Niagara Mohawk Power Corporation / Annual Report 1982

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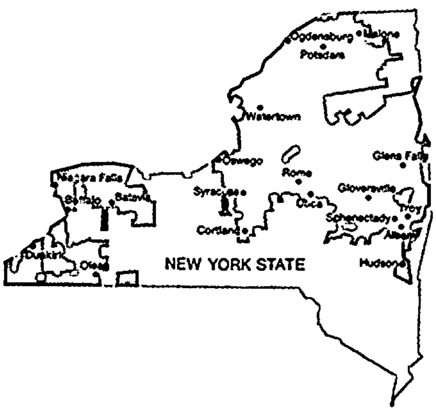
RECORDS FACILITY BRANCH

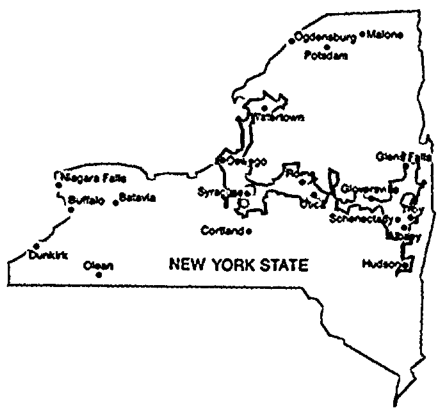
Serving Upstate New York

Ranked as one of the most prominent investor-owned utilities in the United States, Niagara Mohawk Power Corp. serves an area encompassing more than half the land mass of New York State. Our electric system extends from Lake Erie to New England's borders, to Canada and Pennsylvania, and meets the diversified needs of nearly 1.4 million customers. Our natural gas system serves 431,000 customers in central, eastern and northern New York, nearly all within our electric territory. Two Canadian companies, St. Lawrence Power Co. and Canadian Niagara Power Company, Ltd., owned by our subsidiary, Opinac Investments, Ltd., provide energy to portions of Ontario. Other subsidiaries are Hydra-Co Enterprises, Inc., N M Uranium, Inc. and Niagara Mohawk Finance, N.V. Our corporate headquarters are 300 Erie Boulevard West, Syracuse N.Y. 13202.

ELECTRIC SERVICE AREA



GAS SERVICE AREA



Cover

Sunny banks of a fishing stream find Niagara Mohawk line mechanic exchanging greetings with pair of anglers. Scene is typical of new "We're With You!" program of energy partnership Company is extending to all consumers.

Investor notes

Dividend Reinvestment Plan
Stockholders participating in our Dividend Reinvestment and Stock Purchase Plan enjoy its tax-deferral and convenience features, while new capital is generated for the Company. See page 15 for details.

Telephone Inquiries
We maintain a toll-free telephone inquiry service for stockholders. Callers from outside New York State may dial 1 + 800 + 448-5450. The number for New York residents is 1 + 800 + 962-3236.

Annual Meeting
The annual meeting of stockholders will be held May 3, 1983 at the Company's main office in Syracuse. Formal notices, proxy statements and forms will be sent to holders of common stock in early April.

Transfer Agents
Preferred Stock and Preference Stock:
Marine Midland Bank, N.A.
140 Broadway, New York, N.Y. 10015
Common Stock:
Morgan Guaranty Trust Company of New York
30 W. Broadway, New York, N.Y. 10015

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

Stock Exchanges
Common and Certain Preferred Series:
Listed on New York Stock Exchange
Common Stock:
Also traded on Amsterdam (Netherlands), Boston, Cincinnati, Midwest, Pacific and Philadelphia stock exchanges.

Ticker symbol: NMK

Form 10-K Report
A copy of the Company's Form 10-K report filed annually with the Securities and Exchange Commission is available after March 31, 1983 by writing John W. Powers, Vice President-Treasurer, at 300 Erie Boulevard West, Syracuse, N.Y. 13202.

Highlights of 1982

	1982	1981	% Change
Total operating revenues	$2,393,771,000	$2,150,718,000	11
Income available for common stockholders	$ 230,948,000	$ 186,358,000	24
Earnings per common share	$2.64	$2.35	12
Dividends per common share	$1.76	$1.61	9
Common shares outstanding *(average)*	87,340,000	79,204,000	10
Utility plant *(gross)*	$5,516,532,000	$4,985,315,000	11
Gross additions to utility plant	$ 594,469,000	$ 457,415,000	30
Kilowatt-hour sales	32,640,000,000	32,890,000,000	(1)
Electric customers at end of year	1,380,000	1,361,000	1
Electric peak load *(kilowatts)*	5,512,000	5,616,000	(2)
Natural gas sales *(dekatherms)*	109,693,000	109,758,000	–
Gas customers at end of year	431,000	428,000	1
Maximum day gas sendout *(dekatherms)*	832,307	824,777	1

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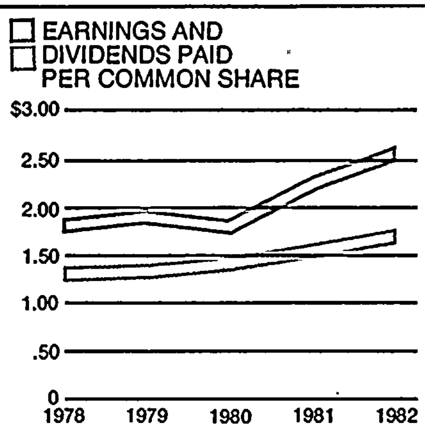
Stock and dividend data



1982	Dividend paid per share	Price range High	Low
1st Quarter	$ .41	$13¾	$11⅞
2nd Quarter	.45	14⅞	12⅞
3rd Quarter	.45	16⅞	13⅛
4th Quarter	.45	16½	14¾
	$1.76		
1981			
1st Quarter	$.38	$12½	$10¾
2nd Quarter	.41	13¼	11
3rd Quarter	.41	13	10⅞
4th Quarter	.41	13¾	11
	$1.61		

The revenue dollar

34¢ Residential customers

32¢ Commercial customers

22¢ Industrial customers

12¢ All others

And where it went

34¢ Fuel for the production of electricity and electricity purchased

16¢ Gas purchased

13¢ Income and other taxes

11¢ Wages, salaries, employee benefits

10¢ Interest and other costs—net

8¢ Dividends to stockholders

5¢ Depreciation and amortization

3¢ Retained in business

To our stockholders

John G. Haehl, Jr.

William J. Donlon

Earnings for 1982 were $2.64 per share against $2.35 for 1981, an increase of 12 percent.

These solid earnings, despite the sluggish economy, reflected both internal and external measures. New electric and natural gas rates to yield an added $160 million yearly began in March. Inflationary pressures and financing cost rates declined, especially during the year's second half.

