1981 ANNUAL REPORT

A Resurgence Of Electricity & Gas

CENTRAL HUDSON
Gas & Electric Corporation

a private utility in the public service...

During the past year we have been encouraged by the development of business in the Mid-Hudson Region, and we see in the 80's the prospect of sustained growth in the use of our services...a resurgence in electricity and natural gas. These are superior forms of energy and we believe that the continuing vitality of the Company requires the selective promotion of these services. By promoting the efficient use of electricity and gas, and increasing our share of certain markets, we can provide benefits to our customers, advance the interests of our investors and enhance the well-being of the Company.

Edison Award

Chairman Theodore J. Carlson and President H. Clifton Wilson are shown with the Edison Award Plaque presented to Central Hudson by the Edison Electric Institute in recognition of outstanding accomplishment in the electric utility industry.

Central Hudson received the award for successfully pursuing the issue of corporate free speech all the way to the Supreme Court. The Company had challenged a New York State Public Service Commission ban on promotional advertising.

The Edison Award was shared with Consolidated Edison Company of New York, Inc. which challenged a Public Service Commission ban on bill inserts dealing with controversial issues of public policy.

The Edison Award citation reads:

"For successfully resisting denial of the electric utility industry's First Amendment rights by persevering through initial judicial adversity and obtaining favorable Supreme Court decisions permitting promotional advertising of electricity in the public interest and the use of bill inserts to present utility positions on 'controversial issues of public policy,' thus preserving Constitutional rights of all utilities to present facts bearing on energy issues to counter distortions emanating from other sources and to publish information to help consumers make informed decisions on energy use, and making possible a major advance in the doctrine of freedom of commercial speech, Central Hudson Gas & Electric Corporation and Consolidated Edison Company of New York, Inc. are declared the recipients of the Edison Award for 1980."

The cover design for the 1981 Annual Report is an abstract representation of the services Central Hudson provides... electricity and gas.

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Central Hudson Gas & Electric Corp.
284 South Avenue
Poughkeepsie, N.Y. 12601

Dear Reader:

To help us in planning future Annual Reports would you please take a minute to complete this survey card and place it in the mail. No postage is necessary. We would very much appreciate your cooperation.

1. What is your interest in Central Hudson?

[ ] Individual Shareowner
[ ] Financial Analyst
[ ] Employee
[ ] Stockbroker
[ ] Institutional Investor
[ ] News Media
[ ] Other

2. How would you rate this Annual Report?

[ ] Excellent
[ ] Good
[ ] Fair
[ ] Poor

3. Which part of the report do you find of most interest?

[ ] 5-Year Summary
[ ] Letter to Shareholders
[ ] General Review of Year
[ ] Financial Section
[ ] Management's Discussion and Analysis
[ ] Photographs
[ ] Graphs

4. Do you find the general level of readability:

[ ] Very Difficult
[ ] Difficult
[ ] Average
[ ] Easy

5. Would you like to see any other information in the report, or are there any general comments you would like to make about the Report or the Company's operations? _____

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Shareholders Meeting

The annual meeting of holders of common shares will be held on Tuesday, April 6, at 10:30 a.m., at the South Avenue office of the Company in Poughkeepsie, New York. Notice of this meeting, together with the proxy statement and proxy, will be mailed to shareholders about March 8. The management welcomes the personal attendance of shareholders at the meeting.

Additional Information

Shareholders may obtain, without charge, a copy of Central Hudson's annual report to the Securities and Exchange Commission, on Form 10-K, by writing to Joseph F. Furlong, Secretary, Central Hudson Gas & Electric Corporation, 284 South Avenue, Poughkeepsie, New York 12601. A comprehensive statistical supplement to the Company's 1981 Annual Report, containing key financial and operating results for a ten-year period, will be available soon on request to Mr. Furlong.

Affirmative Action Policy

Central Hudson Gas & Electric Corporation affirms that equal opportunity shall be provided for all persons. This means that all personnel policies including those related to compensation, benefits, transfers, promotions, training, tuition assistance and social and recreational programs shall be administered without regard to race, color, creed, age, sex or national origin. Recruiting and hiring practices shall be administered to assure fulfillment of the Company's equal employment opportunity objective.

Central Hudson Gas & Electric Corporation affirms that it will not discriminate against any employee or applicant for employment because of physical or mental handicap in regard to any position for which the individual is qualified. This means that all personnel policies including those related to employment, promotion, demotion or transfer, training, compensation, benefits and termination shall be administered without discrimination based upon physical or mental handicap against qualified handicapped individuals.

Central Hudson Gas & Electric Corporation
General Office • 284 South Avenue, Poughkeepsie, New York 12601 • Telephone (914) 452-2000

Five-Year Summary of Operations and Selected Financial Data*

(Thousands of Dollars)

	1981	1980	1979	1978	1977
Operating Revenues:					
Electric	$398,392	$291,999	$225,971	$186,264	$184,391
Gas	46,489	35,994	28,813	24,738	23,449
Total	444,881	327,993	254,784	211,002	207,840
Operating Expenses:					
Operations	333,966	235,252	169,742	132,554	133,688
Maintenance	12,450	11,132	9,818	8,151	8,098
Depreciation	16,108	15,220	14,839	13,393	13,279
Operating taxes	29,274	24,481	21,268	18,779	18,560
Federal income tax	11,550	6,210	5,965	9,891	7,099
Total	403,348	292,295	221,632	182,768	180,724
Operating Income	41,533	35,698	33,152	28,234	27,116
Other Income and Deductions:					
Allowance for equity funds used during construction	6,198	4,495	3,476	2,388	1,560
Federal income tax—credit	2,748	671	1,111	859	703
Other—net	(533)	(295)	(333)	(348)	(90)
Total	8,413	4,871	4,254	2,899	2,173
Income before Interest Charges	49,946	40,569	37,406	31,133	29,289
Interest Charges:					
Interest on debt	27,154	23,558	19,923	13,185	12,507
Other	831	400	325	328	866
Allowance for borrowed funds used during construction	(7,718)	(7,287)	(4,536)	(2,640)	(1,831)
Total	20,267	16,671	15,712	10,873	11,542
Net Income	29,679	23,898	21,694	20,260	17,747
Dividends on Preferred Stock	4,126	4,126	4,126	4,126	3,626
Income Available for Common Stock	25,553	19,772	17,568	16,134	14,121
Dividends Declared on Common Stock	16,751	13,308	10,961	10,531	8,966
Amount Retained in the Business	8,802	6,464	6,607	5,603	5,155
Retained Earnings—beginning of year	80,155	73,691	67,084	61,481	56,326
Retained Earnings—end of year	$ 88,957	$ 80,155	$ 73,691	$ 67,084	$ 61,481
Common Stock:					
Average Shares Outstanding (000's)	6,867	5,851	5,373	5,310	4,873
Earnings Per Share—on Average Shares Outstanding	$3.72	$3.38	$3.27	$3.04	$2.90
Earnings Per Share—Assuming Conversion of the Convertible Debentures	—	*$3.26*	*$3.16*	*$2.93*	*$2.70*
Dividends Declared Per Share	$2.39	$2.20	$2.04	$1.96	$1.84
Book Value Per Share (at year end)	$26.52	$26.51	$27.52	$26.29	$25.74
Ratio of Earnings to Fixed Charges**	2.38	2.23	2.31	3.17	2.81
Total Assets	$611,118	$570,705	$523,572	$476,266	$419,420
Long-Term Debt	241,050	217,225	195,400	202,575	167,750
Cumulative Preferred Stock	61,030	61,030	61,030	61,030	61,030
Common Equity	197,709	173,442	147,884	141,277	125,425

*This summary should be read in conjunction with the financial statements and notes thereto included in the "Financial Section" of this Annual Report.

**For the purpose of computing the Ratio of Earnings to Fixed Charges, earnings consist of net income plus fixed charges plus all federal income tax amounts. Fixed charges consist of total interest charges, excluding the allowance for borrowed funds used during construction.

CENTRAL HUDSON GAS & ELECTRIC CORPORATION

March 1, 1982

Dear Shareholder:

The progress of our business in the year 1981 was very encouraging.

Notwithstanding that electricity and gas have consistently been recognized as superior energies, during the 1970's the use of our product had not been favorably received.

During this period the costs of both services have increased largely due to causes beyond our control, while our sales have not grown. We have also encountered constantly repressive governmental restraints and expressions of opinion by leaders of various groups which militate against the successful operation of our business.

We are pleased, however, to see signs that there is a growing recognition in society of the great benefits which both electricity and gas produce, and it is our hope that the favorable results of our operation last year are a sign of improved acceptance with respect to our affairs.

In 1981 our earnings rose to $3.72 from $3.38 in 1980 and the indicated annual rate of our dividends was increased through the year from $2.24 to $2.48.

During the course of the year we received rate relief from the New York State Public Service Commission that demonstrates an awareness by that Commission of the financial support needed to assure a productive electric and gas business responsive to the needs of the customers.

In fact, the electric and gas industry in New York State is one of the great reservoirs of strength for the State. While there are several reasons why industry may leave New York State, it cannot be said that insufficient electric supply in New York State is one of those reasons. Indeed, in order to continue to supply superior electric service, the utility business must be kept strong so that it does not become a burden such as mass transportation has become.

In order to operate our business effectively in the years ahead, we rely very much upon the work of our employees and this Annual Report acknowledges both the expectation of a greater acceptance of our services and the continued devotion of our employees which will make this future possible.

Thus this Annual Report sets forth the principal aspects of our business as unfolded in the past year and gives substance to our expectation that the 1980's will see a resurgence in the electric and gas business.

With best regards.

Cordially,

H. Clyston Wilson
President

Theodore J. Carlson
Chairman of the Board
and Principal Officer

Electricity

Supply

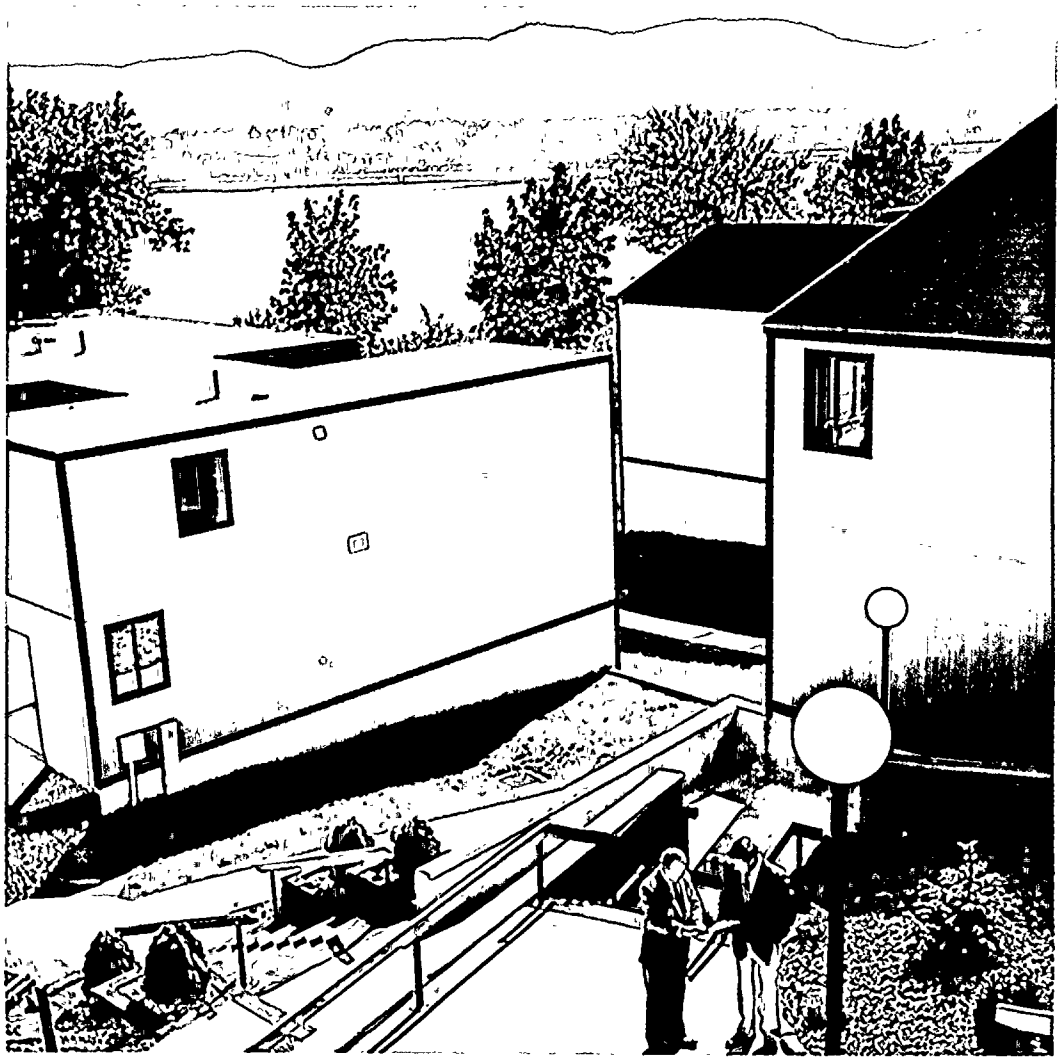
Central Hudson's electric facilities are adequate to serve any increasing load presently projected. In addition, the Company is diligently pursuing a program to diversify its fuel mix so that generation facilities will be available which operate from oil, gas, coal, hydro and nuclear resources. Such diversification should serve to materially reduce costs of generation and increase the reliability of supply.

The peak demand for electricity has not increased over the past year due to a combination of factors, including the aggressive efforts of industry, institutions and residential customers to reduce unneeded consumption of energy in response to the rising costs of gas and electricity. The termination of business activities at the Schatz Federal Bearings Company in Poughkeepsie and other business establishments was a significant factor in moderating potential growth.

International Business Machines commenced construction of new facilities for expanding operations in the area which will add significant electric and gas load to our system. Throughout the Mid-Hudson area, other small business and residential load continues to develop.

