciation was \$4.0 billion.

**Effect of Inflation on Certain Assets and Liabilities**

During periods of inflation, monetary assets such as cash and receivables lose their purchasing power. Similarly, monetary liabilities such as long-term debt can be a benefit because they will be repaid in dollars having less purchasing power. The net monetary amounts owed by the Company during the years 1981, 1980, and 1979 resulted in an unrealized benefit of \$202 million, \$235 million, and \$202 million, respectively. The Company's net assets (total assets less total liabilities) at year-end, when restated in average 1981 dollars, for the years 1981, 1980, and 1979 were \$2.0 billion, \$2.0 billion, and \$1.9 billion, respectively.

**Effect of Inflation on Revenues, Common Stock Dividends, and Common Stock Market Price**

Revenues were \$1.7 billion in 1981. Revenues restated in average 1981 dollars for the years 1980 through 1977, respectively, would have been \$1.4 billion, \$1.3 billion, \$1.3 billion, and \$1.2 billion. Cash dividends declared per common share in 1981 were \$1.92. Dividends declared in prior years restated in average 1981 dollars for the years 1980 through 1977, respectively, would have been \$2.03, \$2.21, \$2.37, and \$2.45 per share. The market price per common share at year-end was \$14.13 in 1981. The market prices per common share restated in year-end 1981 dollars for the years 1980 through 1977, respectively, would have been \$15.28, \$17.98, \$23.98, and \$28.24. The average consumer price indices for the years 1981 through 1977 were 272.4, 246.8, 217.4, 195.4, and 181.5, respectively.

	1981	1980	1979	1978	1977	1976	1975
<b>Summary of Operations*</b>							
Total revenues (\$000)	\$1,664,832	\$1,276,938	\$1,045,498	\$898,971	\$824,080	\$724,589	\$346,187
Total operating income (\$000)							
Before federal income taxes	\$ 313,916	\$ 205,918	\$ 188,466	\$192,268	\$158,779	\$138,340	\$ 87,577
After federal income taxes	\$ 225,888	\$ 194,628	\$ 170,984	\$160,788	\$135,608	\$124,126	\$ 71,399
Income for common stock (\$000)	\$ 198,902	\$ 164,915	\$ 128,812	\$111,305	\$104,593	\$ 86,787	\$ 41,977
Average common shares outstanding (000)	77,988	65,138	53,366	45,670	40,399	34,437	20,166
Earned per common share	\$ 2.55	\$ 2.53	\$ 2.41	\$ 2.44	\$ 2.59	\$ 2.52	\$ 2.08
Dividends paid per share	\$ 1.90	\$ 1.82	\$ 1.74	\$ 1.68 $\frac{1}{4}$	\$ 1.61 $\frac{1}{4}$	\$ 1.54 $\frac{1}{2}$	\$ 1.30
Book value per share at year end	\$18.78	\$18.94	\$18.88	\$19.12	\$18.70	\$17.93	\$16.77
Common shareowners at year end	169,124	159,678	151,752	143,267	130,018	123,057	88,057
Ratio of earnings to fixed charges	2.37	2.14	2.20	2.59	2.61	2.61	3.20
Ratio of earnings to fixed charges and preferred dividends	1.87	1.74	1.77	1.93	1.95	1.92	2.40

\*See Table 11 of Selected Financial Data for Assets and Capitalization.