We expect a slow recovery in 1983 and into 1984, with long-range sales growth projections remaining at one percent annually.

Although overall electric sales were off approximately one percent in 1982, a drop in industrial sales was substantially offset by increased sales to neighboring utilities. The year's results also show economic oil-saving power purchases from Canadian sources, as we recently negotiated a five-year contract for 400,000 kilowatts with Ontario Hydro and 120,000 kilowatts with Hydro Quebec, presently for a shorter term.

Gas sales were flat compared with 1981, due to the lagging economy and competition in the industrial sector with heavy oil. Early in 1983, however, a slight downward movement in the price of purchased gas occurred, instead of a sharp increase that had been forecast. While gas has promise for market growth, there is the threat of outdated producer pricing arrangements and accelerated federal deregulation which the Company is vigorously opposing. Hopefully, additional changes will occur to more accurately reflect the national supply-and-demand picture for gas, a premium domestic fuel.

We were pleased in 1982 when the Board of Directors declared a 10 percent increase in our annual common stock dividend to $1.80 per share from the previous $1.64. Niagara Mohawk realizes a reasonable return is necessary on your investment and we shall strive to maintain our policy of fostering dividend growth. Another 1982 improvement was a gain from 71 to 87 percent in the market-to-book ratio of our common stock, with the market price rising from $12-3/8 at the close of 1981 to $15-5/8 at year-end.

Despite encouraging earnings and productive strides over the past 12 months, foreseeable upturns in operating costs and financing requirements compelled us to seek further rate adjustments for 1983. Moreover, the 11-month regulatory suspension period between the time of request and the date any approved tariffs can be implemented was a vital consideration. Accordingly, on April 30, 1982 we filed electric and gas rate increase proposals with the N.Y. State Public Service Commission. In late December, the PSC Administrative Law Judge in the case recommended a total of $86.4 million including $74.8 million electric and $11.6 million gas. A final decision from the full Commission is anticipated in late March 1983.

We can report significant progress on Nine Mile Point Nuclear Unit No. 2 as we continue forging ahead into the final third of the project and late 1986 commercial service date. After more than a year of regulatory scrutiny and trial, the 1.08-million kilowatt project won formal approval from the Public Service Commission based upon earlier exhaustive investigations, audits and public hearings. Moreover, the first three major construction milestones were met ahead of schedule. Construction of the plant had exceeded 60 percent as we entered 1983. With engineering and site construction combined, the project passed the 66 percent mark.

Early in 1983, the co-tenants of Nine Mile No. 2 re-estimated its construction costs at $2.65 billion, an increase of $250 million (10 percent) which with financing will bring the total to approximately $4.2 billion, within PSC guidelines on cost control and the first re-estimate in 2-1/2 years. At the same time, we have adopted an accelerated work plan which not only strengthens our confidence in meeting the projected October 1986 commercial operation date but opens the possibility of advancing that date. We foresee very limited changes in the project's scope and we are convinced more than ever that this nuclear installation will earn recognized status as a safe, dependable and economical power producer in New York State's energy future.

Repairs to piping at Nine Mile Point Nuclear Unit No. 1, shut down in March 1982, are expected to conclude in September 1983. We are also confident that Nine Mile 1—our initial nuclear installation—will meet or surpass the performance quality established since its commercial startup in 1969. Over its remaining operating lifetime, the unit will replace some 70 million barrels of imported oil.

Our financing requirements in 1983 are estimated at $492 million to meet construction costs and refunding requirements of maturing securities, while the past year's financing totalled $419 million. We are gratified that enrollment by our stockholders in our popular Dividend Reinvestment Plan climbed 44 percent, providing $37.8 million of new equity in 1982 alone.

Dynamic new programs designed to improve communications with the many thousands of families and businesses we serve were highly visible in 1982. Our people-oriented "We're With You!" approach (described on page 12) expresses our philosophy of working together with consumers to help them resolve energy concerns and live more comfortably. At the same time, revitalized economic development efforts are geared to attracting new industries and business besides helping to retain and expand those already in our service area—a stiff challenge today.

Other productive activities and initiatives taken in 1982 deserve emphasis, such as new energy conservation, research and environmental protection advances, computers and data processing. The role of quality assurance grew impressively and our year-old Hydra-Co subsidiary negotiated its first hydroelectric contracts. Also, our first "shelf registration" of mortgage bonds gave us access to the market when conditions were most suitable. Late in the year the 10,000-kilowatt Granby Hydro project—a part of our 15-year hydro expansion program—was nearing completion for 1983 commercial startup.

To maintain our financial posture, well-established service reliability and public support, we must meet unprecedented demands as we approach the mid-1980s, for these are times of severe economic transition and upheaval. One of our outstanding strengths continues to be the fairness of our residential rates. Our richly diverse mix of power generation sources (fossil fuels, hydroelectric, nuclear, economic purchases) has permitted us throughout 1982 to keep residential bills of Niagara Mohawk customers the lowest of the state's key utilities and below the national average. This has been the case for many years.

Our sincere gratitude and congratulations go personally to each Niagara Mohawk stockholder and employee for their loyalty and dedicated efforts in 1982.