Nine Mile Point 2

In the early part of 1981, a decision was made by Central Hudson and the other cotenants to accelerate engineering and construction activity in order to complete Unit 2 of the Nine Mile Point Nuclear Station and place the unit in service by 1986. The



The 82-unit Ferry Crossing Condominium is heated and cooled with energy-efficient electric heat pumps. Overlooking Newburgh Bay and the majestic Hudson Highlands, Ferry Crossing is an excellent example of the rejuvenation of the city's river front. Joseph Schaetzl, Supervisor-Commercial & Industrial Services for Central Hudson, and James Salahshourian, owner, are shown discussing operating costs and conservation measures for the total electric complex. Vindicating the builder's confidence in the revitalization of inner-city Newburgh, every condominium unit was purchased prior to completion.

necessary employment of manpower was begun immediately, and the project is proceeding on a satisfactory schedule.

At this time, the Company has no reason to believe that the schedule will not be met, or that the co-tenants' costs estimate will be exceeded. As of December 31, 1981, Central Hudson had invested $131 million in the project.

On July 3, 1981, the Public Service Commission issued an order instituting a proceeding to consider the Company's ability to finance its share of Nine Mile Point.

Central Hudson is confident that it has fully justified its participation in the project; that the Company can finance its ownership in this plant given adequate and timely rate relief; and that the completion of the project will result in economic benefits to the customer because of its prospective low cost of operation.

On September 2, 1981, the Commission instituted a second proceeding involving all cotenants to examine the financial and economic cost implications of constructing Unit 2.

The proceeding is centered on a study performed by the Staff of the Public Service Commission, which concluded that the continued construction and operation of the plant is in the best interests of electric ratepayers. The cotenants support the Staff's position. The hearing phase was completed in December and a decision by the Commission had not been made at the time this report went to press.

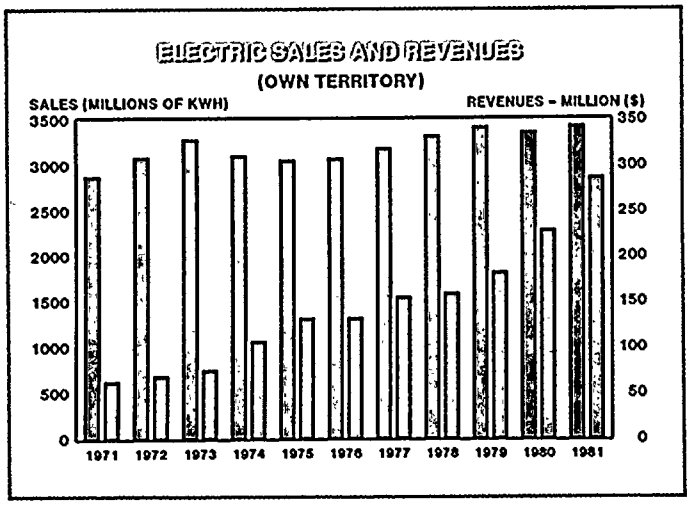
A decision on both proceedings was expected in the latter part of February.

Hydro

The Company is in the licensing stage of the High Falls Hydro Project and negotiations are proceeding with New York State and federal environmental authorities regarding the renewed operation of this plant which was previously abandoned. Studies for redevelopment of the High Falls site began in 1979 and it is anticipated that a federal license to begin construction may be obtained in mid-1982.

The Company is continuing to assess other sites in the area that may have the potential to generate electricity and displace the use of oil for generation.

A major rehabilitation program on the dam and intake facilities at the Sturgeon Pool Plant will be completed in 1982. As of December 31, 1981, approximately $7.5 million had been expended on the



project. While this facility, completed in 1924, had always been maintained in a suitable operating condition, the effects of time and erosion had led the Company to conclude that this major program would be necessary in order that the operation of this plant could satisfactorily and safely continue. These expenditures were fully justified because of the continued displacement of the use of expensive oil by hydro resources.

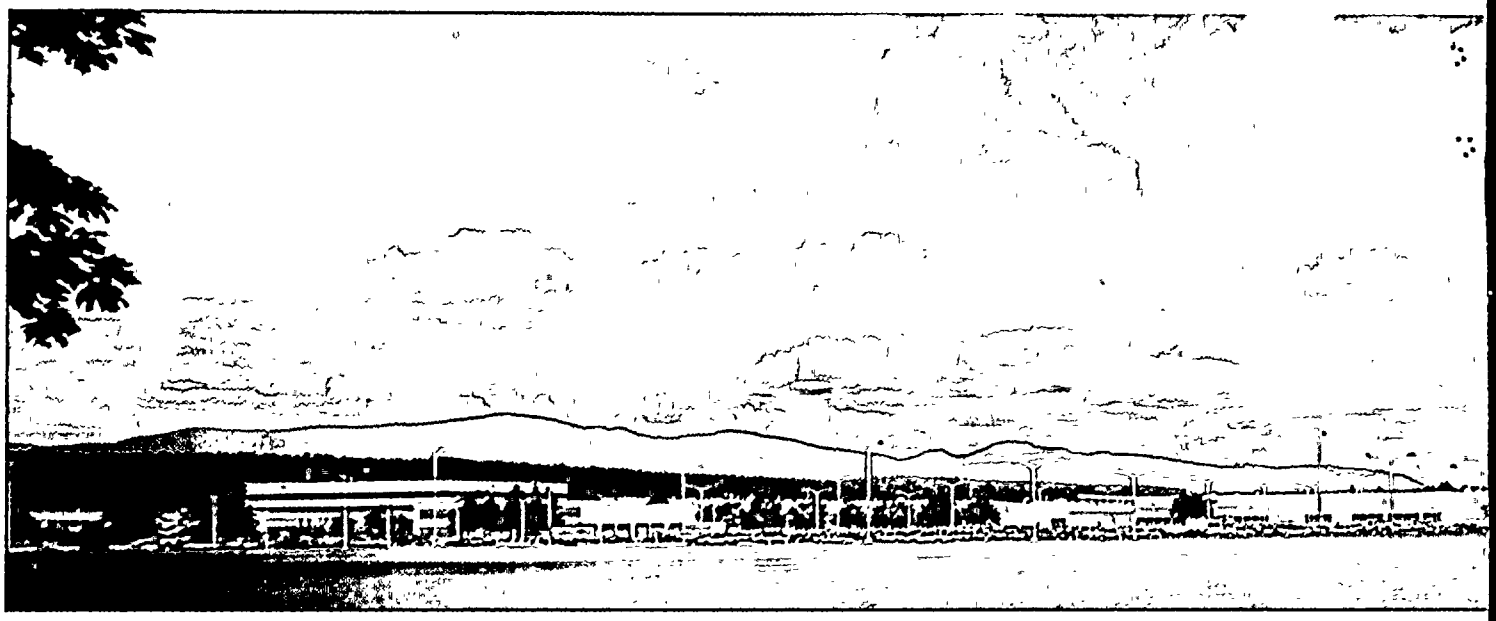
Natural Gas for Generation

During 1981, the Company generated 401,728 megawatt hours of electricity using natural gas as the boiler fuel. This amounted to 10.4% of total generation. This use replaced over 650,000 barrels of imported oil and resulted in savings to electric customers of $4.6 million and to gas customers of $1.3 million.

Coal Conversion

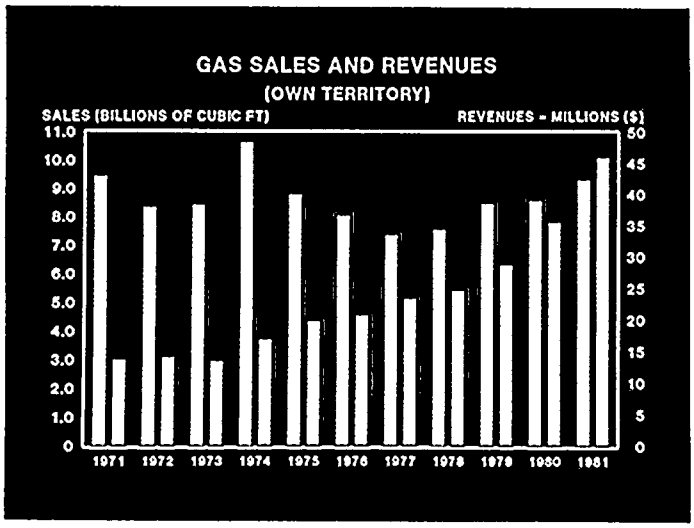
Current and projected prices of coal and oil indicate that reconversion of Units 3 and 4 at the Company's Danskammer Point Plant from oil to coal would substantially reduce generating costs. However, the capital cost of reconversion is high, principally because of the stringent pollutant emission control required by environmental law and regulations, and the process of obtaining the necessary environmental permits is complex and time consuming.

In March of 1981 the Public Service Commission initiated a reassessment of its regulatory policies to determine what changes might be made to facilitate the conversion of oil-fired generating units to coal firing. In response to the Commission's inquiry the Company urged the Commission to provide current cash income to support financing costs during construction and to authorize rapid amortization of



the investment in coal conversion in five years or less. In mid-December the Public Service Commission issued a Statement of Policy which endorsed, in principle, the concept of rapid amortization of utility investments in coal conversion in five years or less, but deferred to subsequent proceedings the determination of the exact length of the amortization period which would be authorized for each utility. The Statement of Policy took no position with regard to the provision of current cash income to support financing costs during construction.

Legislation has been introduced in the Congress which would attempt to ameliorate suspected adverse effects of acid rain. A substantial reduction of sulfur dioxide emissions from utility boilers and other major fuel-burning installations would be mandated in additon to reductions already required by the Clean Air Act. Passage of such legislation would place additional obstacles in the path of utilities seeking to convert oil-fired plants to coal.



Natural Gas

Conversions

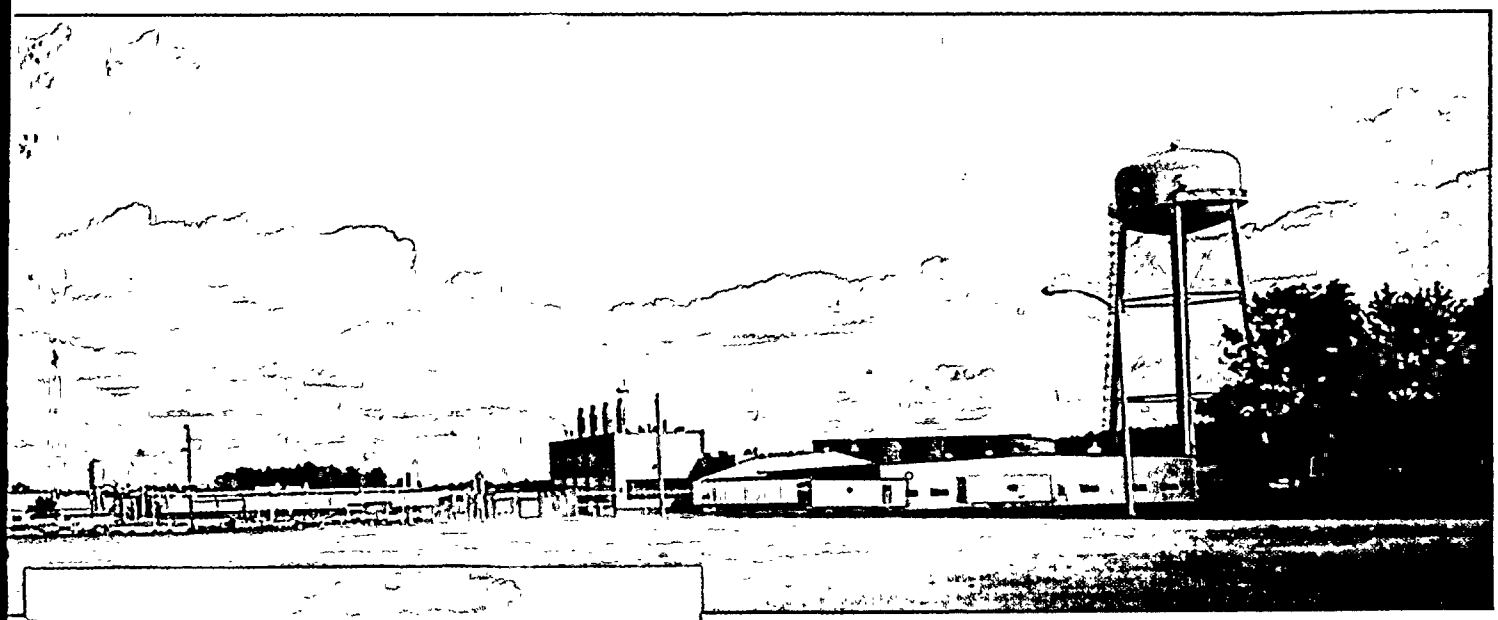
The demand for natural gas as a residential heating fuel has remained high throughout the year. Conversions to natural gas heating totaled 1,500 residences and 2,500 apartment dwelling units. Natural gas was delivered to the Company's customers at rates significantly below the costs for fuel oil, in most instances enabling customers to pay for their conversions within two years.

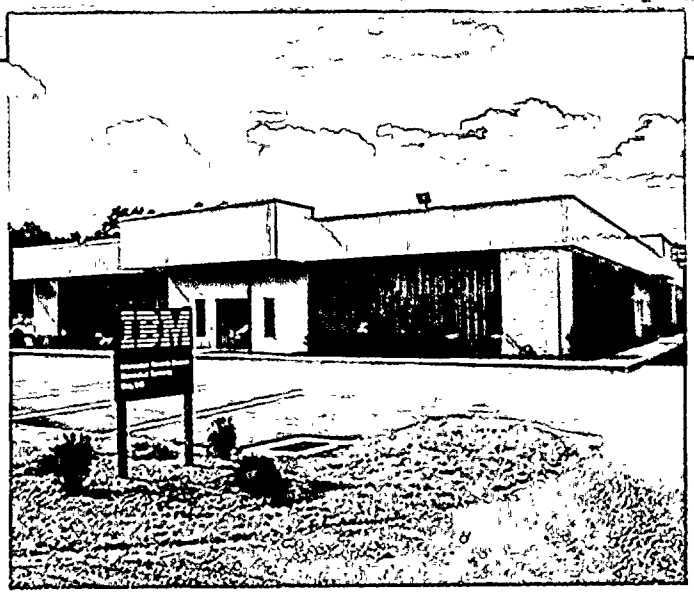
Over 292 commercial customers also have converted their heating systems to natural gas during the year.

These conversions took place in the face of a concerted, highly visible advertising campaign waged by national and state petroleum industry associations and by local fuel oil dealers.