<b>Electric Operating Income</b> (In thousands of dollars)							
<b>Revenues</b>							
Residential	\$ 634,378	\$ 478,618	\$ 400,936	\$348,307	\$326,035	\$284,774	\$130,111
Commercial and Industrial	666,078	479,486	393,040	337,521	315,952	270,513	113,722
Street and highway lighting	17,697	13,594	12,209	12,743	12,817	12,619	9,377
Other public authorities	27,746	21,685	15,240	13,615	13,647	11,005	3,657
Other utilities	822	196	564	921	1,287	543	357
Other	6,416	7,094	5,949	4,885	3,578	2,747	1,811
System revenue	1,353,137	1,000,673	827,938	717,992	673,316	582,201	257,400
Power pools	49,582	38,993	32,860	20,347	9,681	7,464	4,866
Total Operating Revenue	1,402,719	1,039,666	860,798	738,339	682,997	589,665	262,266
<b>Expenses</b>							
Operations — fuel and purchased power	719,845	521,062	389,622	294,911	290,576	238,185	58,966
Operations — other	118,870	98,017	89,071	78,328	72,860	66,101	37,355
Maintenance	57,746	47,587	43,587	37,086	32,665	32,501	19,099
Depreciation	53,108	50,235	47,872	45,217	39,451	37,399	25,899
Operating taxes	167,535	143,589	128,496	118,047	109,285	100,102	51,366
Federal income tax — current	(1,843)	(9,862)	(7,816)	1,110	4,830	(4,398)	13,122
Federal income tax — deferred and other	83,621	15,128	18,933	24,249	15,399	13,752	36,666
Total Expenses	1,198,882	865,756	709,765	598,948	565,066	483,642	206,155
<b>Electric Operating Income</b>	<b>\$ 203,837</b>	<b>\$ 173,910</b>	<b>\$ 151,033</b>	<b>\$139,391</b>	<b>\$117,931</b>	<b>\$106,023</b>	<b>\$ 56,111</b>

<b>Gas Operating Income</b> (In thousands of dollars)							
<b>Revenues</b>							
Residential — space heating*	\$ 134,407	\$ 117,228	\$ 93,077	\$ 88,168	\$ 75,626	\$ 74,225	\$ 44,400
— other	28,028	26,556	23,861	21,098	18,672	17,734	13,099
Non-residential, firm — space heating*	45,500	37,729	31,145	30,033	25,039	24,903	13,839
— other	21,318	18,483	15,005	12,464	10,726	10,208	6,822
Total firm sales revenue	229,253	199,996	163,088	151,763	130,063	127,070	78,159
Interruptible	30,757	35,395	19,810	7,098	9,477	6,374	4,299
Total system sales revenue	260,010	235,391	182,898	158,861	139,540	133,444	82,458
Other utilities	—	—	—	—	—	—	—
Total sales revenue	260,010	235,391	182,898	158,861	139,540	133,444	82,458
Other revenue	2,103	1,881	1,802	1,771	1,543	1,480	1,463
Total Operating Revenue	262,113	237,272	184,700	160,632	141,083	134,924	83,921
<b>Expenses</b>							
Operations — fuel	145,507	130,664	88,794	70,396	59,889	54,522	25,590
Operations — other	39,397	34,190	29,573	26,056	24,429	23,162	16,311
Maintenance	10,507	9,916	8,619	7,574	8,270	6,975	6,066
Depreciation, depletion and amortization	6,957	6,433	6,188	5,975	5,598	5,338	4,639
Operating taxes	31,444	29,327	25,210	23,113	22,278	21,964	13,324
Federal income tax — current	835	6,947	5,549	6,187	3,030	4,626	2,477
Federal income tax — deferred and other	5,415	(923)	816	(66)	(88)	234	228
Total Expenses	240,062	216,554	164,749	139,235	123,406	116,821	68,636
<b>Gas Operating Income</b>	<b>\$ 22,051</b>	<b>\$ 20,718</b>	<b>\$ 19,951</b>	<b>\$ 21,397</b>	<b>\$ 17,677</b>	<b>\$ 18,103</b>	<b>\$ 15,285</b>

\*In the heating classifications, the revenues shown cover all gas used, including nonheating use.