John G. Haehl, Jr.
Chairman of the Board
and Chief Executive Officer

William J. Donlon
President

February 8, 1983

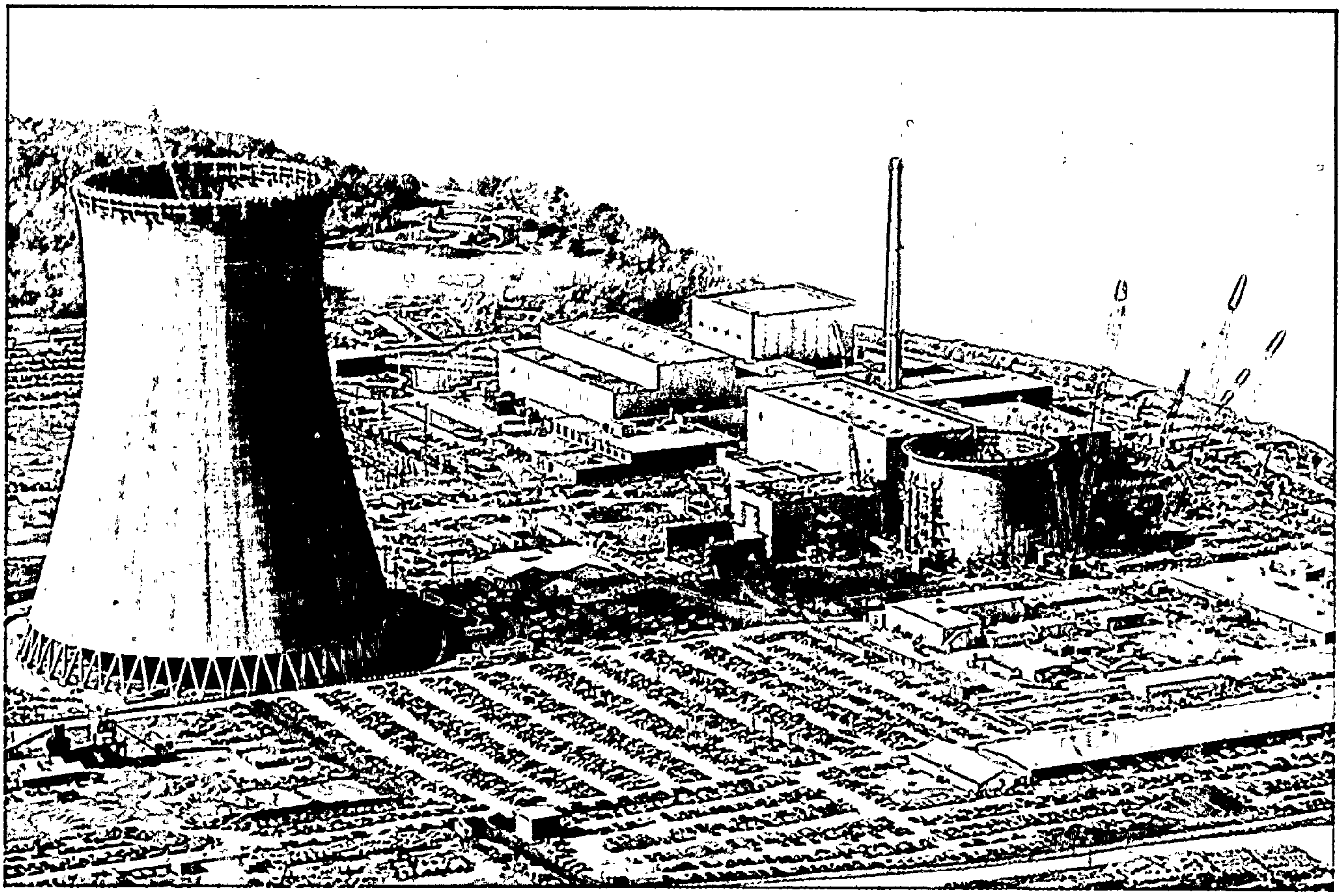
Charting our energy course

Utility planning has developed into a highly refined, sophisticated discipline in the past decade, especially when targeted at bringing major projects and facilities on line, applying the multitude of technological advances expected before the end of the century. As we look toward the 1990s and beyond, we must weigh every available option and technology before undertaking definitive energy programs for tomorrow's demands.

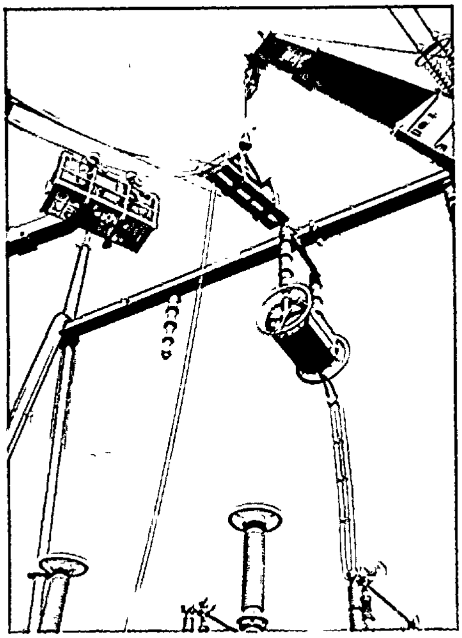
Nowhere has our commitment to the future been more evident than in construction of the Nine Mile Point Nuclear Unit No. 2 project. The year 1982 was a most positive and eventful period for this 1.08-million kilowatt power development, more than two-thirds complete at this writing and on schedule to meet its in-service date of fall 1986. By the end of 1982, a work force of up to 4,400 contractor personnel had accomplished major construction milestones at the Lake Ontario development. The station's spent-fuel storage liner, a huge pool-like structure, was installed eight weeks ahead of plan and by late fall the 540-foot-high concrete cooling tower was erected and the site prepared for continuing winter construction.

As with all nuclear construction projects of this size and scope, Nine Mile 2 continues to attract extensive public attention and news media headlines. More than a year of highly publicized studies, regulatory audits and public hearings on the advisability of continuing its construction culminated in April with the N.Y. State Public Service Commission issuing a formal decision endorsing the unit's timely completion. The Commission's order contained an "incentive rate of return" provision with reward and penalty stipulations, measured against a target cost of $4.6 billion. Presently, the cost is estimated at $4.2 billion, including financing. Niagara Mohawk is agent for construction and operation and is the principal partner with 41% ownership of Nine Mile 2. The other utilities include Long Island Lighting Co., 18%; New York State Electric and Gas Corp., 18%; Rochester Gas and Electric Corp., 14%; and Central Hudson Gas and Electric Corp., 9%. The nuclear unit will save up to 30,000 barrels per day of imported oil when it goes on line.

Outage of the 610,000-kilowatt Nine Mile Point Unit No. 1 will extend until repairs are finished and operation is resumed in September 1983, as planned. The unit was taken off line initially in March 1982 to repair pumps and, during



Crane lowers transmission switchyard gear into place at Lafayette Substation, south of Syracuse, where new 345,000-volt line adds to reliability of electric service.

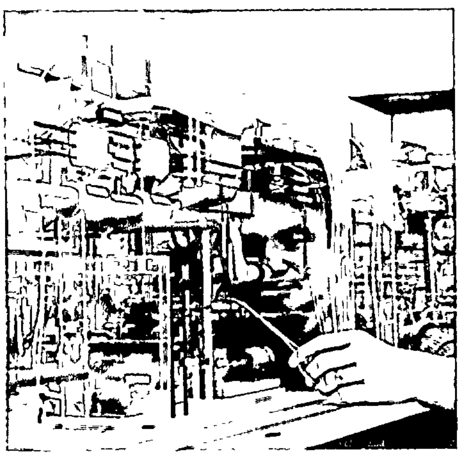


restart testing, leaks were detected in piping connected with the reactor. The mechanically difficult, labor-intensive task was streamlined considerably by special machining and welding techniques innovated by our nuclear engineering and plant operations staffs. Also, research work closely allied with these repair procedures was conducted earlier by the nationwide Electric Power Research Institute, in which NM is an active participant. The EPRI research directly resulted in reducing the time and cost. The repairs are estimated at $50 to $60 million.