With the passage of the National Energy Act in late 1978, supplies of natural gas became available that previously had been available only within the producing states or that had been uneconomical to market in the northeastern part of the nation. Since that time, Central Hudson has been involved in substantial efforts to provide gas service to customers who have chosen to heat with gas to replace petroleum fuel.

Many industrial, commercial and institutional establishments, in addition to residential customers, have made the decision to use gas and, as a result, both the number of customers and gas load are rising.





Shown above is a panoramic view of a part of the IBM Kingston complex, with the Catskill Mountains in the distance. IBM is Central Hudson's largest customer and during 1981 engaged in sizable construction programs in the Kingston, Poughkeepsie and Beacon districts. To the left, the Research Information Division and Biological Systems building, in Wiccopee near Beacon, was completed during the year. It is automatically heated and cooled with electric heat pumps.

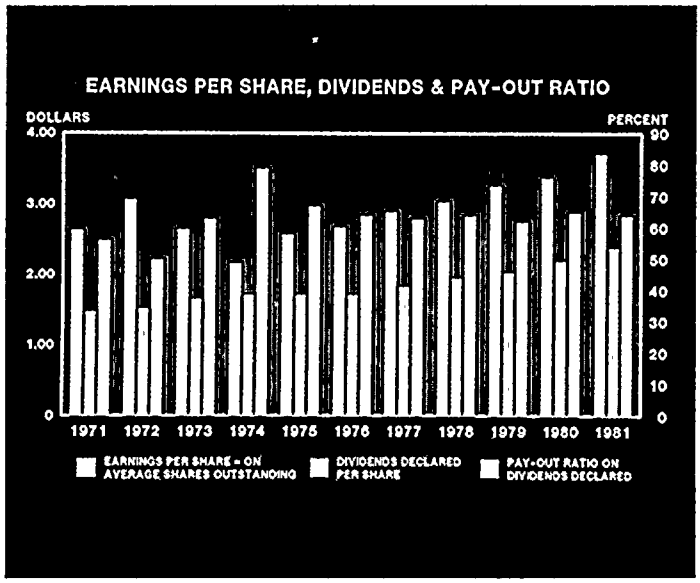
Supply

Supplies of gas from the Company's three major suppliers are adequate to serve projected loads in the near future. In anticipation of increased sales of gas in the future, the Company is in the process of negotiating with suppliers for additional contracted deliveries.

After four years of litigation before the Federal Energy Regulatory Commission, a proposed storage project in Western Pennsylvania and New York State has been approved, as have the pipeline reinforcements necessary to transport the gas to Central Hudson. This gas will be used to assure service on peak winter days.

Construction

International Business Machines is undertaking a substantial expansion of its facilities in the area. A major new facility with an expected load of 11,000 kilowatts is being constructed in the Town of Wappinger, requiring additional funds for the construction of a 69,000-volt transmission line extension and substation reinforcement. The IBM growth currently planned and under construction is alone equal to the growth projected for the next five years in the Company's forecast presented to the State Energy office for its most recent published report.



During the past year, the rate of new business growth has increased. A new enclosed shopping mall has been completed in Kingston and occupancy has improved in existing shopping malls. Scattered new housing has been constructed, mostly in the southeastern portion of the franchise area. This new business has required reinforcement of electric facilities and relocation of facilities as a result of road improvement programs, which have been major factors in the Company's construction expenditures.

Central Hudson's normal construction program includes projects to improve the safety, efficiency and reliability of existing generating facilities, including the Sturgeon Pool hydro facility previously mentioned. The capital requirements for the normal program in 1982 are $24,997,000 as compared to $18,556,000 in 1981.

In addition to its normal program, Central Hudson's Roseton Agreement commits it to buy from Niagara Mohawk Power Corporation, at the end of 1982, 60 megawatts of Roseton capacity. The cost of this purchase is $13,448,000. The Company will then have a total ownership of Roseton capacity of 420 megawatts.

Payments to support participation in the nuclear program, which includes the construction of Nine Mile Point 2 and costs involved in the cancellation of items contracted for in the Sterling Project, will total $48,885,000.

Expenditures for Roseton, Nine Mile and Sterling account for approximately 71% of the $87,330,000 of construction expenditures budgeted for 1982.

Shareholders and Investors

Financing

On August 26, 1981, the Company sold 900,000 shares of new common stock and $30 million of first mortgage bonds. The common stock was offered to the public at a price of $17.75 per share and the Company received proceeds of $17.11 per share. The offering was well received by investors and the underwriters were able to increase the size of the issue, as originally proposed, from 750,000 shares to 900,000 shares. The Company received total proceeds of $15.4 million from this sale.

The first mortgage bonds, which bear an interest rate of 17⅛%, have a ten-year maturity. The Company realized proceeds of $29.4 million from this sale and the cost to the Company for this series of bonds is 17.56%.

The proceeds from these two offerings were used to fund a portion of the Company's construction program and to refund maturing debt securities. On June 1, $8 million of 4⅜% convertible debentures matured, and on August 31 the Company prepaid the final installment, $10 million, of its term loan notes.

At December 31, 1981, outstanding short-term debt, all in the form of commercial paper, amounted to $16.5 million, as compared to $18 million at December 31, 1980. The Company maintains lines of bank credit of $55 million.

The Company's capitalization at December 31, 1981 was as follows:

	Amount ($000)	% of Capitalization
Long-Term Debt	$246,229	47.2%
Short-Term Debt	16,500	3.2
Preferred Stock	61,030	11.7
Common Equity	197,709	37.9
Total	$521,468	100.0%

As part of its ongoing financing program the Company anticipates issuing additional shares of common stock and additional first mortgage bonds in 1982. The amounts and timing of such issues, however, have not yet been determined.

Dividends

Dividends paid to shareholders increased 7% in 1981, from $2.18 per share in 1980 to $2.33 per share in 1981. This was the fifth consecutive year in which the dividend has been increased and such increases have averaged 6.3% over that five-year period. During this same period the number of outstanding shares of common stock has increased 53%.

On December 18, 1981, the Board of Directors further increased the quarterly dividend rate from $.59 to $.62 per share, an indicated annual rate of $2.48. The quarterly dividend rate had previously been increased from $.56 to $.59 per share effective May 1, 1981.

It is currently estimated that 7 % of the 1981 dividend constitutes a return of capital and therefore is not subject to federal income tax as ordinary income. The remaining 93 % of the dividend paid is taxable as ordinary income.

The Culinary Institute of America, located in Hyde Park, is the world's largest culinary arts school, with an enrollment of 1,650 full-time students. John Mitchell, Poughkeepsie Supervisor of Commercial & Industrial Services, and Ferdinand Metz, President of the Institute, observe advanced students working in an all-gas kitchen. Over 100 commercial gas ranges are used at the Institute, and gas is also used exclusively for heating and water heating.

Customer Relations

Home Energy Fair Practices Act

The Company has always had a liberal program under which the service to customers was shut off only as a last resort, and fair consideration has always been given to cases involving special concerns and hardships. Accordingly, the Company generally supported the Home Energy Fair Practices Act, intended to protect consumer interests and commonly referred to as the Consumer Bill of Rights, which was passed by the New York State Legislature in mid-year.

Under the Act, new rules codified many existing regulations and programs already being provided by the Company in an effort to be responsive to its customers' needs. However, the Act also included a number of complex procedural changes which seriously affect the ability of the Company to collect for gas and electric service in a timely manner. As a result, significantly increased costs are anticipated in the implementation of these rules.

Home Energy Assistance Plan (HEAP)

Since 1977, many customers have qualified for cash grants under a variety of federally funded programs. During the 1980-1981 winter period a total of 3,545 customers with limited income received allocations to assist them in paying their heat-related utility bills. The grants were authorized by the Department of Social Services and were credited directly to the customer accounts. The total amount of such grants was $667,876 during the past winter.

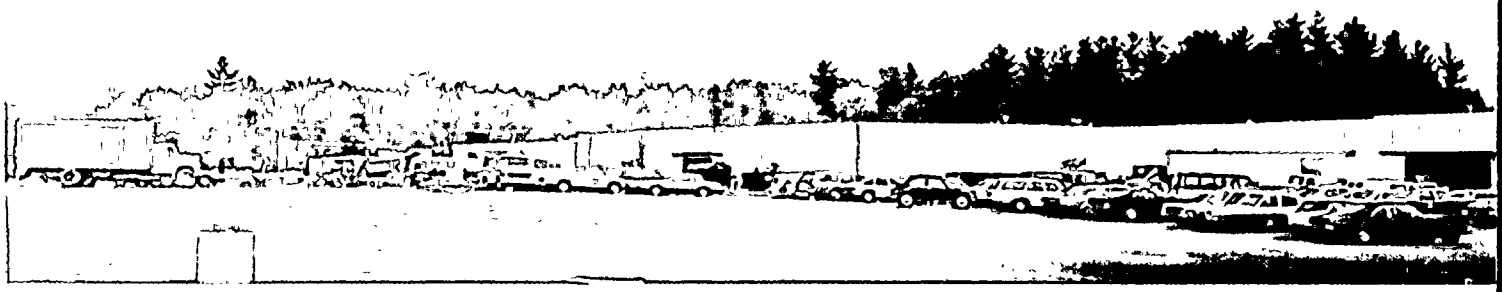
Home Energy Audits

An amendment to the Home Insulation & Energy Conservation Act signed into law in 1981 eliminated the $10 fee the utilities were previously able to charge a customer for a Home Energy Audit. This change, combined with added provisions which included solar domestic water heater audits and furnace efficiency checks, resulted in a significantly increased demand for this conservation service. During the fall, the Company hired an outside agency to assist our Company employees in handling the backlog of audits. Altogether, 1,738 energy audits were conducted during 1981. Since the program was begun in 1978, 4,353 audits have been completed and Company guaranteed loans totaling $545,000 have been arranged for our customers.

Energy Symposium for Women

Following the successful 1980 Energy Symposium for Dutchess County Women, the Company presented a similar program last September for women from Orange and Ulster counties. Nearly 100 community leaders attended the Symposium, held at the Roseton Electric Generating Plant. The program provided timely information on energy issues and options.

A total-electric Hess's department store is located in the Hudson Valley Mall in Kingston. This enclosed, 70-store mall was completed in October, only 100 days after ground-breaking. Other primary tenants are a K-Mart, and J. C. Penney which is scheduled to open in 1982.



Typifying the trend to energy conservation, this 103-apartment structure in Poughkeepsie has natural gas heat individually metered for each apartment. The owners, Stephen and Julie Miron, are shown here with William Cotting, Central Hudson Representative, on the left.

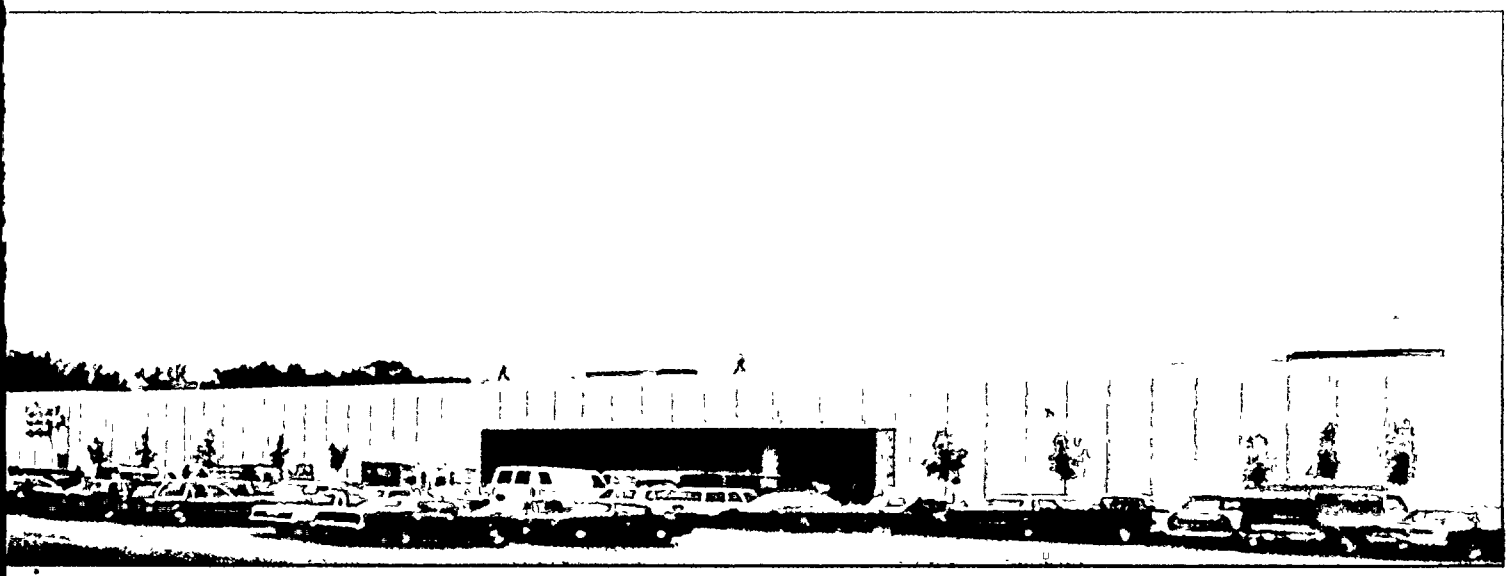
Consumer Advisory Panel

Formed in 1980 to provide a channel of communication between the Company and customers, the Consumer Advisory Panel has expanded its membership to include a wider geographic area. The 15-member panel—including representatives of minority groups, social, educational and charitable organizations—has made recommendations to improve storm procedures, corporate communications and service restoration programs. A number of these recommendations have been implemented.

Research and Planning

Research and Development

During 1981 Central Hudson continued a wide-ranging research and development program designed to improve the efficiency and reduce the cost of generating and distributing electricity, to maximize the efficient use of all forms of energy in customer facilities, and to assess opportunities for the use of renewable energy resources both in its own system and by its customers.



The Company promotes energy conservation, energy-efficient electric heat pumps and natural gas heat at fairs and exhibitions throughout the Mid-Hudson Valley. Service Supervisor Everett Pelham and Lighting Specialist Elmer Crans are shown distributing conservation literature to customers at the Dutchess County Fair, largest of all county fairs in New York State.