	1981	1980	1979	1978	1977	1976	1971
<b>Electric Operations</b>							
Table 4							
Energy — millions of kWh							
Net generation	11,720	11,295	11,085	12,739	12,710	12,450	11,753
Power purchased and (sold) — net	2,091	2,719	2,636	980	889	868	(229)
Total system requirements	13,811	14,014	13,721	13,719	13,599	13,318	11,524
Company use and unaccounted for	(1,196)	(1,331)	(1,254)	(1,282)	(1,225)	(1,326)	(1,051)
System sales	12,615	12,683	12,467	12,437	12,374	11,992	10,473
Power pool sales	772	882	852	790	346	250	413
Total Sales	13,387	13,565	13,319	13,227	12,720	12,242	10,886
Peak Demand — net MW							
Generation coincident demand	2,730	2,994	2,718	2,899	2,994	2,566	2,400
Power purchased or (sold)	402	149	201	98	113	153	5
System Peak Demand	3,132	3,143	2,919	2,997	3,107	2,719	2,405
Capacity at Time of Peak — net MW							
CO stations	3,721	3,721	3,842	3,842	3,709	3,727	2,788
Power purchase or (sale)	56	62	108	126	121	136	60
Total Capacity	3,777	3,783	3,950	3,968	3,830	3,863	2,848
Gas Consumed for Electric Operations							
— thousands of barrels	15,665	15,428	16,671	21,017	20,669	20,287	18,131
— thousands of mcf	23,374	20,426	10,909	75	1,980	1,195	11,487
Total — billions of Btu	122,577	117,965	115,376	131,096	130,904	127,244	123,763
Costs per million Btu	\$ 4.58	\$ 3.41	\$ 2.56	\$ 1.86	\$ 1.98	\$ 1.70	\$ .46
Costs per kWh of net generation	4.79¢	3.57¢	2.67¢	1.92¢	2.04¢	1.74¢	.48¢
Heat rate — Btu per net kWh	10,459	10,456	10,480	10,304	10,299	10,221	10,531

	1981	1980	1979	1978	1977	1976	1971
<b>Gas Operations</b>							
Table 5							
Energy — thousands of mcf (1,000 Btu)							
Natural gas	50,224	50,489	46,799	44,611	44,103	46,034	49,327
Manufactured gas and change in storage	(62)	124	(4)	19	(11)	(77)	46
Total natural and manufactured gas	50,162	50,613	46,795	44,630	44,092	45,957	49,373
Gas sold to other utilities	—	—	—	—	—	—	—
Total system requirements	50,162	50,613	46,795	44,630	44,092	45,957	49,373
Company use and unaccounted for	(1,800)	(3,419)	(3,170)	(2,596)	(1,377)	(2,809)	(1,855)
System sales	48,362	47,194	43,625	42,034	42,715	43,148	47,518
Gas sold to other utilities	—	—	—	—	—	—	—
Total Sales	48,362	47,194	43,625	42,034	42,715	43,148	47,518
Maximum Day Sendout — mcf (1,000 Btu)	371,845	358,638	336,996	303,844	340,684	325,836	324,800
Capacity at Time of Peak — mcf per day							
Natural gas	308,800	308,800	307,200	303,500	326,500	326,500	304,600
Gas, manufactured or LP gas	142,300	142,300	142,300	142,300	148,300	148,300	180,000
Total Capacity	451,100	451,100	449,500	445,800	474,800	474,800	484,600
Natural Gas Purchased							
For electric operations — thousands of mcf	15,294	12,221	2,726	75	1,978	1,195	11,596
For other operations — thousands of mcf	49,026	50,402	46,103	43,967	44,638	45,690	48,464
Total Natural Gas Purchased	64,320	62,623	48,829	44,042	46,616	46,885	60,060
Heating Degree Days (year average 5,084)	4,851	5,151	4,622	5,441	5,178	5,373	4,951