Lower electric demand forecasts have resulted in postponement of plans to construct a 1.7-million kilowatt coal-fired generating station on Lake Erie. Latest load-growth studies indicate that the first 850,000-kilowatt unit will not be needed until the 1990s, and a second similar unit will not be needed until after the year 2000.

Niagara Mohawk's energy planning calls for significant additions and redevelopment of economical hydroelectric power capacity—a total of 146,000 kilowatts—by the early 1990s. The past year saw the 10,000-kilowatt Granby Hydro Station on the Oswego River in the City of Fulton nearing completion. Granby is the first of many water-power projects in the Company's overall blueprint for hydro expansion. Originally a 5,000-kilowatt plant when built in 1915, Granby's production will save the equivalent of 100,000 barrels of imported oil per year.

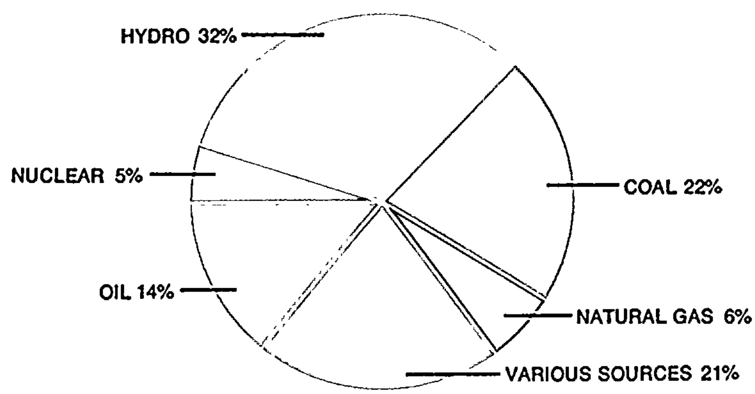
At Trenton Falls Hydro Station on the West Canada Creek near Utica, renovation and addition of units will increase output from 24,000



Finishing touches are given scale model serving in design and engineering of radwaste treatment building at Nine Mile Point Nuclear Unit No. 2. Model was effective tool for planning layouts of myriad pipes and other components.

Rising 540 feet over Lake Ontario shoreline, just-completed cooling tower at Nine Mile Point Nuclear Unit No. 2, left, presents imposing profile as project progresses toward 1986 commercial service. Work force of 4,400 took part in construction during past year.

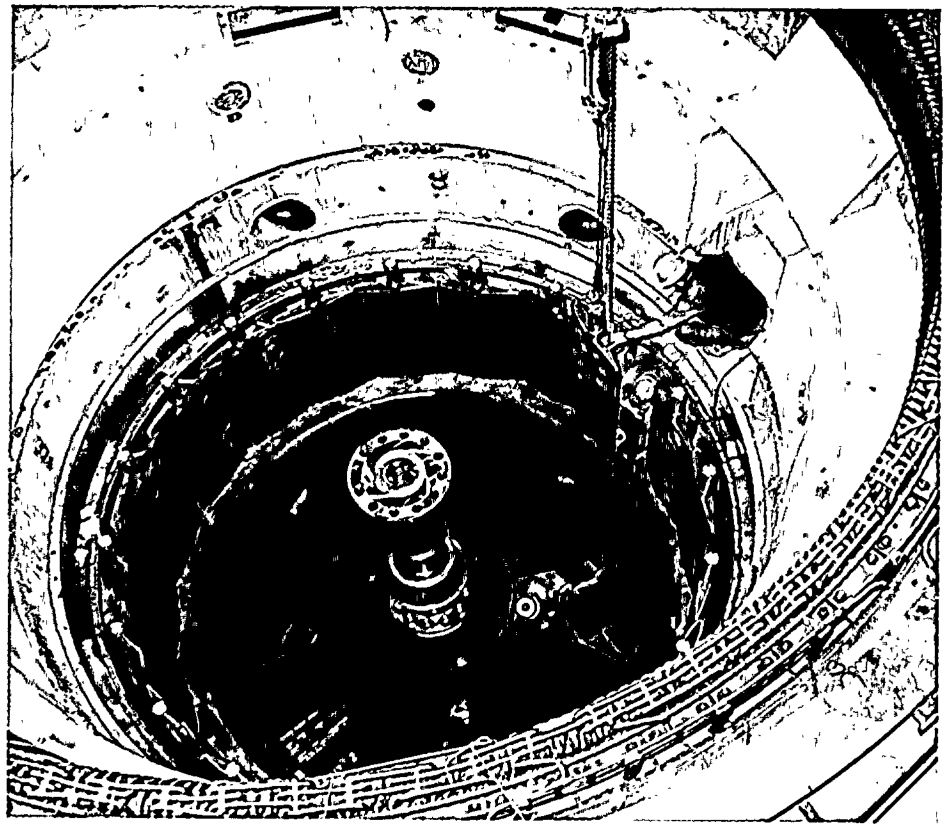
ELECTRICITY GENERATED AND PURCHASED BY TYPE OF FUEL, 1982



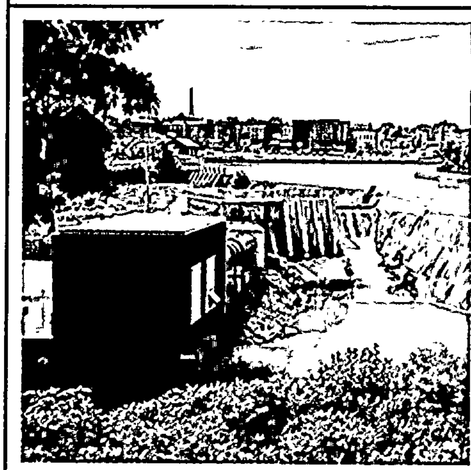
kilowatts to 30,000 by 1987. Also, in 1983 we anticipate approval by the Federal Energy Regulatory Commission of plans for a 15,500-kilowatt project for 1988 commercial service on the Black River at Glen Park, west of Watertown.

In April 1982, Niagara Mohawk negotiated with Ontario Hydro of Canada for the purchase of 400,000 kilowatts for a year's period after Nine Mile Point Nuclear Unit No. 1 was shut down for repairs. That short-term capacity and energy contract later was broadened into a four-year pact with an option to extend for one additional year. This energy will be generated primarily at Ontario Hydro's coal-fired plants at a cost about half of oil-generated power.