Early in the year the Company, in cooperation with the New York State Energy Research and Development Authority, began a jointly funded, multi-year program to explore the technical and economic feasibility of electric generation with wind turbines in the Company's service territory.

Work continued on programs designed to test the operational and economic feasibility of fuel cells for electric generation, to improve the efficiency and availability of existing generating units, to identify the optimum design configurations for residential and commercial space heating, water heating, and lighting systems, to assess the potential effects of wood stoves, electric vehicles, and customer-owned wind generation on future electric system loads, and to reduce the impact of the Company's generating plants on Hudson River fish populations.

The Company contributes to research leading to the improvement of gas supply and the increased efficiency of gas utilization equipment.

Corporate Planning

Following the restructuring of its corporate planning organization, as described in last year's report, the Company is actively studying alternative strategies for future development. During 1981, a computer model was acquired to facilitate improved simulation of future electric production costs under a wide range of technical and economic conditions, and development of a comprehensive, long-range financial planning model was initiated with a targeted completion date in 1982.

While the provision of economical electric and gas service is and will continue to be its principal mission, the Company's Board of Directors, in November 1981, authorized the use of a wholly owned subsidiary to explore the potential of selected, unregulated business activities as a possible means of strengthening the Company's financial condition and broadening its managerial horizons. This program is being reviewed currently with the Public Service Commission.

Regulation and Litigation

Rate Proceedings

Increased electric and gas rates became effective on July 18, 1981. Pursuant to an order of the Public Service Commission (PSC), revised tariffs were designed to increase electric revenues by $31,690,000, or 11.8%, and gas revenues by $2,654,000, or 5.8%, based on estimated sales for a "test year" from August 1, 1981 to July 31, 1982, the first year in which the new rates will be effective. The total revenue increase authorized by the PSC was approximately 88% of the amount requested by the Company in its rate increase application filed in August 1980.

In arriving at its decision, the PSC allowed a return on common stock equity of 16.9% and an overall return on the Company's total invested capital of 12.24% and authorized certain accounting changes designed to improve cash flow. In its determination with respect to the increased electric rates, the PSC decided to defer determination of the Company's request for increased annual electric revenues of $7,718,000 for the amortization and recovery in rates over a five-year period of its investment in the terminated Sterling Nuclear Unit No. 1 (Sterling Project) until it had reached its decision in a separate proceeding with respect to such matter. Regarding electric sales to other utilities for resale, the PSC

The Mid-Hudson Region is experiencing a marked expansion of the electronics business. Fairchild, a rapidly developing company, is arranging for an addition of about 70,000 to 120,000 square feet in 1982. Kamal Aggarwal, Plant Manager, and Thomas Vail, Central Hudson Director-Economic Development, are shown examining a microprocessor wafer, produced in Wappingers Falls, and being tested by Fairchild. Central Hudson is renewing its area development activities; attracting new business into the area, and assisting existing companies with expansion plans.

modified its prior treatment and provided that net revenues (revenues less incremental costs, principally fuel) from all sales for resale, except certain continuing firm sales imputed in deriving the base rates, be flowed through the electric fuel adjustment clause to the Company's retail customers as a credit to fuel costs.

On November 23, 1981, the Company filed a request with the PSC for an 11.1% increase in electric revenues and a 5.9% increase in gas revenues from firm customers. The new rates are needed to cover the estimated cost of providing service for the period starting in November of 1982 and continuing through 1983. In its filing, the Company is requesting an 18.5% return on common equity and a 13.75% return on total invested capital. The Company's electric filing also includes $9.9 million for the amortization of costs associated with the Sterling Project.

The proposed electric increase has been allocated among the various customer classifications in the

Under a Small Cities Grant, Newburgh has undertaken a three-year neighborhood improvement program involving house rehabilitation, facade restoration and road reconstruction in the downtown section. Mayor Joan Shapiro is shown with Central Hudson Representatives Joseph Schaetzl and Theodore Musal in the Lander Street reconstruction area. So far, 21 buildings have been rehabilitated, 15 facades restored and sections of street repaired in the style of the original 19th century paving.

manner directed by the PSC at the conclusion of the Company's last rate case. The PSC is conducting a separate proceeding to consider the allocation of revenue requirements among customer classes, the rate structure of each class, and time-differentiated rates. It is expected that the PSC will render a decision in this proceeding prior to or concurrent with a decision in the Company's current electric rate proceeding.

Sterling Project

The Company has been participating as a tenant in common in the Sterling Project, which was to have been constructed in upstate New York and placed in service in 1988. The Company has a 17% interest in this project.

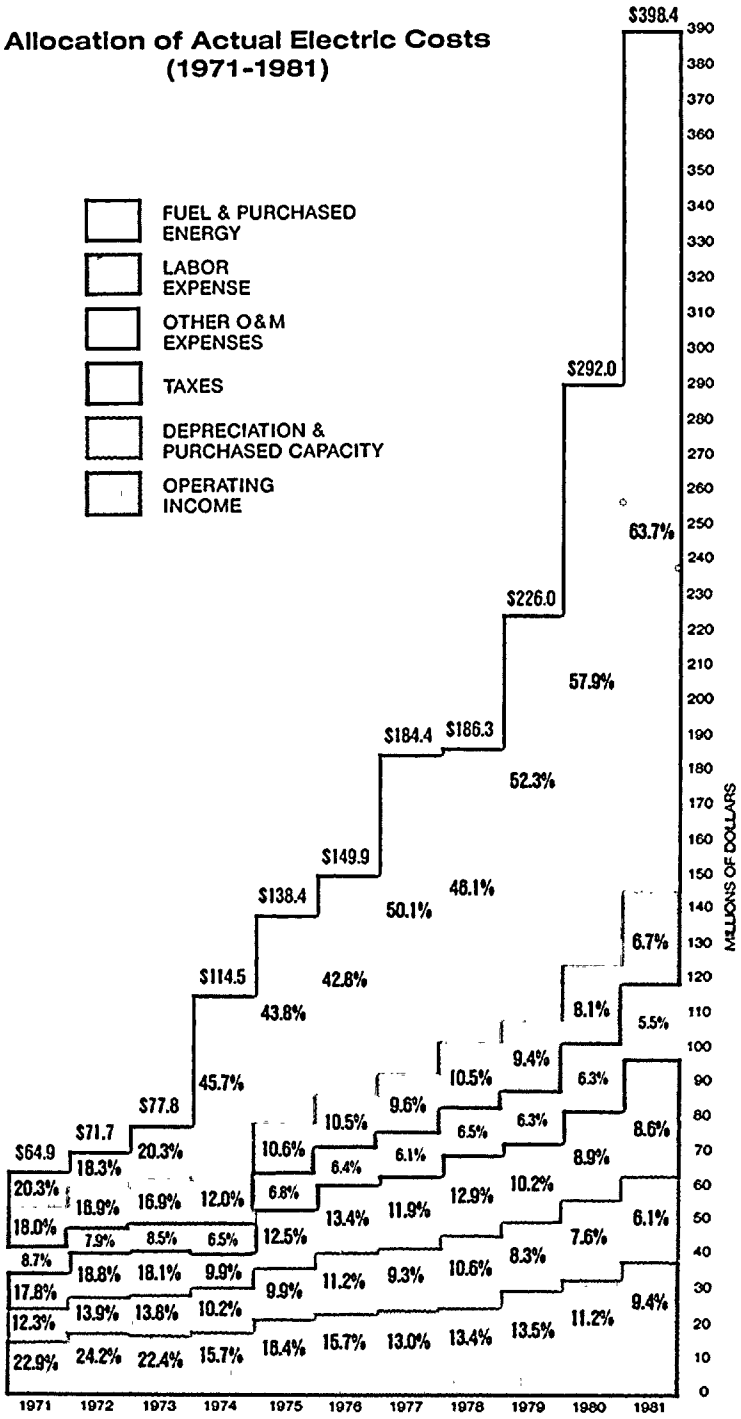
The New York State Board on Electric Generation Siting and the Environment (Siting Board) initially approved the construction and siting of the Sterling Project on January 11, 1978; however, this approval was suspended on May 4, 1978 and ultimately reversed on January 23, 1980 when the Siting Board voted to revoke its earlier approval.

On February 6, 1980, the Company, together with the other owners of the Sterling Project, filed a petition with the PSC for permission to amortize its investment in the Sterling Project and any related cancellation charges against income and to recover such investment and charges through rates over a period of years.

In June 1980, the PSC commenced a proceeding to consider the owners' petition. The proceeding was divided into the following phases: Phase I to examine the prudence of the owners in incurring types or categories of expenditure in connection with the Sterling Project; Phase I-A to consider whether the Sterling Project owners should be permitted to recover a return on the unamortized investment in the Sterling Project during the period of amortization; and Phase II to examine specific dollar amounts incurred in each category and the length of the amortization period.

Phase I was completed in January 1981 and the PSC in its Opinion concluded that the categories of expenditure incurred for the Sterling Project up to January 11, 1978 were prudent in principle.

On January 13, 1982, the PSC issued its Opinion in Phases I-A and II of said proceeding. The PSC



This cost allocation chart vividly depicts the dramatic effect of fuel price increases on the cost of electric service, and the fact that ten years ago fuel costs comprised only 20% of electric costs, while today fuel makes up 63.7% of these costs. Apart from the cost of fuel, Central Hudson rates have increased almost identically with increases in the consumer price index. And excluding fuel, the rates remain the second lowest in New York State.

determined that all the expenditures on the Sterling Project, including those incurred after January 11, 1978, were prudent. Also, the Commission approved amortization of the Company's investment in the Sterling Project on a levelized basis over a five-year period, and it permitted a return on the unamortized balance equal to the Company's authorized overall rate of return. The PSC directed that the amortization and recovery commence upon the conclusion of the Company's pending rate proceeding.

As of December 31, 1981, the Company had $20.7 million invested in the Sterling Project, including AFDC. After providing for the reduction of federal income tax resulting from the abandonment loss, part of which was claimed in 1980, and reflecting cancellation charges expected to be incurred and accrual of additional AFDC, the Company's investment in the Sterling Project is projected to be $18.5 million as of October 31, 1982. As part of its pending rate proceeding the Company has requested increased revenues in the amount of $9,863,000 in order to amortize this investment on a levelized basis over a five-year period with a return on the unamortized balance of 13.75%.

Roseton

Legal action to recover damages from certain contractors involved in the Roseton Plant is being continued by the owners: Central Hudson, Consolidated Edison Company of New York, Inc., and the Niagara Mohawk Power Corporation.

The utilities claim the defendants' failure to construct properly the Roseton Plant led to a series of incidents, including a boiler implosion, which delayed the completion and commercial operation of the Plant. The matter is being aggressively pursued by the owners of the Plant because of their conviction that their claim is based on solid legal principles and that the major damage which has been suffered should be recovered.

The parties are actively engaged in pre-trial discovery proceedings, but no estimate can be made at this time as to the duration or outcome of the litigation.

Corporate

Ward Manor-Cruger Island

The Company was delighted to convey in July 1981 title to its 706-acre Ward Manor-Cruger Island property to the State of New York. Twenty-one years ago the Company had purchased this choice property to use as a site for a future generating plant, thus taking the property out of commercial use and permitting it to be dedicated to the public use. When the Company determined that the land would not be needed for a generating site, it decided that it was in the best interests of all concerned to convey the property to the State of New York so that it could be used by the public. The State acquired this site for a consideration of $710,000, which represents the Company's actual investment. The Ward Manor-Cruger Island tract is located on the east bank of the Hudson River near Tivoli and is not only rich in historical interest but is a valuable waterfowl refuge and fish spawning ground. In relinquishing title to the State, Central Hudson acted on its commitment to preserve and protect the environmental quality of the area it serves.

Officers

John E. Mack III, Executive Vice President, was elected a member of the Board of Directors in January 1981. Mr. Mack has served in the financial, personnel and customer services groups.

Labor Agreement

The Company entered into a two-year contract with Locals 320 and 2218 of the International Brotherhood of Electrical Workers effective July 1, 1981 to June 30, 1983. The contract provided for improvements in certain benefit programs plus a 10% wage increase to become effective July 1, 1981, and an additional 10% increase on July 1, 1982.

1981 ANNUAL REPORT

Financial Section

Central Hudson Gas & Electric Corporation
General Office
284 South Avenue, Poughkeepsie, New York 12601
Telephone (914) 452-2000

Report of Independent Accountants

To the Board of Directors and Shareholders of
Central Hudson Gas & Electric Corporation

In our opinion, the accompanying balance sheet and the related statements of income, of retained earnings, and of changes in financial position present fairly the financial position of Central Hudson Gas & Electric Corporation at December 31, 1981 and 1980, and the results of its operations and the changes in its financial position for each of the three years in 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.

New York, New York
January 29, 1982

PRICE WATERHOUSE

Statement of Retained Earnings
(Thousands of Dollars)

	Year ended December 31,		
	1981	1980	1979
Balance at beginning of year	$80,155	$73,691	$67,084
Net Income	29,679	23,898	21,694
	109,834	97,589	88,778
Dividends declared—cash:			
On cumulative preferred stock	4,126	4,126	4,126
On common stock ($2.39 per share 1981; $2.20 per share 1980; $2.04 per share 1979)	16,751	13,308	10,961
	20,877	17,434	15,087
Balance at end of year	$88,957*	$80,155	$73,691

*Pursuant to the terms of the 4.85% promissory notes, due 1995, $80,543 is available for payment of dividends on common stock.

The Notes to Financial Statements are an integral part hereof.