	1981	1980	1979	1978	1977	1976	1975
<b>Electric Sales and Customers</b>							
<b>Sales — millions of kWh</b>							
Residential	5,581	5,655	5,599	5,559	5,620	5,486	4,877
Commercial and industrial	6,494	6,431	6,291	6,259	6,120	5,905	5,087
Street and highway lighting	180	188	188	188	189	190	166
Other public authorities	345	404	370	399	397	386	297
Other utilities	15	5	19	32	48	25	4
System sales	12,615	12,683	12,467	12,437	12,374	11,992	10,477
Power pool sales	772	882	852	790	346	250	41
<b>Total Sales</b>	<b>13,387</b>	<b>13,565</b>	<b>13,319</b>	<b>13,227</b>	<b>12,720</b>	<b>12,242</b>	<b>10,888</b>
<b>Customers — monthly average</b>							
Residential	818,879	812,898	806,325	798,288	791,808	784,359	725,722
Commercial and industrial	83,899	82,918	81,955	81,071	80,205	78,535	70,277
Others	4,683	4,185	4,137	4,014	3,881	3,882	2,539
<b>Customers — total monthly average</b>	<b>907,461</b>	<b>900,001</b>	<b>892,417</b>	<b>883,373</b>	<b>875,894</b>	<b>866,776</b>	<b>798,538</b>
<b>Customers — total at year end</b>	<b>908,303</b>	<b>900,419</b>	<b>892,772</b>	<b>885,591</b>	<b>877,022</b>	<b>869,126</b>	<b>802,522</b>
<b>Residential</b>							
kWh per customer	6,815	6,957	6,944	6,964	7,098	6,994	6,722
Revenue cents per kWh	11.37¢	8.46¢	7.16¢	6.27¢	5.80¢	5.19¢	2.6
<b>Commercial and Industrial</b>							
kWh per customer	77,403	77,559	76,762	77,204	76,309	75,197	72,403
Revenue per kWh	10.26¢	7.46¢	6.25¢	5.39¢	5.16¢	4.58¢	2.2
<b>System — Total revenue per kWh sold</b>	<b>10.73¢</b>	<b>7.89¢</b>	<b>6.64¢</b>	<b>5.77¢</b>	<b>5.44¢</b>	<b>4.85¢</b>	<b>2.4</b>

### Gas Sales and Customers

	1981	1980	1979	1978	1977	1976	1975
<b>Gas Sales and Customers</b>							
<b>Sales — thousands of mcf (1,000 Btu)</b>							
Residential — space heating*	25,753	24,187	22,873	24,085	23,887	24,357	23,767
— other	3,566	3,654	3,496	3,386	3,396	3,390	3,344
Non-residential — firm — space heating*	9,042	8,269	8,228	8,628	8,534	8,849	8,777
— other	4,021	3,833	3,603	3,427	3,398	3,418	3,399
<b>Total firm sales</b>	<b>42,382</b>	<b>39,943</b>	<b>38,200</b>	<b>39,526</b>	<b>39,215</b>	<b>40,014</b>	<b>39,288</b>
Interruptible	5,980	7,251	5,425	2,508	3,500	3,134	8,233
<b>Total system sales</b>	<b>48,362</b>	<b>47,194</b>	<b>43,625</b>	<b>42,034</b>	<b>42,715</b>	<b>43,148</b>	<b>47,521</b>
<b>Customers — monthly average</b>							
Residential — space heating*	165,093	153,440	139,672	137,486	137,580	137,724	125,811
— other	198,336	206,331	217,172	219,062	219,930	220,768	228,911
Non-residential — firm — space heating*	19,282	18,229	17,452	17,326	17,470	17,501	17,041
— other	12,160	12,441	12,658	12,781	12,961	13,184	13,888
<b>Total firm customers</b>	<b>394,871</b>	<b>390,441</b>	<b>386,954</b>	<b>386,655</b>	<b>387,941</b>	<b>389,177</b>	<b>385,641</b>
Interruptible	323	339	347	368	382	388	333
<b>Customers — total monthly average</b>	<b>395,194</b>	<b>390,780</b>	<b>387,301</b>	<b>387,023</b>	<b>388,323</b>	<b>389,565</b>	<b>385,984</b>
<b>Customers — total at year end</b>	<b>396,094</b>	<b>392,723</b>	<b>387,310</b>	<b>386,091</b>	<b>386,830</b>	<b>388,147</b>	<b>385,552</b>
<b>Degree days — billed</b>	<b>4,975</b>	<b>4,910</b>	<b>4,612</b>	<b>5,352</b>	<b>5,277</b>	<b>5,277</b>	<b>5,211</b>
<b>Residential</b>							
mcf per customer	80.7	77.4	73.9	77.1	76.3	77.4	76.3
Revenue per mcf	\$ 5.54	\$ 5.16	\$ 4.43	\$ 3.98	\$ 3.46	\$ 3.31	\$ 2.1
<b>Non-residential — firm</b>							
mcf per customer	415.5	394.6	392.9	400.4	392.1	399.8	652.1
Revenue per mcf	\$ 5.12	\$ 4.64	\$ 3.90	\$ 3.53	\$ 3.00	\$ 2.86	\$ 1.2
<b>System — Total revenue per firm mcf sold</b>	<b>\$ 5.41</b>	<b>\$ 5.01</b>	<b>\$ 4.27</b>	<b>\$ 3.84</b>	<b>\$ 3.32</b>	<b>\$ 3.18</b>	<b>\$ 1.9</b>