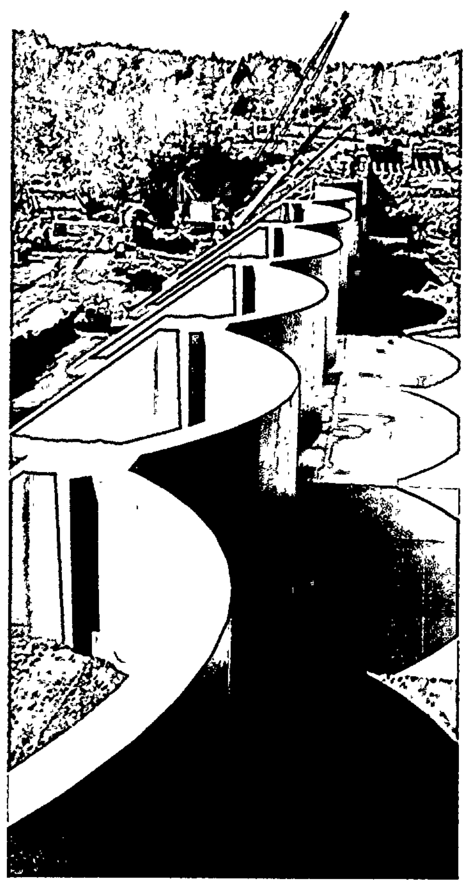
In another attractive Canadian power contract, an agreement to purchase up to 120,000 kilowatts was reached late in the year with



Construction view down open wheel pit of Granby Hydroelectric Station shows "business end" of one of two units, where tons of water cascading in from Oswego River will spin propeller-like turbine runner at base. Center shaft to generator will produce 7,000 horsepower to create 5,000 kilowatts.



Waterpower generates 300 kilowatts at Niagara Mohawk's newly renovated Oak Orchard Hydroelectric Station on N.Y. State Barge Canal at Medina. Smaller plants such as this (originally part of a furniture mill) are becoming increasingly attractive in our efforts to expand renewable "home-grown" hydro opportunities.



Scalloped walls of concrete impoundment dam, left, stand ready for water storage at Ephratah Hydro Station near Gloversville. Built in 1982, structures improve plant's generating output and efficiency.

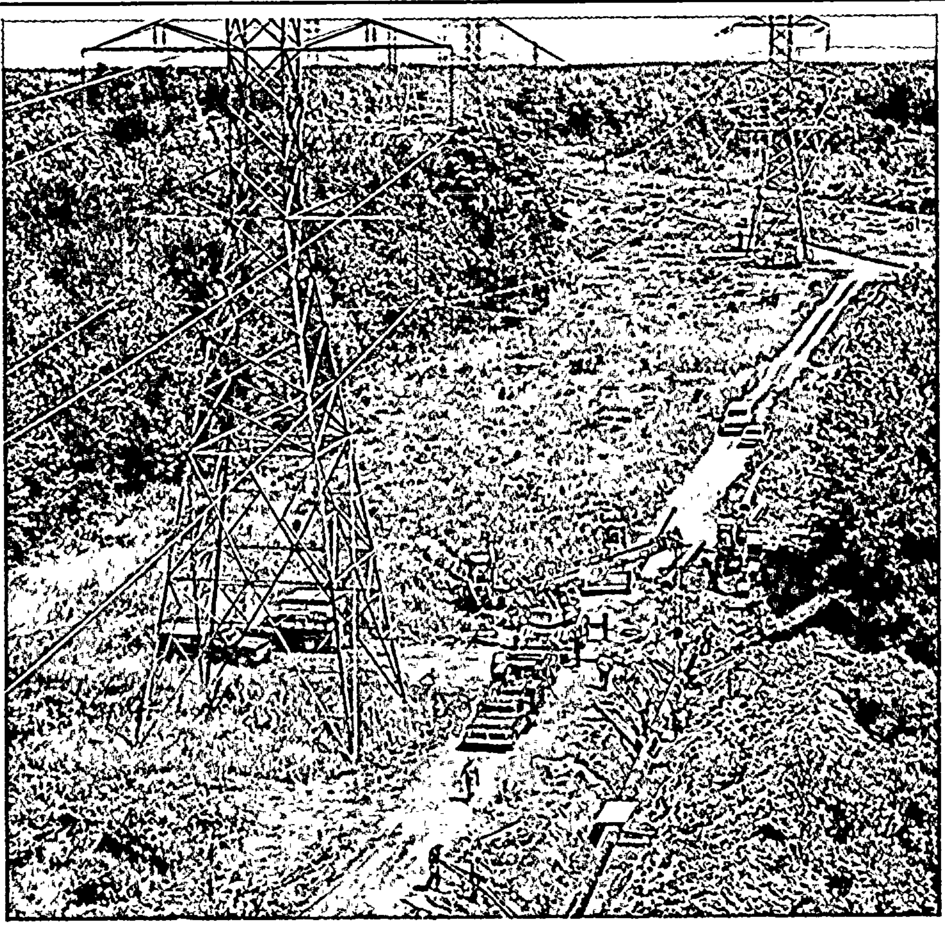
Hydro Quebec. Under this interruptible interconnection arrangement, hydro-produced power is sold to Niagara Mohawk at various periods to help offset NM's use of fossil fuels. These competitively economic transactions with our Canadian neighbors will save Niagara Mohawk consumers $280 million over the next four years while helping the Company hold its leading price position among the state's chief utilities.

Efforts to achieve further energy service reliability and flexibility to communities and load centers now include a newly energized, 345,000-volt line from Lafayette, south of Syracuse, to the neighboring New York State Electric and Gas Corp. system at a point near Cortland. This bulk power circuit began operating in late 1982, as scheduled. In addition, construction of a major transmission line from Oswego County to Marcy, near Utica, got underway during the year. Slated for service in 1986, this 65-mile line will operate at 345,000 volts, delivering power from Nine Mile Point Unit No. 2 into the Company's grid and the statewide New York Power Pool.

Another notable transmission development was the groundbreaking in 1982 for a master energy control center (see page 8) in Syracuse. Construction of the center follows years of power system surveys, analyses and planning.