Statement of Income
(Thousands of Dollars)

	Year ended December 31, 1981	1980	1979
Operating Revenues			
Electric	$287,063	$228,598	$181,705
Gas	46,076	35,630	28,813
Total—own territory	333,139	264,228	210,518
Revenues from electric sales to other utilities	111,329	63,401	44,266
Revenues from gas sales to other utilities	413	364	—
	444,881	327,993	254,784
Operating Expenses			
Operation:			
Fuel used in electric generation (Note 1)	184,167	125,007	90,897
Purchased electricity	80,268	52,556	32,845
Purchased natural gas	28,579	22,525	16,693
Other expenses of operation	40,952	35,164	29,307
Maintenance	12,450	11,132	9,818
Depreciation (Note 1)	16,108	15,220	14,839
Taxes, other than income tax	29,274	24,481	21,268
Federal income tax (Note 2)	8,981	(2,534)	171
Deferred income tax—net (Note 2)	2,569	8,744	5,794
	403,348	292,295	221,632
Operating Income	41,533	35,698	33,152
Other Income and Deductions			
Allowance for equity funds used during construction (Note 1)	6,198	4,495	3,476
Federal income tax—credit (Note 2)	2,528	418	933
Deferred income tax—credit (Note 2)	220	253	178
Other—net	(533)	(295)	(333)
	8,413	4,871	4,254
Income before Interest Charges	49,946	40,569	37,406
Interest Charges			
Interest on mortgage bonds	21,043	15,017	11,306
Interest on unsecured long-term debt	1,815	3,778	5,195
Interest on short-term debt	4,296	4,763	3,422
Other interest	652	305	262
Allowance for borrowed funds used during construction (Note 1)	(7,718)	(7,287)	(4,536)
Amortization of premium and expense on debt	179	95	63
	20,267	16,671	15,712
Net Income	29,679	23,898	21,694
Dividends on Preferred Stock	4,126	4,126	4,126
Income Available for Common Stock	$ 25,553	$ 19,772	$ 17,568
Common Stock:			
Average Shares Outstanding (000's)	6,867	5,851	5,373
Earnings per Share—On Average Shares Outstanding	$3.72	$3.38	$3.27
Earnings per Share—Assuming Conversion of the Convertible Debentures (Note 3)	—	*$3.26*	*$3.16*

The Notes to Financial Statements are an integral part hereof.

Balance Sheet
(Thousands of Dollars)

Assets

	1981	1980
Utility Plant, at original cost		
Electric	$441,945	$433,640
Gas	55,642	53,551
Common	26,930	23,976
	524,517	511,167
Less accumulated depreciation	179,268	165,487
	345,249	345,680
Construction work in progress	160,249	123,827
	505,498	469,507
Other Property and Investments (Note 1)	1,840	1,968
Current Assets		
Cash	2,958	3,341
Special deposits	252	247
Accounts receivable from customers	39,151	31,947
Accrued unbilled utility revenues (Note 1)	7,535	5,771
Other receivables (Note 2)	1,148	6,554
Materials and supplies, at average cost:		
Fuel	18,642	19,391
Construction and operating	8,237	7,873
Prepayments	4,259	3,771
	82,182	78,895
Deferred Charges		
Deferred electric fuel costs (Note 1)	6,410	10,351
Deferred gas costs (Note 1)	1,000	623
Deferred environmental costs (Note 1)	3,422	3,099
Unamortized debt expense	2,493	2,190
Unamortized project costs	4,449	411
Other	3,824	3,661
	21,598	20,335
	$611,118	$570,705

The Notes to Financial Statements are an integral part hereof.

December 31, 1981 and 1980

Liabilities

	1981	1980
Capitalization		
Capital Stock (Note 5)		
Cumulative preferred stock	$ 61,030	$ 61,030
Premium on cumulative preferred stock	67	67
Common stock	111,165	95,546
Capital stock expense	(2,480)	(2,326)
	169,782	154,317
Retained Earnings	88,957	80,155
Long-term Debt (Note 6)	241,050	217,225
Unamortized Premium and Discount on Debt—Net	(821)	(253)
	498,968	451,444
Current Liabilities		
Long-term debt maturing within one year	6,000	18,000
Sinking fund requirements	175	175
Notes payable (Note 4)	16,500	18,000
Accounts payable	26,669	25,808
Accrued taxes	6,073	7,183
Accrued interest	5,855	4,022
Customer deposits	2,840	2,677
Dividends declared	5,654	4,696
Other	5,190	5,775
	74,956	86,336
Deferred Credits and Other Liabilities		
Deferred gas refunds	1,970	1,618
Miscellaneous reserves	992	760
Other	3,181	1,845
	6,143	4,223
Accumulated Deferred Income Tax (Note 2)	31,051	28,702
Commitments and Contingencies (Note 8)	—	—
	$611,118	$570,705

The Notes to Financial Statements are an integral part hereof.

Statement of Changes in Financial Position
(Thousands of Dollars)

	Year ended December 31, 1981	1980	1979
Source of Funds			
Internal sources:			
Net income	$29,679	$ 23,898	$21,694
Income items not requiring current outlays:			
Depreciation accruals:			
Charged to depreciation expense	16,108	15,220	14,839
Charged to other income accounts	629	586	530
Deferred income tax—net	2,349	8,491	5,616
Allowance for funds used during construction (Note 1)	(13,916)	(11,782)	(8,012)
Other—net	1,973	1,314	355
Net funds from internal sources	36,822	37,727	35,022
Available from financing:			
Mortgage bonds	30,000	50,000	20,000
Common stock	15,619	19,175	—
Short-term debt	—	—	22,000
Total funds from external sources	45,619	69,175	42,000
Total source of funds	$82,441	$106,902	$77,022
Application of Funds			
Construction charges:			
Gross charges for construction	$56,050	$ 41,455	$40,526
Less allowance for funds used during construction (Note 1)	13,916	11,782	8,012
Cash expenditures	42,134	29,673	32,514
Dividends:			
Preferred stock	4,126	4,126	4,126
Common stock	16,751	13,308	10,961
	20,877	17,434	15,087
Retirement of securities and short-term debt:			
Mortgage bonds	—	12,000	—
Convertible debentures	8,000	—	—
Long-term promissory notes	175	175	175
Term loan notes	10,000	10,000	15,000
Short-term debt	1,500	27,000	—
	19,675	49,175	15,175
Net increase in working capital, other than short-term debt and current maturities of long-term debt	1,166	6,170	7,722
Changes in deferred and other accounts—net	(1,411)	4,450	6,524
Total funds applied	$82,441	$106,902	$77,022

The Notes to Financial Statements are an integral part hereof.

Notes to Financial Statements

Note 1—Summary of Accounting Policies

General: The Company is subject to regulation by the New York State Public Service Commission (PSC) and the Federal Energy Regulatory Commission (FERC) with respect to its rates for service and the maintenance of its accounting records. The Company's accounting policies conform to generally accepted accounting principles as applied in the case of regulated public utilities and are in accordance with the accounting requirements and rate-making practices of the regulatory authorities having jurisdiction.

Utility Plant: The costs of additions to utility plant and replacements of retirement units of property are capitalized at original cost. Costs include labor, materials and supplies, indirect charges for such items as transportation, certain taxes, pension and other employee benefits, and an allowance for the cost of funds used during construction. Replacement of minor items of property is included in maintenance expenses.

The original cost of property, together with removal cost, less salvage, is charged to accumulated depreciation at such time as the property is retired and removed from service.

Allowance for Funds used During Construction (AFDC): The Company includes in plant costs an allowance for funds used during construction approximately equivalent to the cost of funds used to finance construction expenditures. The concurrent credit for the amount so capitalized is reported in the Statement of Income as follows: the portion applicable to borrowed funds is reported as a reduction of interest charges while the portion applicable to other funds (the equity component) is reported as other income. AFDC is not considered a current source of funds and therefore is not included as such in the Statement of Changes in Financial Position.

Effective July 18, 1981, pursuant to Commission authorization, the Company began accruing AFDC on its investment in the Nine Mile No. 2 Plant on a net-of-tax basis. This change in method results in a lower AFDC rate and a reduction in the amount of AFDC accrued; however, such reduction in AFDC is offset by increased after tax cash income generated by increased rates. The tax benefit which results from the interest cost deduction has been reclassified from "Operating Expenses" to "Other Income and Deductions."

Depreciation: For financial statement purposes, the Company's depreciation provisions are computed on the straight-line method using rates based on annual studies of the estimated useful lives and estimated net salvage of properties. The provision for depreciation of transportation equipment is charged indirectly to various asset and expense accounts, while the depreciation provision for certain properties included in the account "Plant Held for Future Use" is charged to "Other Income Deductions" for accounting purposes.

For federal income tax purposes, the Company uses an accelerated method of depreciation and generally uses the shortest life permitted for each class of assets.

Rates and Revenues: Electric and gas retail rates applicable to intrastate service (other than contractually established rates for service to municipalities and governmental bodies) are regulated by the PSC. Transmission rates and rates for electricity sold for resale in interstate commerce are regulated by FERC.

Revenues are recognized on the basis of cycle billings rendered monthly or bimonthly. Estimated revenues are accrued for those bimonthly customers whose meters are not read in the current month.

The Company's tariff for retail electric service includes a fuel cost adjustment clause pursuant to which electric rates are adjusted to reflect changes in the average cost of fuels used in electric generation and certain purchased power costs from the average of such costs included in base rates. The Company's tariff for gas service contains a comparable clause to adjust gas rates for changes in the price of purchased natural gas and certain costs of manufactured gas.

Deferred Electric Fuel Costs: The provisions of the electric fuel cost adjustment clause are such that changes in fuel costs incurred in the current month are not billed to customers until subsequent months. Therefore, in order to match costs and revenues, the Company defers that portion of such costs incurred in the current month which will result in a cost adjustment in subsequent months.

Effective November 3, 1979, the Company was authorized to include an additional $.015 per kwhr. of fuel costs in its base rates and to recover over a 36-month period the portion of deferred fuel costs that was associated with this increase in base rates and corresponding reduction in fuel adjustment factor. At December 31, 1980 and 1981, $3,756,000 and $1,622,000, respectively, of such costs remained to be recovered.

Effective July 18, 1981, the Company was further authorized to include an additional $.012 per kwhr. of fuel costs in its base rates and to recover associated deferred fuel costs over a 36-month period. At December 31, 1981, $4,052,000 of such costs remained to be recovered.

Deferred Gas Costs: In accordance with requirements applicable to all regulated gas utilities in the State, the Company defers each month any difference between the amount of gas costs incurred which are recoverable through the gas adjustment clause (GAC) and GAC revenues. The net deferral remaining at August 31 of each year is amortized over a subsequent twelve-month period for both billing and accounting purposes.

Deferred Environmental Costs: Pursuant to an Order of the PSC, the Company had been deferring, pending final resolution of the issues, the cost of certain environmental studies it was conducting to contest certain provisions of the discharge permits issued by EPA for its Danskammer and Roseton plants. Effective November 3, 1979, the Company was authorized to charge to current operating expense the continuing costs of these studies and to recover over a 60-month period the costs that had been deferred. At December 31, 1980 and 1981, $3,099,000 and $2,251,000, respectively, of such costs remained to be recovered.

Pursuant to an Order of the PSC issued May 8, 1981, the Company has been authorized to defer its share of the costs incurred in the settlement agreement in connection with the Hudson River Cooling Tower proceeding before the EPA pending determination in a rate case of the recoverability of such costs in rates. At December 31, 1981, $1,171,000 of such costs had been deferred.

Investments in Subsidiaries: The subsidiaries are wholly owned land-holding companies, and they are not consolidated for financial reporting purposes since their assets, liabilities and operations are not significant in relation to those of the Company. The Company uses the equity method of accounting for its investment in subsidiaries.

Note 2—Federal Income Tax

General: The Company's general policy with respect to accounting for the federal income tax is to reflect in income the estimated amount of income tax currently payable and to provide for deferred taxes on timing differences between book and taxable income to the extent permitted for rate-making purposes.

Depreciation: In computing depreciation for federal income tax purposes for the years 1979 and 1980 the Company used an accelerated method as permitted under the Internal Revenue Code, and the class life system prescribed in the Revenue Act of 1971. For the year 1981, the Company used the Accelerated Cost Recovery System as prescribed in the Economic Recovery Tax Act of 1981.

Investment Tax Credit: The federal income tax is reduced by the investment tax credit. The additional investment tax credit resulting from increasing the rate of such credit from 4% to 10%, as provided by the Tax Reduction Act of 1975, is being deferred and amortized over the life of the related property in accordance with a Statement of Policy of the PSC. The investment tax credit which is not deferred is allocated equally between "Utility Operating Income" and "Other Income and Deductions" in accordance with the Uniform Systems of Accounts of the PSC.

In addition, effective July 18, 1981, the Company was authorized by the PSC to defer the full 10% investment tax credit associated with the Company's participation in the Nine Mile Point No. 2 Plant to be subsequently amortized over a period yet to be determined.

The Company has a Tax Reduction Act Stock Ownership Plan (TRASOP) which is funded by the use of the additional 1% investment tax credit permitted by the Tax Reduction Act of 1975. The 1% credit amounted to $401,000 for 1979, $261,000 for 1980, and is estimated to be $379,000 for 1981.

Deferred Income Tax: A summary of the amounts deferred or credited to income is as follows:

	Amounts Deferred			Amounts Credited		
	1981	1980	1979	1981	1980	1979
	(Thousands of Dollars)					
Operating Income:						
Class life depreciation	$1,459	$ 1,363	$1,342	$ 102	$ 54	$ 86
Accelerated cost recovery system	87	—	—	—	—	—
Cost of removal	512	471	669	443	473	421
Investment tax credit	2,445	1,544	2,383	—	—	—
Deferred fuel and gas costs	2,905	3,083	3,325	4,918	1,762	1,625
Sterling abandonment loss—net	434	4,834	—	—	—	—
Other	879	328	409	689	590	202
	8,721	11,623	8,128	6,152	2,879	2,334
Other Income (Investment tax credit)	—	—	—	220	253	178
Total	$8,721	$11,623	$8,128	$6,372	$3,132	$2,512

Reconciliation: The following is a reconciliation of the difference between the amount of federal income tax as reported in the Statement of Income and the amount computed by multiplying the income before tax by the statutory tax rate.