\*In the heating classifications, the sales shown cover all gas used, including nonheating use.

	1981	1980	1979	1978	1977	1976	1971
<b>Operations and Maintenance Expense Details</b> (In thousands of dollars) <span style="float: right;">Table 8</span>							
Sal payroll and employee benefits	\$ 185,265	\$168,137	\$150,479	\$139,334	\$126,013	\$118,379	\$ 81,043
Expenses — Charged to construction and other	55,272	53,649	49,065	47,367	39,873	37,558	25,079
Charged to operations	129,993	114,488	101,414	91,967	86,140	80,821	55,964
Expenses — electric operations	560,857	402,696	295,428	244,546	258,988	216,264	56,291
Expenses — gas operations	145,507	130,664	88,794	70,396	59,889	54,522	25,590
Purchased power costs	123,958	134,876	108,772	43,564	30,752	22,916	2,669
Electric fuel cost adjustment deferred	35,030	(16,510)	(14,578)	6,801	836	(995)	—
Total Fuel and Purchased Power	865,352	651,726	478,416	365,307	350,465	292,707	84,550
Other	96,527	75,222	69,436	57,077	52,084	47,918	22,860
Total Operations and Maintenance	\$1,091,872	\$841,436	\$649,266	\$514,351	\$488,689	\$421,446	\$163,374
Employees at December 31	5,777	5,669	5,563	5,442	5,381	5,444	5,413

<b>Operating Ratios</b> <span style="float: right;">Table 9</span>							
<b>Percent of Total Revenues</b>							
Electric	84.3%	81.4%	82.3%	82.1%	82.9%	81.4%	75.8%
Gas	15.7	18.6	17.7	17.9	17.1	18.6	24.2
<b>Percent of Electric Revenue</b>							
Operations expense — fuel and purchased power	51.3%	50.1%	45.3%	39.9%	42.5%	40.4%	22.5%
Operations expense — other	8.5	9.4	10.3	10.6	10.7	11.2	14.2
Maintenance expense	4.1	4.6	5.1	5.0	4.8	5.5	7.3
Total Operations and Maintenance Expense	63.9%	64.1%	60.7%	55.5%	58.0%	57.1%	44.0%
Operating Income	14.5%	16.8%	17.5%	18.9%	17.2%	18.0%	21.5%
<b>Percent of Gas Revenue</b>							
Operations expense — fuel	55.5%	55.1%	48.1%	43.8%	42.5%	40.4%	30.6%
Operations expense — other	15.0	14.4	16.0	16.2	17.3	17.2	19.4
Maintenance expense	4.0	4.2	4.7	4.7	5.9	5.2	7.2
Total Operations and Maintenance Expense	74.5%	73.7%	68.8%	64.7%	65.7%	62.8%	57.2%
Operating Income	8.4%	8.7%	10.8%	13.3%	12.5%	13.4%	18.2%
<b>Percent of Total Operating Income before Income Taxes</b>							
Electric	91.0%	87.0%	86.0%	85.7%	87.0%	83.4%	79.5%
Gas	9.0	13.0	14.0	14.3	13.0	16.6	20.5