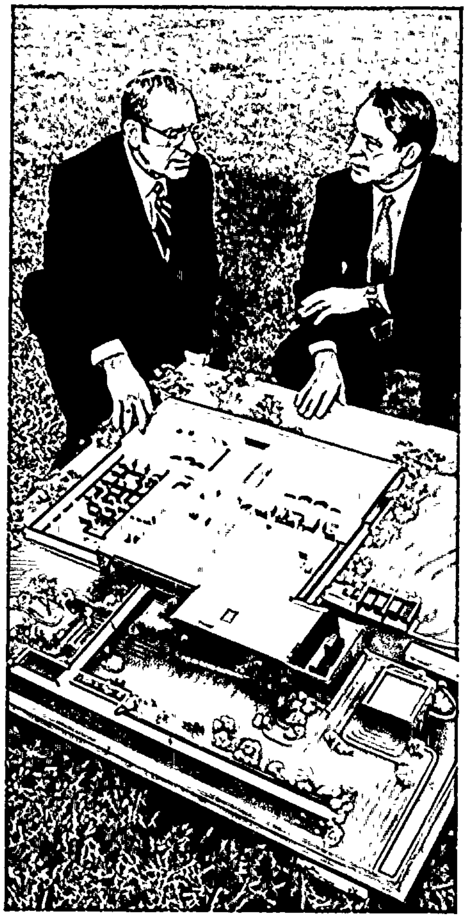
Installation of mains, service laterals and improvements in our natural gas operations will cost an estimated $17.2 million in 1983. Viewing the competitive price edge gas is expected to hold over oil in residential and commercial heating markets, clean-burning gas is still most likely to remain the most popular of the two over the long run, despite threats of further federal deregulation. A flexibly priced interruptible rate was incorporated in 1982 to enhance sales to our large users, who have the capability to burn residual fuel oil or natural gas and for whom the competitive price relationship between the two fuels is important.

In the first quarter of 1983, we were encouraged by a lower-than-anticipated price level charged to the Company for purchased gas.□



Power transmission corridor north of Syracuse serves for relocating more than half-mile of gas main, required by new highway construction nearby. Niagara Mohawk crews used recently invented cutting and valving techniques to perform task without having to interrupt service on high-pressure gas artery to northern New York.

Improving productivity



Senior Vice President Richard C. Clancy, left, and James F. Aldrich, manager of System Power Control, look over model of master energy control center that will help monitor and manage power delivery when completed in Syracuse in 1985. Construction of building began in 1982.

Environmental Analyst Cheryl Blum, below right, examines Lake Ontario bass with Fisheries Consultant John Dembeck at Oswego Steam Station Unit No. 6, where innovative diversion system protects lake's famed sports fisheries and yields dramatic cost savings and improved power plant efficiency.

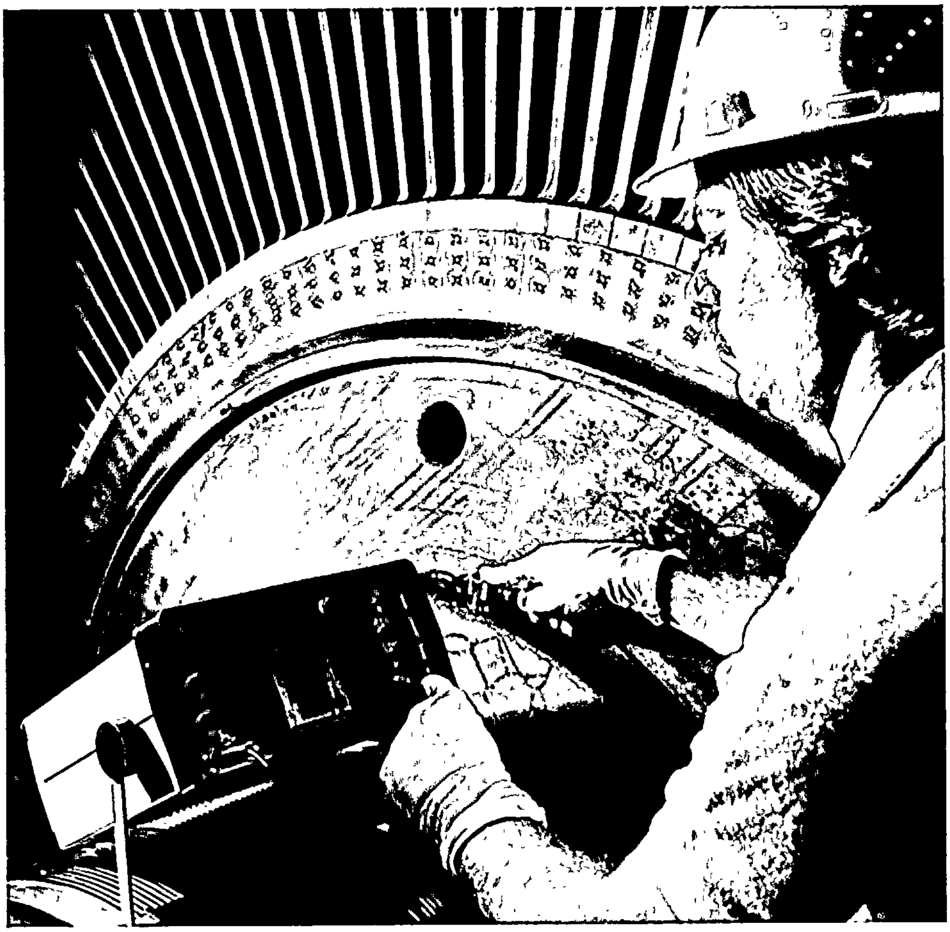
We are phasing-in a comprehensive corporate strategic planning process to strengthen Niagara Mohawk's future. This formal planning blueprint involves a team of senior executives and key management people. This year, management took a forward look at the Company and developed a corporate mission statement to guide our strategy. Under direction and guidance from our Corporate Planning Department, this process entails continuous assessment of critical issues, formulating objectives and determining strategies.

Among many major accomplishments in planning since the 1970s and initiated or completed in 1982 were implementation of new customer communication efforts by the Company (page 12) while a new master energy control center will refine power-transmission reliability over the years ahead. Construction of the center, hub of a far-reaching automated Energy Management System (EMS), is underway at Henry Clay Boulevard facilities in Syracuse. It will serve in the coordination of power generation and delivery to NM's 1.4 million customers and bulk power exchanges with other utilities and major Eastern power grids. Niagara Mohawk's existing Central Region and System Power Control centers will be relocated in separate sections of the two-story building. Plans call for the center going into service in 1985, with full-scale operation of the EMS—linked with space satellite and fiber optic communications—envisioned in 1991.

Closely allied with future productivity and efficiency goals, the Quality Assurance Department underwent significant expansion in 1982. Thirty-four technical inspection experts joined the QA staff, primarily for assignment to the Nine Mile Point Nuclear Unit No. 2 construction site and to oversee the ongoing piping repair project at Nine Mile No. 1. The Department's objective is to make certain that technical work complies with approved procedures and applicable codes, standards and other criteria. QA has authority to investigate, survey, audit and report to management on all projects including their design, materials management, operation, repair and maintenance.

A wholly owned non-regulated subsidiary formed in 1981, Hydra-Co Enterprises, Inc. has reached agreement with three independent firms for the construction, ownership and operation of nine hydroelectric sites with a combined 32,300-kilowatt potential on northern New York waterways. Hydra-Co also is actively pursuing other co-generation and hydro prospects.