	1981		1980		1979	
	Amount ($000)	% of Pretax Income	Amount ($000)	% of Pretax Income	Amount ($000)	% of Pretax Income
Net income	$29,679		$23,898		$21,694	
Federal income tax	6,453		(2,952)		(762)	
Deferred income tax—net	2,349		8,491		5,616	
Income before tax	$38,481		$29,437		$26,548	
Computed tax expense	$17,701	46.0%	$13,541	46.0%	$12,212	46.0%
Increases (reductions) in computed taxes resulting from:						
Allowance for funds used during construction	(6,401)	(16.6)	(5,420)	(18.4)	(3,685)	(13.9)
Investment tax credit	(3,845)	(10.0)	(2,647)	(9.0)	(3,973)	(15.0)
Deferred fuel and gas costs—net	2,013	5.2	(1,321)	(4.5)	(1,768)	(6.6)
Excess of tax depreciation over book depreciation	(540)	(1.4)	(1,060)	(3.6)	(1,540)	(5.8)
Taxes and pension costs expensed on tax return and capitalized on books	(880)	(2.3)	(809)	(2.8)	(706)	(2.7)
Cost of removal	(640)	(1.7)	(589)	(2.0)	(836)	(3.1)
Other deferred costs	(320)	(0.8)	196	.7	(357)	(1.4)
Miscellaneous items—net	(201)	(0.5)	(9)	—	(109)	(.4)
Sterling abandonment loss	(434)	(1.1)	(5,690)	(19.3)	—	—
Recapture of Sterling investment tax credit	—	—	856	2.9	—	—
Federal income tax	6,453	16.8	(2,952)*	(10.0)	(762)	(2.9)
Deferred income tax—net	2,349	6.1	8,491	28.8	5,616	21.2
Total	$ 8,802	22.9%	$ 5,539	18.8%	$ 4,854	18.3%

*Due to the Sterling abandonment loss, 1980 resulted in a net operations tax loss which the Company applied to a prior year's taxable income. In addition, the Company had unused 1980 investment tax credit which also was carried back to a prior year. The total claim which amounted to $4,676,000 was reflected in Other Receivables at December 31, 1980. This claim was collected during 1981.

Note 3—Earnings per Share and Convertible Debentures

The dual presentation of earnings per share data in the Statement of Income for the years 1979 and 1980 reflects the net reduction in earnings per share which would have been realized if the debentures outstanding at the end of each year had, in fact, been converted to common stock. The 4⅜% convertible debentures were paid at maturity on June 1, 1981; therefore, at December 31, 1981 there was no effect on earnings per share.

Note 4—Short-Term Borrowing Arrangements and Compensating Balances

At December 31, 1980 and 1981, the Company maintained lines of credit with seven banks totaling $55,000,000. At December 31, 1980, the outstanding short-term obligations consisted only of bank loans amounting to $18,000,000, while at December 31, 1981 such obligations consisted only of commercial paper amounting to $16,500,000. Outstanding short-term obligations at both dates were backed by the lines of credit maintained by the banks.

Compensating balance requirements are not formalized under the lending arrangements with banks, but the Company is expected to maintain certain average balances against its lines of credit and/or the average amounts borrowed. The requirements differ from bank to bank, but in general call for the maintenance of average balances equal to 10% of the line of credit plus 10% of the average amount borrowed. Inasmuch as requirements are informal and are on an average basis, bank balances are not subject to any restriction with respect to withdrawals. Accordingly, amounts on deposit, including float, may be greater or less than computed average balances at any given date. Substantially all cash balances were considered to represent compensating balances at December 31, 1981.

Note 5—Capital Stock

Common stock without par value; 10,000,000 shares authorized:

	Shares Outstanding	Amount ($000)
Outstanding, December 31, 1978 and 1979	5,372,873	$ 74,126
Sale of stock	1,150,000	18,775
Issued under TRASOP	20,739	400
Capital stock expense		(81)
Outstanding, December 31, 1980	6,543,612	93,220
Sale of stock	900,000	15,400
Issued under TRASOP	12,393	219
Capital stock expense		(154)
Outstanding, December 31, 1981	7,456,005	$108,685

Cumulative preferred stock, at December 31, 1980 and 1981, $100 par value; 1,200,000 shares authorized:

	Redemption Price			
	Current	Through	Eventual Minimum	Shares Outstanding
4½% series	$107.00	—	$107.00	70,300
4.75% series	106.75	—	106.75	20,000
4.35% series	102.00	—	102.00	60,000
4.96% series	101.00	—	101.00	60,000
7.72% series	104.00	1/31/84	101.00	130,000
7.44% series	106.80	1/31/83	101.22	120,000
8.40% series	108.40	5/31/82	101.00	150,000
Total				610,300

The cumulative preferred stock is redeemable only at the option of the Company and the sum payable per share is the then current redemption price plus accrued dividends thereon. In the event of involuntary liquidation the redemption price is $100 per share plus accrued dividends.

Expenses incurred on issuance of capital stock are accumulated and reported as a reduction in total capital stock and are not being amortized.

Note 6—Long-Term Debt

Details of long-term debt at December 31 are shown below:

	1981	1980
	(Thousands of Dollars)	
First mortgage bonds (net of current maturities):		
3.30% series, due December 1, 1982	$ —	$ 6,000
3.20% series, due October 1, 1984	11,000	11,000
4⅛% series, due May 15, 1988	18,000	18,000
14½% series, due November 15, 1990	25,000	25,000
17⅛% series, due August 15, 1991	30,000	—
7⅛% series, due January 15, 1999	20,000	20,000
9⅜% series, due June 1, 2000	25,000	25,000
7¾% series, due February 1, 2002	20,000	20,000
9¼% series, due April 15, 2004	15,000	15,000
10⅝% series, due November 1, 2005	20,000	20,000
6¼% series, due June 1, 2007	4,500	4,500
10¾% series, due September 15, 2009	20,000	20,000
12⅜% series, due May 15, 2010	25,000	25,000
	233,500	209,500
Promissory notes (net of sinking fund requirements):		
4.85%, due December 1, 1995	7,550	7,725
Total long-term debt	$241,050	$217,225

Expenses incurred on debt issues and any discount or premium on debt are deferred and amortized over the lives of the related issues.

Note 7—Retirement Income Plan

The Company has a noncontributory retirement income plan (Plan) which covers all employees.

The cost of the Plan to the Company amounted to $2,526,000 for the calendar year 1979, $2,960,000 for 1980 and $3,363,000 for 1981. Approximately 20% of each year's cost for the years 1979 and 1980 and 19% for the year 1981 were charged to construction. Based upon the Annual Valuation Report furnished to the Company by the independent actuary for the Plan, the unfunded liability was $7,879,000 as of September 30, 1981, the end of the last Plan Year. Such amount was $4,909,000 more than at the end of the prior Plan Year and reflects amendments to the Plan and changes in actuarial assumptions. The unfunded liability is being amortized and funded over a period of fifteen years. Current service costs are funded annually.

The independent actuary has also furnished the Company with its opinion that as of September 30, 1981 the assets of the Plan were sufficient to cover the liabilities in respect of the members of the Plan who are eligible for vested benefits. The actuarial present value of accumulated Plan benefits using an assumed rate of investment return of 7½% and net assets available for benefits as of September 30, 1980 and 1981 are as follows:

	September 30, 1981	September 30, 1980
Vested	$43,262,000	$30,653,000
Non-vested	85,000	1,174,000
	$43,347,000	$31,827,000
Net assets available for benefits	$43,543,000	$41,975,000

Note 8—Commitments and Contingencies

Sterling Nuclear Unit No. 1: The Company has been participating as a tenant in common in Sterling Nuclear Unit No. 1 (Sterling Project) which was to have been constructed in upstate New York. The New York State Board on Electric Generation Siting and the Environment (Siting Board) initially approved the construction and siting of the Sterling Project on January 11, 1978; however, this approval was ultimately reversed on January 23, 1980 when the Siting Board voted to revoke its earlier approval.

On February 6, 1980, the Company, together with the other owners of the Sterling Project, filed a petition with the PSC for permission to amortize its investment in the Sterling Project and any related cancellation charges against income and to recover such investment and charges through rates over a period of years. As part of its petition to the PSC, the owners of the Sterling Project requested permission to continue to accrue and accumulate AFDC on their respective investments in the Sterling Project until such time as recovery of such investment in rates commences. Said permission was granted by the PSC by Order dated February 19, 1980.

In June 1980, the PSC commenced a proceeding to consider the owners' petition. Phase I was completed in January 1981 and the PSC in its Opinion concluded that the categories of expenditure incurred for the Sterling Project up to January 11, 1978 were prudent in principle. On January 13, 1982, the PSC issued its Opinion in Phases I-A and II of said proceeding. The PSC determined that all the expenditures on the Sterling Project, including those incurred after January 11, 1978, were prudent, it approved amortization of the Company's investment in the Sterling Project on a levelized basis over a five-year period, and it permitted a return on the unamortized balance equal to the Company's authorized overall rate of return. The PSC directed that the amortization and recovery commence upon the conclusion of the Company's pending rate proceeding.

As of December 31, 1981, the Company had a net investment of $14.8 million in the Sterling Project, including AFDC and after providing for the reduction in federal tax resulting from the abandonment loss.

Reference is made to the section of this Report entitled "Regulation and Litigation" for additional information on this subject.

Nine Mile Point Nuclear Station Unit No. 2: The Company's principal construction project is its 9% participation (97 mw.) in Unit No. 2 of the Nine Mile Point Nuclear Station (NMP-2) which is being constructed by Niagara Mohawk Power Corporation (Niagara Mohawk) in Oswego County, New York, and which is presently scheduled for operation in 1986. The current estimate of the cost of NMP-2, prepared for the owners by Stone & Webster (the architect/engineer and construction agent for the project), is $2.4 billion, excluding the cost of nuclear fuel and AFDC, of which the Company's 9% share would be $216 million. The Company's share of the cost of nuclear fuel is currently estimated to be $9 million. The amount of AFDC on the Company's investment is currently estimated to be $128 million. Accordingly, the total cost of the Company's interest in NMP-2 is presently estimated to be $353 million, of which $131.3 million has been expended by the Company as of December 31, 1981.

NMP-2 is not subject to the jurisdiction of the Siting Board. In December 1977, the PSC approved the Company's participation in NMP-2.

In early 1980, the owners engaged independent engineering and management consulting firms to perform a review of the estimated cost and scheduled in-service date of NMP-2, together with engineering, construction and management systems at the project. Also, a reassessment was conducted by Niagara Mohawk and Stone & Webster. As a result of these reviews, a revision of the NMP-2 cost estimate from $1.352 billion to the current estimate of $2.4 billion (exclusive of AFDC and nuclear fuel) and a rescheduling of the operation date from 1984 to late 1986 were announced in September 1980.

Also during 1980, the PSC directed Theodore Barry and Associates and Canatom Limited to perform a comprehensive management audit of NMP-2. This audit covered essentially the same areas as the study commissioned by the owners and a report thereon (the TB&A Report) was issued in July 1981. While stating that the planned 1986 completion date is possible, the TB&A Report states that a one-year slippage in schedule is likely. The TB&A Report also stated that slippage in schedule, new regulatory requirements,

higher cost escalation and other factors could increase the cost of NMP-2 significantly beyond the current estimate. However, while recognizing that schedule slippage and cost increases in any major construction project are always possible, the owners believe that the current cost estimate and the anticipated construction schedule are achievable.

The Company recognizes that the projected increased costs for NMP-2, combined with high inflation rates and prevailing high interest rates, are placing additional financial burdens on it and the Company has sought to reduce its level of participation in NMP-2 but thus far has been unsuccessful.

The PSC determined, in the Company's rate proceeding decided in July 1981, that a separate proceeding should be initiated to inquire into the Company's ability to finance its continued participation in the construction of NMP-2 without jeopardizing its ability to provide safe and adequate service to its customers at reasonable costs. On September 23, 1981, the Company filed with the PSC its Submission in support of its position that it is able to finance its continued participation in NMP-2. The Company believes that it has fully justified its participation in NMP-2; that it has demonstrated that it can finance its ownership in this plant; that the rate relief projected to be necessary to maintain financial parameters adequate to finance its continued participation in NMP-2 would be reasonable; and that the completion of the project will result in economic benefits to its customers because of its prospective low cost of operation. The PSC Staff, the only party who filed comments on the Company's Submission, did not take exception to the Company's position, but noted that the conversion of the Company's Danskammer Plant Units 3 and 4 from oil-firing to coal was an important factor contributing to the reasonableness of the projected rate relief.

During July and August 1981, various groups petitioned the PSC to establish a single consolidated public evidentiary proceeding involving all of the owners to consider the future of NMP-2. In September 1981, the Staff of the PSC issued a report on a comparative analysis of the economic and financial feasibility of NMP-2 as compared to various alternatives wherein the NMP-2 capacity was replaced with coal-fired generation. This report concluded that completion of NMP-2 is warranted. In response to these motions and petitions and based on the TB&A Report and PSC Staff's comparative analysis, in September 1981 the PSC ordered an expedited proceeding to inquire into the financial and economic cost implications of completing NMP-2. In December 1981, public evidentiary hearings were completed. The PSC is expected to reach a decision by March 1982 in both this proceeding and the separate proceeding involving only the Company. The Company is unable to predict what recommendations or actions may arise as a result of these proceedings. The resulting recommendations or actions may have an effect on the ultimate recoverability of the Company's investment in NMP-2.

Roseton Plant: The Company's undivided interest in the ownership and output of the 1,200-mw. Roseton Plant was increased from 20% to 30% as of December 31, 1978. It is obligated to purchase a further 5% interest on December 31, 1982 and has an option to acquire the remaining interests of the other two owners in 2004. In addition, the Company is obligated to purchase specified amounts of Roseton Plant capability through 1982. The Company's share of direct operating expense for the Roseton Plant is included in the appropriate expense classification in the accompanying income statement.

Natural Gas Supply: The Company has long-term contracts for the supply of natural gas with three pipeline suppliers. The earliest expiration date of any of these contracts is in 1988. The Company also has a contract for the storage of gas. All such contracts are under tariffs on file with and approved by FERC. Reference is made to the section of this Report entitled "Natural Gas" for additional information on this subject.

Construction Program: Reference is made to "Management's Discussion and Analysis of Financial Condition and Results of Operations" for information regarding the Company's construction program for the five-year period 1982-1986.

Leases: Commitments for minimum rentals under noncancellable leases are minor, and neither the present value of non-capitalized financing leases nor the impact on net income of capitalizing such leases is significant.