<b>Construction Expenditures</b> (In thousands of dollars) <span style="float: right;">Table 10</span>							
<b>Electric</b>							
Production (includes construction trust)	\$ 517,971	\$399,219	\$362,689	\$321,181	\$279,207	\$249,045	\$ 85,197
Transmission	8,987	14,529	25,991	31,865	39,788	27,466	7,927
Distribution:							
New business facilities	12,116	11,011	9,704	9,537	10,871	9,907	10,849
Other facilities	21,835	21,824	19,163	16,566	15,400	15,753	17,252
General	3,872	3,265	1,617	2,716	1,502	2,016	1,367
Total Electric	564,781	449,848	419,164	381,865	346,768	304,187	122,592
<b>Gas</b>							
Production and storage	1,572	528	396	483	525	486	3,154
Transmission and distribution:							
New business facilities	8,655	9,817	5,512	1,559	1,083	303	4,479
Other facilities	10,881	9,513	5,338	5,196	5,507	5,101	5,849
General	1,428	1,256	2,099	906	1,133	938	753
Total Gas	22,536	21,114	13,345	8,144	8,248	6,828	14,235
Common — Total	7,237	4,822	7,037	3,999	4,404	3,110	2,098
Total Construction Expenditures	\$ 594,554	\$475,784	\$439,546	\$394,008	\$359,420	\$314,125	\$138,925

	1981	1980	1979	1978	1977	1976	1975
<b>Balance Sheet</b> (In thousands of dollars) <span style="float: right;">Table 11</span>							
<b>Assets</b>							
Utility Plant	\$4,662,402	\$4,095,896	\$3,611,962	\$3,167,601	\$2,775,231	\$2,398,900	\$1,344,225
Less — Accumulated depreciation, depletion and amortization	620,616	573,765	526,992	486,865	456,019	413,305	264,534
Total Utility Plant	4,041,786	3,522,131	3,084,970	2,680,736	2,319,212	1,985,595	1,079,691
Other Property and Investments	62,183	56,962	76,985	70,784	3,972	3,803	869
Current Assets	361,859	273,378	246,708	229,463	188,462	183,780	74,723
Deferred Charges:							
Electric fuel cost adjustment deferred	4,188	39,219	22,709	8,131	14,932	15,768	—
Other	38,136	26,056	28,210	27,599	19,967	18,775	3,232
Total Assets	\$4,508,152	\$3,917,746	\$3,459,582	\$3,016,713	\$2,546,545	\$2,207,721	\$1,158,515
<b>Capitalization and Liabilities</b>							
Capitalization:							
Long-term debt	\$1,492,629	\$1,264,677	\$1,274,722	\$1,175,662	\$1,100,375	\$1,015,375	\$ 571,875
Unamortized premium and discount on debt	(2,349)	(39)	24	89	1,628	2,602	2,559
Preferred stock — redemption required	414,650	361,250	294,100	226,950	228,000	160,000	—
Preferred stock — no redemption required	158,083	158,968	160,090	163,499	166,436	171,431	147,175
Treasury stock, at cost	(569)	(186)	—	—	—	—	—
Common stock and premium	1,131,094	969,240	821,440	699,425	571,436	451,078	198,423
Capital stock expense	(42,107)	(35,140)	(30,138)	(28,321)	(27,110)	(18,397)	(6,230)
Retained earnings	439,285	391,113	346,001	311,838	279,157	242,147	146,474
Total Capitalization	3,590,716	3,109,883	2,866,239	2,549,142	2,319,922	2,024,236	1,060,276
Trust Obligations	439,425	348,935	287,308	189,603	30,000	—	—
Current Liabilities	361,193	407,903	242,715	214,383	143,848	138,403	86,422
Deferred Credits:							
Accumulated deferred income tax reductions	106,795	43,821	55,698	55,731	42,835	35,264	8,366
Other	6,091	2,239	1,661	1,408	2,008	2,640	712
Total Deferred Credits	112,886	46,060	57,359	57,139	44,843	37,904	9,078
Reserves for Claims and Damages	3,932	4,965	5,961	6,446	7,932	7,178	2,739
Total Capitalization and Liabilities	\$4,508,152	\$3,917,746	\$3,459,582	\$3,016,713	\$2,546,545	\$2,207,721	\$1,158,515

### Common and Preferred Stock Prices

Table 12

The Common Stock of the Company is traded on the New York Stock Exchange and the Pacific Stock Exchange. The Preferred Stock \$100 par value Series B, E, I, J, K, and S, and the Preferred Stock \$25 par value Series O, P, and T of the Company, are traded on the New York Stock Exchange. Trading in the Preferred Stock, \$25 par value, Series U, commenced on October 28, 1981, on the New York Stock Exchange. The table below indicates the high and low sale prices on the New York Stock Exchange listing of composite transactions for the years 1978 through 1981.