As a result of new computer concepts now being applied by NM's Management Systems and Services Department, streamlining of administrative operations again occurred in 1982. Currently, we are able to process nearly 100,000 customer computer transactions—a 20 percent improvement over 1981—each day through Customer Service Telephone representatives using new computerized equipment that replaced older, paper-intensive procedures. Additionally, plans are in motion to replace or upgrade computer processing and data/voice communications equipment across our service territory. Planning, scheduling and construction of new energy programs and projects as well as accounting, financing and regulatory related activities increasingly utilize computer technology. Also, we have installed our own telephone equipment to improve efficiency and realize cost savings at principal Company offices and locations.



Quality Assurance Technician Bruce Reekie, above, scans turbine wheel with ultrasonic inspection instrument that transmits high-frequency sound waves. Ultrasonic testing is among latest tools for examining and maintaining all kinds of equipment.

Dispatcher Dennis Greenough, left, receives customer service orders from computer-linked printer in Syracuse. This new application of data processing has greatly increased efficiency and speed of service in responding to consumer telephone requests.

In the same positive light, members of Niagara Mohawk's Productivity Planning Department act as consultants to enhance work flow and efficiency. Successful gains have resulted from changes in Natural Gas Operations and Customer Service departments during the past two years. Studies of other operations are continuing.

The number of Niagara Mohawk's large dual-fueled natural gas customers in our Gas Load Management (GLM) program grew to 65 in 1982. GLM employs remote monitoring units installed at these industrial and commercial locations to transmit use data to our Syracuse Central Gas Dispatch Center at 15-minute intervals during peak usage times. This arrangement provides NM control over gas consumed by these customers at the most critical periods. This improves gas delivery reliability and holds costs down by minimizing the future need for expensive gas facilities that would be required for meeting higher peaks. □

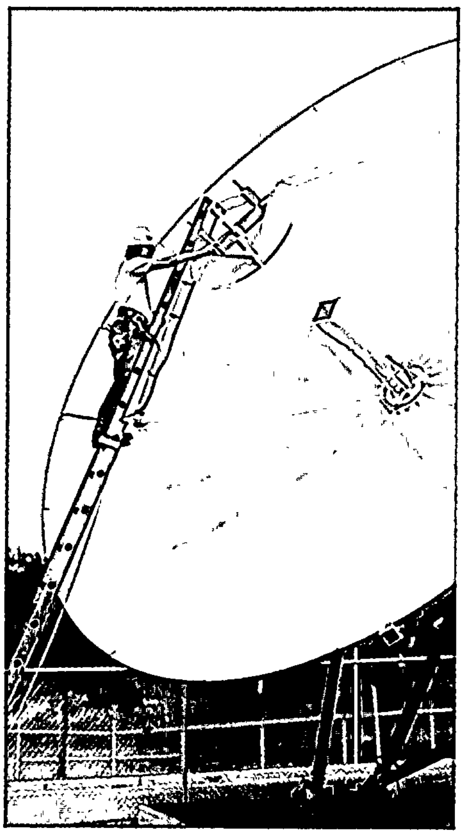
Crossing new energy thresholds

Niagara Mohawk posted solid research achievements in 1982, bearing practical benefits and technical rewards after years of scientific preparation and laboratory trials.

An advanced Flue Gas Desulfurization (FGD) prototype now in preliminary test operation at our Huntley Steam Station near Buffalo is one of our latest state-of-the-art ventures. Costing $61 million (shared by a consortium of energy research interests) FGD's uniqueness lies in its combined environmental and economic merits. If successful, this project will demonstrate a new technology enabling large power generation stations to burn low-cost, high-sulfur Eastern coal with no adverse impact on air, land or water quality. FGD's ability to remove 90 percent of sulfur dioxide gas from stack emissions and re-use the regenerated gas absorbent are its key merits. The only byproduct from this process is marketable—13 tons per day of high-grade elemental sulfur—much in demand by agricultural and manufacturing firms. Now being watched closely nationwide by major power producers, the FGD study is managed by Niagara Mohawk as host utility. The Empire State Electric Energy Research Corp. is principal sponsor with other utilities and federal and state governmental agencies participating. The demonstration, which represents an NM investment of $7.2 million, will continue for the next two years.

Also rapidly approaching its time is the energy fuel cell, a brainchild of the manned space program. Niagara Mohawk and other utilities have sponsored pioneering fuel cell research and development for more than a decade, with a 4,800-kilowatt demonstration unit recently installed and now being tested in New York City. Niagara Mohawk expects to install a larger, 11,000-kilowatt prototype at a steam generation station in 1986 for continuing studies of this attractive form of supplemental power generation. Pollution-free fuel cells also operate without significant noise or vibration and can operate on gaseous, liquid or coal-derived fuels. Moreover, they are relatively modular and compact, similar to a giant battery that needs no charging.

Another co-sponsored research venture managed by Niagara Mohawk reached successful completion in 1982 at Ray Brook Correctional Institution, previously the 1980 Winter Olympic Village near Lake Placid. There, new methods of storing and retrieving heat and managing electric loads were explored, using five identical buildings equipped with various energy systems. In addition, a demonstration with newly conceived earth-source heat pumps at consumer homes was producing practical energy and cost-efficient data at the year end.



Signals from orbiting satellite are beamed to 22-foot antenna, above, erected in 1982 by Niagara Mohawk in communications network research demonstration. Identical "dish" antennas were installed in Buffalo, Syracuse and Albany for exchanging data and voice signals. This space-age concept offers better economy, speed and efficiency than customary channels.

Successful application of a $4-million fish protection system at the Company's Oswego Steam Station Unit No. 6 water intake structure on Lake Ontario achieved environmental benefits in 1982. The system, designed and developed by engineers and aquatic biologists over several years of laboratory and field tests, was constructed in the station screen house as an alternative to a large cooling tower that would have required more than $53 million in capital costs and $2 million annually in operating costs. Besides effectively safeguarding the lake's famed salmon, trout and other sports fisheries, the new fish diversion and bypass system is improving the power plant's turbine operation efficiency. This venture was among a number of independent, in-house programs conducted together by the Research and Development and Environmental Affairs departments through the year.