Note 9—Departmental Information

The following presents certain information pertaining to the Company's operations for its electric and gas departments for the years ended December 31, 1979, 1980 and 1981:

	Electric			Gas		
	1981	1980	1979	1981	1980	1979
	(Thousands of Dollars)					
Operating Revenues	$398,392	$291,999	$225,971	$46,489	$35,994	$28,813
Operating Expenses:						
Depreciation	13,974	13,633	13,305	2,134	1,587	1,534
Fuel and Purchased Electricity	264,435	177,564	123,742	—	—	—
Purchased Natural Gas	—	—	—	28,579	22,525	16,693
Other, excluding income tax	71,907	61,923	52,752	10,769	8,853	7,641
Total	350,316	253,120	189,799	41,482	32,965	25,868
Operating Income before Income Tax	48,076	38,879	36,172	5,007	3,029	2,945
Federal Income Tax, including deferred income tax—net	10,463	6,100	5,733	1,087	110	232
Operating Income	$ 37,613	$ 32,779	$ 30,439	$ 3,920	$ 2,919	$ 2,713
Construction Expenditures*	$ 52,631	$ 38,229	$ 38,473	$ 3,419	$ 3,226	$ 2,053
Identifiable Assets at December 31*						
Net Utility Plant	$305,054	$306,140	$308,356	$40,195	$39,540	$37,519
Construction Work in Progress	157,638	121,887	95,781	2,611	1,940	2,238
Total Utility Plant	462,692	428,027	404,137	42,806	41,480	39,757
Materials and Supplies	25,472	26,113	23,488	1,407	1,151	846
Total	$488,164	$454,140	$427,625	$44,213	$42,631	$40,603

*Includes allocation of Common Utility Property.

Note 10—Selected Quarterly Financial Data (Unaudited)

Selected financial data for each quarterly period within 1980 and 1981 are shown below:

	Operating Revenues	Operating Income	Net Income	Income Available for Common Stock	Earnings Per Average Share of Common Stock Outstanding
	(Thousands of Dollars)				(Dollars)
Quarter Ended:					
March 31, 1980	$ 83,836	$10,792	$7,271	$6,239	$1.13
June 30, 1980	69,552	7,322	4,415	3,383	.58
September 30, 1980	85,975	8,716	6,153	5,121	.87*
December 31, 1980	88,629	8,867	6,059	5,027	.82
March 31, 1981	127,552	12,579	9,208	8,176	1.25
June 30, 1981	101,737	6,950	3,864	2,832	.43
September 30, 1981	105,230	11,101	8,315	7,283	1.05
December 31, 1981	110,362	10,904	8,292	7,260	.97

*The financial results for this quarter have been restated from previously reported financial results increasing earnings per share by $.07 to reflect an Order of the PSC issued on November 20, 1980.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Capital Resources and Liquidity

The Company is engaged in a construction program which is presently estimated to involve cash expenditures during the period 1982 through 1986 of $316.6 million. The estimates by years are as set forth below:

	1982	1983	1984	1985	1986	Total 1982-1986
			(Thousands of Dollars)			
Construction Expenditures*:						
Participation in Unit No. 2 of the Nine Mile Point Nuclear Station (9%)	$30,500	$31,000	$25,900	$27,400	$14,100	$128,900
Conversion of Danskammer Units 3 and 4 to coal-firing	—	—	8,700	26,900	8,900	44,500
Purchase of an additional 5% interest in the Roseton Plant	13,400	—	—	—	—	13,400
Expenditures excluding major generating projects	28,000	28,100	22,000	25,100	26,600	129,800
Total	$71,900	$59,100	$56,600	$79,400	$49,600	$316,600

*Excluding allowance for funds used during construction (AFDC), a noncash item. (See Note 1 of the Notes to Financial Statements.)

As shown in the above table, the two most significant construction projects are the Company's 9% participation (97 mw.) in Unit No. 2 of the Nine Mile Point Nuclear Station (NMP-2) and the conversion of Danskammer Units 3 and 4 from oil-firing to coal-firing.

NMP-2 is being constructed by Niagara Mohawk Power Corporation in Oswego County, New York, and presently scheduled for operation in 1986. The cotenants' current estimate of the cost of NMP-2 is $2.4 billion, excluding the cost of nuclear fuel and AFDC, of which the Company's 9% share would be $216 million. With the addition of the cost of nuclear fuel, currently estimated to be $9 million, and AFDC, currently estimated to be $128 million, the total cost of the Company's interest in NMP-2 is currently estimated to be $353 million.

Based on current fuel cost projections, the conversion of Danskammer Units 3 and 4 from oil to coal appears to provide substantial fuel savings for the Company's customers. In order to finance both its continued participation in NMP-2 and the coal conversion, the Company is currently planning a sequential (rather than simultaneous) conversion of the two units with Unit 3 in service in June 1986 and Unit 4 in service in June 1988. Such an approach will enable the Company to levelize its cash expenditures, reduce its financing requirements in 1984-1986, and enhance its ability to raise the necessary capital. The total cost of a sequential conversion is currently estimated to be $83.8 million without flue gas desulfurization (FGD) equipment and $193.3 million with FGD equipment. In view of the many regulatory and environmental problems involved in coal conversion, the current plans and cost estimates may be changed substantially.

Estimates of construction expenditures are subject to continuous review and adjustment, and actual construction expenditures may vary from such estimates.

It is currently estimated that $138 million, or 44%, of the cash construction expenditures for the five-year period 1982-1986 will be provided from internal sources and the balance will be met from interim short-term borrowings and the issuance of new securities. In its estimate of internal funds, the Company has assumed the continuation of a net-of-tax AFDC rate for NMP-2 and the inclusion in rate base of some construction work in progress during the years 1984-1986. The Company assumed an AFDC ratio (ratio of AFDC to income available for common stock) of 50% for 1984 and 1985, and 45% for 1986.

In addition to financing its construction program, the Company must refund $18 million of long-term debt maturing during this period and it is presently estimated that the Company will also need to provide approximately $21 million for working capital purposes.

The issuance of new securities will be based upon the Company's general financial policies in regard to capital structure, coverage and pay-out ratios, as well as market and other economic conditions existing over the next five years.

The Company's policy with regard to capital structure (excluding short-term debt) is to increase its common equity ratio to at least 40% within the next several years and it has already made progress toward this goal. The common equity ratio has increased from 35.5% at December 31, 1979 to 36.9% at December 31, 1980, and then to 39.1% at December 31, 1981. With regard to preferred stock, it is the Company's objective to maintain an average capitalization ratio of approximately 10% to 12%. The balance of the capital structure would consist of long-term debt, principally first mortgage bonds. With regard to short-term debt, it is the Company's objective to keep such debt under 5% of total capitalization on average for any given calendar year. After completing its 1981 financing program, the Company had no short-term debt outstanding at the end of September.

Because the public utility industry is a capital intensive industry, one of the key measurements of liquidity, or cash adequacy, is the ratio of net internal cash flow to cash construction expenditures. This ratio is influenced by both the magnitude of a utility's construction program and the amount of internal funds available. The ratios for Central Hudson for the last five years have been as follows:

1977	68%
1978	31%
1979	61%
1980	68%
1981	38%

In the Company's 1981 rate order, the New York State Public Service Commission (PSC) authorized the Company to use a net-of-tax AFDC rate for its investment in NMP-2. In addition, the PSC authorized the deferral of the tax effect of construction overheads and all investment tax credits from progress payments related to NMP-2 and ordered that such deferred amounts be used to reduce the base upon which AFDC is computed for NMP-2. These changes will help maintain the Company's cash flow ratio at adequate levels.

Results of Operations

The following discussion and analysis includes an explanation of significant changes in the amounts of revenues and expenses during the years 1979, 1980, and 1981. Certain additional information relating to changes between these years is provided in the Notes to Financial Statements (Notes) on pages 23 through 30 of this Report.

Earnings

Earnings per share of common stock are shown after provision for dividends on preferred stock and are computed on the basis of the average number of common shares outstanding during the year. The amount of such shares, the earnings per share, the percentage increase, and the rate of return earned on average common equity are as follows:

	1981	1980	1979
Average Shares Outstanding (000's)	6,867	5,851	5,373
Earnings Per Share	$3.72	$3.38	$3.27
% Increase over Prior Year	10.1%	3.4%	7.6%
Return Earned on Average Common Equity	14.0%	12.5%	12.2%

The improved earnings in 1981 resulted primarily from the increased electric and gas rates which became effective during July 1981 and increased sales.

Notwithstanding a rate increase in November 1979, a number of factors combined to limit earnings growth in 1980. Such factors included the decision by a large industrial customer to terminate its operations, the continuing high rate of inflation, a substantial increase in interest rates, and the extremely cold weather in late December which increased expenses without matching revenues within the calendar year.

The primary factors contributing to the 7.6% growth in earnings in 1979 were increased sales of electricity, including a substantial amount of sales of economy energy to other utilities, and higher electric and gas rates which became effective on November 3, 1979.

Operating Revenues

Total operating revenues increased $116.9 million (36%) in 1981, $73.2 million (29%) in 1980, and $43.8 million (21%) in 1979. Details of the revenue changes are as follows:

	Increase or (Decrease) from Prior Year					
	1981		1980		1979	
	Electric	Gas	Electric	Gas	Electric	Gas
	(Thousands of Dollars)					
Customer sales	$ 2,828	$ 3,521	$ (2,244)	$ 353	$ 3,169	$ 390
Rate increase	15,960	798	17,997	1,621	2,829	312
Sales to other utilities	47,928	49	19,135	364	16,786	—
Fuel and gas cost adjustment charges	20,273	5,372	(12,402)	(6,208)	8,470	451
Additional fuel costs included in base rates	18,882	—	43,656	10,672	8,532	2,597
Miscellaneous	522	755	(114)	379	(79)	325
Total	$106,393	$10,495	$66,028	$7,181	$39,707	$4,075

The revenues received by the Company pursuant to the application of the electric and gas cost adjustment clauses only recover the additional costs incurred by the Company and, therefore, do not affect net income.

In the Company's last rate case the PSC directed the Company, effective July 18, 1981, to include an additional $.012 per kwh. of fuel costs in its base rates for electricity in order to make them more representative and to reflect more closely the total cost of serving customers, including the cost of fuel. This had the effect of reducing the amount of fuel adjustment charges and increasing the base rates. At the conclusion of its prior rate case the Company had transferred an additional $.015 per kwh. of fuel costs to its base rates, effective November 3, 1979.

With respect to electric sales to other utilities, there was a change in the treatment of the net revenues (revenues less incremental costs, principally fuel) from such sales in late 1979. The PSC directed, effective November 3, 1979, that all net revenues resulting from any sales of economy energy to other utilities be credited to the Company's retail customers via the fuel adjustment clause. During 1979 such sales increased 44%, with most of the increase occurring in the first two quarters of the year when these sales were abnormally high. The net revenues from these sales contributed to the growth in earnings for the first 10 months of the year.

During the spring of 1980, the Company entered into capacity sales agreements with five other utilities. Sales under these contracts are not considered as economy sales and, accordingly, the net revenues from such sales were not credited to customers except in those instances when such sales were estimated to have displaced economy sales. Net income for 1980 included $803,000 from such sales.

In its 1981 rate order, the PSC modified its prior treatment and provided that net revenues from all sales of energy and capacity to other utilities, except certain continuing firm sales imputed in deriving the base rates, be credited to the retail customers.

Both of these changes had been proposed by the Company. The uncertain nature of sales for resale, largely because of factors beyond the control of the Company, makes imputation of net revenues from such sales inadvisable.

The Company's largest customer is International Business Machines Corporation, which accounted for nearly 11% of the Company's total electric revenues and about 12% of its total gas revenues for the year ended December 31, 1981.

Sales

Total kwh. sales of electricity within the Company's service territory increased 2% in 1981. Such sales had decreased 2% in 1980 and increased 3% in 1979. Sales of natural gas increased 8%, 1%, and 12% in 1981, 1980, and 1979, respectively. Changes in sales by major customer classification are set forth below (parentheses denote decrease):

	1981		1980		1979	
	Electric	Gas	Electric	Gas	Electric	Gas
Residential	0%	7%	(3)%	(1)%	0%	(5)%
Commercial	2	17	2	4	3	(5)
Industrial	5	22	(4)	11	6	2
Interruptible	N/A	3	N/A	1	N/A	66

The lack of growth in residential electric sales reflects the effects of conservation, price elasticity and the absence of new home construction. The number of customers has increased approximately 1% per year, but usage per customer has continued to decline.

The 11% increase in firm sales of natural gas in 1981 reflects primarily the effect of 7% and 12% increases during the year in the number of residential and commercial heating customers, respectively, and over an 80% increase in the requirements of the textile industry.

The 4% reduction in industrial electric sales in 1980 is primarily due to the permanent closing in May 1980 of a major cement manufacturer.

The 66% increase in the sales of interruptible gas service in 1979 resulted from the improved availability of gas from the Company's pipeline suppliers. Such sales, however, did not contribute to the growth in earnings since the net revenues from these sales are being reflected in the gas cost adjustment for the benefit of customers taking firm gas service.

Operating Expenses

The most significant elements of cost are fuel and purchased electricity in the Electric Department and purchased natural gas in the Gas Department. Approximately 55% in 1979, 61% in 1980, and 66% in 1981 of every revenue dollar billed in the Electric Department were expended for the combined cost of fuel used in electric generation and purchased electricity. The corresponding figures in the Gas Department for the cost of purchased gas are 58%, 62%, and 61%, respectively.

The following table shows the amount of fuel oil burned and the average cost per million Btu and per barrel of fuel for the Company's two major generating plants during the last five years:

	Danskammer Plant			Roseton Plant (Company's Share)		
		Average Cost			Average Cost	
Year	Barrels Burned	$/Million Btu	$/Barrel	Barrels Burned	$/Million Btu	$/Barrel
1977	3,808,940	$2.19	$13.38	1,910,012	$2.02	$12.47
1978	3,212,787	2.06	12.76	2,110,487	1.90	11.76
1979	2,508,615	2.82	17.42	2,807,251	2.52	15.71
1980	2,404,873	4.09	25.38	2,532,477	3.55	22.16
1981	2,803,371	5.10	31.76	2,619,294	4.70	29.41

In an effort to keep the cost of electricity as low as possible, the Company will purchase energy from member companies of the New York Power Pool whenever such energy can be purchased at a unit cost lower than the incremental cost of generating the energy in the Company's plants.