	Common Stock		Preferred Stock																			
	High	Low	Series B 5%	Series E 4.35%	Series I 5¾%	Series J 8.12%	Series K 8.30%	Series O \$2.47	Series P \$2.43	Series S 9.80%	Series T \$3.31	Series U \$4.25										
<b>1978</b>																						
1st Quarter	19¼	17½	57	54	48½	45½	90	86	92¼	87	94	89½	27½	26	27¼	26	—	—	—	—	—	—
2nd Quarter	19½	18½	52½	50	47½	44¾	92	88½	86½	80	92	80	27	24½	26¾	24½	—	—	—	—	—	—
3rd Quarter	19¾	18½	54	52	48½	43	92½	91½	90	81	93¼	83	27¾	24¼	27	25	—	—	—	—	—	—
4th Quarter	18½	17	52½	49	44½	43	85½	83	85	77	89½	80	26½	25½	26½	23	—	—	—	—	—	—
<b>1979</b>																						
1st Quarter	18¼	17	49½	47½	43	41	85¼	83	82	77½	84½	79	26½	24¾	25½	23½	—	—	—	—	—	—
2nd Quarter	17¾	15½	48½	47	44¾	40¼	82¾	76	81¼	73½	83	75	26½	24¾	24½	21¾	—	—	—	—	—	—
3rd Quarter	17¼	16	50	47	43½	41	85¼	80¼	82¾	74	81¾	76½	25¼	23¾	25¼	21½	—	—	—	—	—	—
4th Quarter	16¼	13¾	49	40¼	40	37½	74½	72	72½	63	76	67½	24½	20¾	22	18½	96¼	89	—	—	—	—
<b>1980</b>																						
1st Quarter	15½	13½	43	33¼	38	35	75	72½	67½	56	67½	61	23¼	18¾	20¾	15¾	95	69	—	—	—	—
2nd Quarter	17½	13½	—	—	38½	30½	87¼	72	70	55	71½	56½	24½	18¾	21¼	15½	89	69½	—	—	—	—
3rd Quarter	16¾	14¾	39½	36¾	37½	34	83	82½	66	60	68½	61	22½	18¼	21	17¾	85	73½	—	—	—	—
4th Quarter	15¾	13¾	38	33	32	29½	80¼	73¾	60	53½	61	54½	19½	16½	18½	15½	75	73	23¾	21¼	—	—
<b>1981</b>																						
1st Quarter	15¾	14	34	33	32	28¼	79	77½	57½	53½	58	53¾	19½	18½	17¾	15¾	72½	69¼	24	22	—	—
2nd Quarter	15½	14	35	32¾	32	29	76½	75¼	55½	52¼	58½	53	19½	17¾	17¾	15¾	74	70	23¾	22	—	—
3rd Quarter	15¼	14¾	33½	30¾	31½	25½	81	77¼	54	48¼	56½	49	18	15¾	17¼	14¾	69¼	60¼	23	19¾	—	—
4th Quarter	15¾	13¾	33¾	31	31	25½	81	74½	55¼	49¼	55	49	17½	14¾	16¾	14¾	65	60½	23½	19¼	28¼	24¾

The Series D-4.25% Preferred Stock is traded in the over-the-counter market. We have been advised of scattered trading at prices ranging between \$23 and \$29 per share during 1981. The Series F, H, L, M, Q, and R Preferred Stock are held privately.