As the result of the increase in the amount of gas available, and under a petition to the Department of Energy for an exemption from the prohibition on the burning of natural gas as a primary fuel in boilers, the Company resumed the burning of gas as a boiler fuel at its Danskammer Plant in 1979. The following table sets forth the amount of gas burned as boiler fuel, the barrels of oil displaced, and the savings in fuel costs to the Company's customers since 1979:

Year	Amount of Gas Burned (Mcf.)	Barrels of Oil Displaced	Savings in Fuel Costs: Electric Customers	Savings in Fuel Costs: Gas Customers
			(Thousands of Dollars)	
1979	2,441,100	357,967	$1,359	$ 325
1980	3,412,490	498,037	2,379	658
1981	4,587,349	650,168	4,612	1,279

The amount of natural gas purchased, excluding gas burned as boiler fuel, and the cost per mcf. during the last five years are set forth in the following table:

Year	Amount of Gas Purchased—Mcf.	$/Mcf.
1977	7,603,027	$1.57
1978	7,965,393	1.71
1979	8,790,766	2.01
1980	9,257,841	2.56
1981	9,685,075	3.08

Other expenses of operation increased $2.2 million, or 8%, in 1979. Increased wages and related fringe benefits together with increased production expenses resulting from the acquisition as of December 31, 1978 of the additional 10% interest in the Roseton Plant were the primary factors accounting for this increase. In 1980, such expenses were $5.9 million, or 20%, more than 1979. The principal factors contributing to this increase were higher wages and related fringe benefit costs, increased research and development expenditures, the effects of inflation, and a $1.3 million increase in certain environmental costs which were being deferred in periods prior to November 3, 1979 but which subsequent to that date are being charged to current operating expense. See Note 1 for additional information. In 1981, other expenses of operation were $5.8 million, or 16%, more than 1980. The principal factors contributing to this increase were higher wages and related fringe benefit costs, increased provisions for uncollectible accounts, increased regulatory commission expenses and the effects of inflation.

Maintenance expenses increased $1.7 million, or 20%, in 1979. The two most significant variations were a $646,000 increase in the cost of maintaining electric generating units and a $379,000 increase in costs for storm repairs. During 1979 the Company's service territory experienced two major storms, including tropical storm David, one of the most severe summer storms in the Company's history. In 1980, such expenses were $1.3 million, or 13%, higher than 1979. The two most significant variations were an $811,000 increase in the cost of maintaining electric generating units and a $238,000 increase in costs associated with the Company's tree-trimming program. Maintenance expenses increased $1.3 million, or 12%, in 1981. The most significant variations were an $803,000 increase in the cost of maintaining electric generating units, a $282,000 increase in maintenance costs related to the Company's gas distribution system and a $272,000 increase in the cost of maintaining the Company's electric distribution system.

The Company's total provision for depreciation amounted to 3.21% in 1979, 3.22% in 1980, and 3.24% in 1981 of the original cost of average depreciable property. The ratio of the amount of accumulated depreciation to the cost of depreciable property at December 31 was 31.0% in 1979, 32.8% in 1980, and 34.6% in 1981. The $1.4 million increase in depreciation in 1979 was primarily due to the Company's additional investment in the Roseton Plant.

State and local taxes levied on gross revenues increased $1.2 million in 1979, $2.2 million in 1980, and $2.7 million in 1981. Property taxes, including school taxes, increased $917,000, $884,000, and $1,682,000, respectively, in 1979, 1980, and 1981. These two categories of taxes accounted for the substantial portion of the total increases in operating taxes.

See Note 2 for a detailed analysis and reconciliation of the federal income tax.

Other Income and Interest Charges

Details of the Allowance for Funds used During Construction are set forth below:

	1981	1980	1979
	(Thousands of Dollars)		
Nine Mile Plant	$11,608	$ 9,493	$ 6,235
Sterling Plant	1,898	1,894	1,393
Other	410	395	384
Total	$13,916	$11,782	$ 8,012
Weighted Average Rate	11.00%	11.25%	9.91%

See Notes 1 and 8 for additional information on this subject.

Total interest charges (excluding AFDC) increased $6.7 million, or 50%, in 1979, $3.7 million, or 18%, in 1980, and $4.0 million, or 17%, in 1981. These increases result from the increasing amounts of outstanding debt plus the high levels of interest rates which have prevailed since the fall of 1979. The following table sets forth some of the pertinent data pertaining to the Company's outstanding debt.

	1981	1980	1979
	(Thousands of Dollars)		
Long-Term Debt:			
New Debt Issued	$30,000	$50,000	$20,000
Debt Retired	18,175	22,175	15,175
Outstanding at Year-end:			
Amount *	247,050	235,225	207,400
Effective Cost	10.17%	9.27%	7.88%
Short-Term Debt:			
Average Daily Amount Outstanding	$24,742	$33,142	$30,233
Weighted Average Interest Rate	17.4%	14.4%	11.3%

*Including long-term debt maturing within one year.

See Notes 4 and 6 for additional information on this subject.

Coverage Ratios

As a consequence of the high levels of interest rates prevailing during the last three years together with the shortfall in earnings, as compared to the authorized rates of return, coverage ratios have been adversely affected. For example, the ratio of earnings to fixed charges, an important coverage ratio which measures the coverage of total interest charges, was 3.17 times for 1978 but declined to 2.31 times for 1979. And in 1980, despite the fact that increased electric and gas rates were in effect for the first ten months of the year, this coverage ratio declined even further to 2.23 times. This downward trend, however, was reversed in 1981 as this coverage ratio improved to 2.38 times. This ratio should show further improvement in 1982 as a result of the rate order received in July 1981 and the rate increase application filed in November 1981.

Effect of Inflation

For information on this subject see the section entitled "Supplementary Information to Disclose the Effects of Changing Prices" on pages 38 and 39 of this report.

Common Stock Dividends and Price Ranges

Dividends have been paid by the Company and its principal predecessors for 78 years, and the common stock of the Company has been listed on the New York Stock Exchange since 1945. The price ranges and the dividends paid for each quarterly period during the Company's last two fiscal years were as follows:

	1981			1980		
	High	Low	Dividend	High	Low	Dividend
Fourth Quarter.....	$18⅜	$16¼	$.59	$18½	$15½	$.56
Third Quarter	18¾	16⅛	.59	19⅞	18	.54
Second Quarter	19	16½	.59	19⅝	15	.54
First Quarter	17¾	16	.56	19	15	.54

The number of registered holders of common stock as of December 31, 1981 was 25,296. Of these, 24,665 were accounts in the names of individuals with total holdings of 4,881,787 shares, or an average of 198 shares per account. The 631 other accounts, in the names of institutional or other non-individual holders, for the most part hold shares for the benefit of individuals.

The Company's 4.85% Promissory Notes due December 1, 1995 contain limitations upon the right of the Company to declare or pay any dividend or make any other distribution on (other than dividends or distributions payable in Common Stock), or acquire for a consideration, any shares of its Common Stock unless the aggregate of all such dividends, distributions and considerations since December 31, 1964 does not exceed an amount determined by a formula. At December 31, 1981, the amount of retained earnings available for dividends on the Company's Common Stock under the provisions of said 4.85% Promissory Notes was $80,543,000.

Supplementary Information to Disclose the Effects of Changing Prices

The following supplementary information is supplied in accordance with the requirements of the Financial Accounting Standards Board Statement No. 33, Financial Reporting and Changing Prices, for the purpose of providing certain information about the effects of changing prices. It should be viewed as an estimate of the approximate effect of inflation, rather than as a precise measure.

Under the rate-making policy to which the Company is subject, only the original, or historical, cost of plant is recoverable in revenues as depreciation. Therefore, the excess of the cost of plant stated in terms of constant dollars or current cost over the historical cost of plant is not recoverable in rates as depreciation. While the rate-making process gives no recognition to the current cost of replacing facilities, based on past practice, the Company believes that any higher costs it may experience upon actual replacement of existing facilities would be recovered through the normal regulatory process and that as part of this process it will be allowed to earn on the increased cost of its net investment.

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

Statement of Income from Continuing Operations
Adjusted for Changing Prices
for the Year Ended December 31, 1981

(Thousands of Dollars)

	Conventional Historical Cost	Constant Dollar Average 1981 Dollars	Current Cost Average 1981 Dollars
Operating revenues	$444,881	$444,881	$444,881
Operations	333,966	333,966	333,966
Maintenance	12,450	12,450	12,450
Depreciation	16,305	39,237	45,497
Operating taxes	29,274	29,274	29,274
Federal income tax	8,802	8,802	8,802
Interest charges	20,267	20,267	20,267
Other income and deductions	(5,862)	(5,862)	(5,862)
	415,202	438,134	444,394
Income from continuing operations (excluding reduction to net recoverable cost)	$ 29,679	$ 6,747*	$ 487
Increase in specific prices (current cost) of property, plant and equipment held during the year**			$108,691
Reduction to net recoverable cost		$(16,960)	(30,568)
Effect of increase in general price level			(88,823)
Excess of increase in general price level over increase in specific prices after reduction to net recoverable cost			(10,700)
Gain from decline in purchasing power of net amounts owed		16,817	16,817
Net		$ (143)	$ 6,117

*Including the reduction to net recoverable cost, the income (loss) from continuing operations on a constant dollar basis would have been ($30,277) for 1980 and ($10,213) for 1981.

**At December 31, 1981, current cost of property, plant and equipment, less accumulated depreciation was $1,088,320, while net historical cost was $484,796, excluding Sterling Nuclear Plant.

Five-Year Comparison of Selected Supplementary Financial Data Adjusted for Effects of Changing Prices

(In Thousands of Average 1981 Dollars)

	Years Ended December 31,				
	1977	1978	1979	1980	1981
Operating revenues	$311,932	$294,150	$319,242	$362,015	$444,881
Historical cost information adjusted for general inflation					
Income from continuing operations*			6,635	4,754	6,747
Income per common share (after dividend requirements on preferred stock)*			$.28	$.03	$.38
Net assets at year end at net recoverable cost			247,642	247,175	285,578
Current cost information					
Income (loss) from continuing operations*			(3,317)	(2,246)	487
Income (loss) per common share (after dividend requirements on preferred stock)*			$(1.58)	$(1.16)	$(.53)
Excess of increase in general price level over increase in specific prices after reduction to net recoverable cost**			34,327	28,031	10,700
Net assets at year end at net recoverable cost			247,642	247,175	285,578
General information					
Gain from decline in purchasing power of net amounts owed			30,583	25,703	16,817
Cash dividends declared per common share	$2.76	$2.73	$2.56	$2.43	$2.39
Market price per common share at year end	$33.30	$27.59	$22.98	$19.08	$18.25
Average consumer price index	181.5	195.4	217.4	246.8	272.4

*Excluding reduction to net recoverable cost.
**Excluding Sterling Nuclear Plant.

The current cost of property, plant and equipment, which includes land, land rights, intangible plant, property held for future use, and construction work in progress, represents the estimated cost of reproducing existing plant assets and was determined by indexing the surviving plant by the Handy-Whitman Index of Public Utility Construction Costs for the North Atlantic Region with the exception of general structures which was indexed based on the Engineering News Record Index. All other property for which the Handy-Whitman Index is not available was indexed based on CPI-U. The current year's provision for depreciation on the constant dollar and current cost amounts of property, plant and equipment was determined by applying the Company's depreciation rates to the indexed plant amounts. Sterling Nuclear Plant was excluded from plant and included as a deferred cost in this presentation.

Fuel inventories, the cost of fuel used in generation, and gas purchased for resale have not been restated from their historical cost in nominal dollars. Regulation limits the recovery of fuel and purchased gas costs through the operation of adjustment clauses or adjustments in basic rate schedules to actual costs. For this reason fuel inventories are effectively monetary assets. As prescribed in Statement No. 33, income taxes were not adjusted.

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

DIRECTORS

ERNEST E. ALTHOUSE
Poughkeepsie, N.Y.
Vice Chairman of the Board and Vice Chairman of Committee on Finance; Member of Executive Committee and Committee on Compensation and Succession

WILLIAM P. ARNOLD
New York, N.Y.
Chairman of the Board and Chief Executive Officer
Associated Dry Goods Corporation, a department store chain; Member of Committee on Audit

RAYMOND T. BENEDICT
Stamford, Ct.
Lawyer, of Counsel, Cummings & Lockwood; Member of Executive Committee and Committee on Finance

JAMES R. BREED, M.D.
Poughkeepsie, N.Y.
Surgeon
Member of Committee on Audit

MARJORIE S. BROWN
Millbrook, N.Y.
Homemaker, active in civic and philanthropic work, formerly executive in retailing and promotional organizations; Member of Retirement Committee

THEODORE J. CARLSON
Poughkeepsie, N.Y.
Chairman of the Board and Principal Officer; Chairman of Executive Committee; Member of Retirement Committee, and Committees on Finance and on Compensation and Succession

ROY C. KETCHAM
Fishkill, N.Y.
Chairman of the Board and Chief Executive Officer, Ketcham Motors, Inc.; Chairman of the Board of The Fishkill National Bank; Chairman of Committee on Compensation and Succession; Member of Executive Committee

JOHN E. MACK III
Poughkeepsie, N.Y.
Executive Vice President

HERBERT L. SHULTZ
Kingston, N.Y.
Special Assistant to the President, Vassar College; Chairman of Retirement Committee; Member of Committee on Audit

JOHN WILKIE
Katonah, N.Y.
Chairman of Committees on Finance and on Audit; Member of Executive and Retirement Committees

H. CLIFTON WILSON
Poughkeepsie, N.Y.
President; Member of Executive and Retirement Committees, and Committees on Finance and on Compensation and Succession

OFFICERS OF THE BOARD

THEODORE J. CARLSON
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Vice Chairman of the Board and of Committee on Finance

ROY C. KETCHAM
Chairman of Committee on Compensation and Succession

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OFFICERS

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L. WALLACE CROSS
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Assistant Vice President

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Assistant Vice President

WALTER A. BOSSERT, JR.
Assistant Secretary and Assistant Treasurer

CHARLES P. KOVAR
Assistant Secretary

EMORY R. OSBORN
Assistant Treasurer

TRANSFER AGENT & REGISTRAR

COMMON & PREFERRED STOCK
Morgan Guaranty Trust Company of New York
30 West Broadway
New York, N.Y. 10015

GENERAL COUNSEL

Gould & Wilkie
One Wall Street
New York, N.Y. 10005

INDEPENDENT ACCOUNTANTS

Price Waterhouse
153 East 53rd Street
New York, N.Y. 10022