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**Directors**

**William J. Catacosinos**  
Chairman and  
Chief Executive Officer  
Applied Digital Data Systems, Inc.  
Electronics

**Edward C. Duffy**  
Retired Vice Chairman of the  
Board  
Long Island Lighting Company

**Alan M. Fortunoff**  
President  
Fortunoff's  
Retail

**Winfield E. Fromm**  
Vice President  
Eaton Corporation  
Electronics

**Nathaniel M. Giffen**  
Chairman of the Board  
and Chief Executive Officer  
Suffolk County Federal  
Savings and Loan  
Association

**Lionel M. Goldberg**  
Vice President  
Alexander & Alexander, Inc.  
Insurance

**John D. Maxwell**  
Chairman and Director  
Kollmorgen Corp.  
Vice President and Director  
Powers Chemco, Inc.  
Manufacturing

**Charles R. Pierce**  
Chairman of the Board and  
Chief Executive Officer  
Long Island Lighting Company

**Eben W. Pyne**  
Senior Vice President  
Citibank, N.A.

**Wilfred O. Uhl**  
President  
Long Island Lighting Company

**Phyllis S. Vineyard**  
Vice Chairman  
N.Y. Statewide  
Health Coordinating  
Council  
Voluntary Nonprofit  
Planning Agency

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**Officers**

**Charles R. Pierce**  
Chairman of the Board  
and Chief Executive Officer

**Wilfred O. Uhl**  
President

**Charles J. Davls**  
Senior Vice President  
Engineering, Purchasing and  
Stores

**James W. Dye, Jr.**  
Senior Vice President  
Operations,  
Transmission/Distribution  
and Nuclear

**Frank C. Mackay**  
Senior Vice President  
Commercial Operations

**Thomas H. O'Brien**  
Senior Vice President  
Finance

**Joseph G. Acker**  
Vice President  
Transmission/Distribution and  
Service Operations

**Matthew C. Cordaro**  
Vice President  
Engineering

**Ira L. Freilicher**  
Vice President  
Public Affairs

**John R. Gummersall, Jr.**  
Vice President  
Operations and Construction

**Millard S. Pollock**  
Vice President  
Nuclear

**Matthew S. Procell**  
Vice President  
Employee Relations

**John J. Russell**  
Vice President  
Customer Relations

**Andrew W. Wofford**  
Vice President  
Purchasing and Stores

**Michael Czumak**  
Controller

**Edward W. Eacker**  
Treasurer

**John J. Kearney, Jr.**  
Secretary

**Raymond J. Forrer**  
Associate Controller

**Kathleen M. Brown**  
Assistant Secretary

**Edward M. Barrett**  
General Counsel

**Francis M. Walsh**  
General Claims Attorney

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**Corporate Information**

**Executive Offices**  
250 Old Country Road  
Mineola, NY 11501

**Common Stock Listed**  
New York Stock Exchange  
Pacific Stock Exchange

**Transfer Agents**  
*Common Stock*  
Manufacturers Hanover  
Trust Company  
4 New York Plaza  
New York, NY 10015  
*Preferred Stock*  
Citibank, N.A.  
111 Wall Street, Sort 3300  
New York, NY 10043

**Registrar**  
*Common and Preferred Stock*  
Bradford Trust Company  
67 Broad Street  
New York, NY 10004

**Shareowners' Agent  
for Automatic Dividend  
Reinvestment Plan**  
Citibank, N.A.  
Dividend Reinvestment Service  
111 Wall Street, Sort 5710  
New York, NY 10043

**Annual Meeting**  
The Annual Meeting of Shareowners will be held at the Company's Hicksville Operations Center, Hicksville, NY, on April 20, 1982, at 2:00 p.m. In connection with this meeting, proxies will be solicited by the Company. A notice of the meeting, a proxy statement, and a proxy will be mailed to shareowners in March.

**Form 10-K Annual Report**  
The Company will furnish as soon as available, without charge, a copy of the Company's Annual Report, Form 10-K, as filed with the Securities and Exchange Commission, upon written request to Mr. Spencer E. Hughes, Jr., Manager, Investor Relations, Long Island Lighting Company, 250 Old Country Road, Mineola, NY 11501.

**Long Island Lighting Company**  
250 Old Country Road  
Mineola, NY 11501