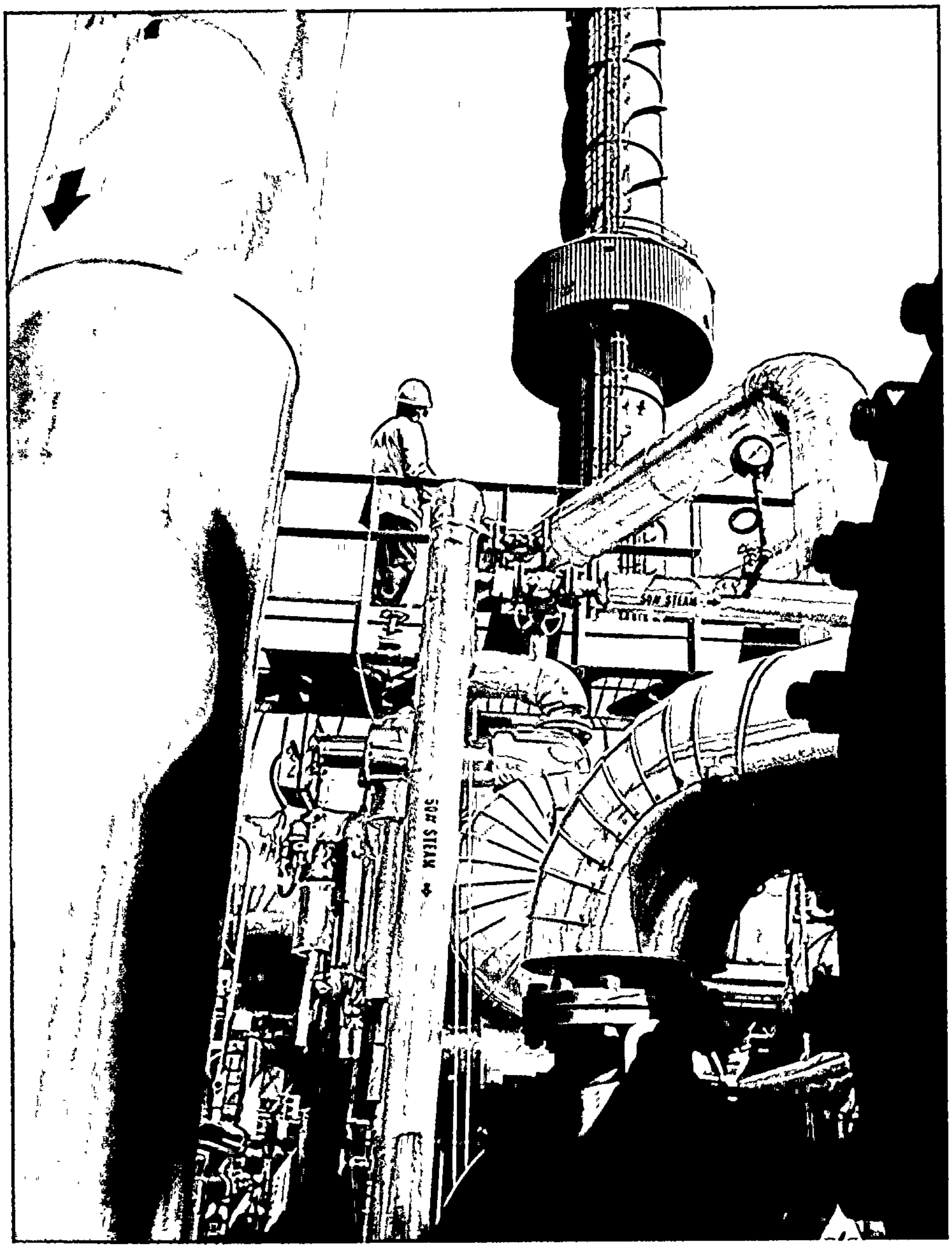
High-technology applications continue to gain prominence in our research planning for immediate and long-range futures. The greater speed, efficiency and economy of space satellite and fiber optics as communications tools are now firmly established and under active consideration for the future Energy Management System now under development. Late in 1982, researchers completed initial tests of a satellite communications network demonstration with stations located at Niagara Mohawk facilities in Buffalo, Syracuse and Albany. Dish antennas 22 feet in diameter were installed at each site to serve for data exchange and voice/video communications between various key operational points of the Company, reflecting signals from a segment Niagara Mohawk has leased on the orbiting Westar 5 space satellite. If successful, this venture could provide a more economic method of high-speed transmission of data and voice signals with greater reliability than existing leased land lines.

Dynamic line-measuring devices were invented in-house by Niagara Mohawk's Research Department and successfully demonstrated independently in the field over the past year. Eventually planned across our transmission system, these are expected to yield a 10 percent improvement of line performance while also helping to reduce future capital costs by permitting stepped-up usage of transmission equipment already in service. Designed to allow for additional energy sales using existing transmission facilities, the small donut-shaped, self-powered electronic units are attached to power lines and make constant checks of temperatures, currents and other operating conditions while simultaneously beaming the data by radio to utility substations and other reception points. Unlike present measuring instruments, the NM-created devices are installed without shutting down critical lines.

Also under intensive study by Niagara Mohawk are solar and wind, heat pump, energy conservation, electric load management and supply, electric vehicle, power delivery and environmentally oriented programs. All are part of a research budget of about $131.8 million over the next five years.

Following several years of an intensive search and review of candidates, Dr. Walter Meyer, eminent scientist and engineering educator, was appointed to the Niagara Mohawk Energy Professorship at Syracuse University. This energy chair, established through an endowment from Niagara Mohawk, carries a full-time faculty appointment in the College of Engineering. In making the appointment, the Company stressed its commitment to higher level energy education and research—essential for advancing technology—and acknowledged Syracuse University as a principal learning center. □

Partial look at Flue Gas Desulfurization prototype, below, shows maze of components in this advanced research venture at our Huntley Steam Station. Completed in 1982 and aiming for breakthroughs, FGD promises combined consumer-cost and environmental benefits.



Sharing consumer concerns

A concerted 1982 communications campaign with a totally new and personalized look has helped assure consumers of our sensitivity and willingness to assist them with individual energy problems and concerns. Niagara Mohawk, its stockholders and customers all stand to gain from this drive for public awareness and support.

Applying fresh, innovative media-advertising and information approaches to reach all parts of our Upstate New York service area, this coordinated effort has generated an enthusiastic response with its upbeat theme: "We're With You!". An indicator of the new program's effectiveness was increased requests from consumers for home energy audits and other varied services promoted by "We're With You!" communications. The theme also hits upon research, environmental, solar-assisted water heater and our nationally known add-on heat pump programs.

With this thrust for more positive consumer attitudes under way, "We're With You!" also served as a communications theme for introducing a new Home Energy Level Payments (HELP) plan to aid customers in better managing their winter heating costs and to diminish unpaid bills owed the Company. Basically, HELP is designed to divide the customer's estimated total annual energy consumption into predictable and nearly identical monthly payments adjusted only twice a year. A toll-free telephone inquiry service also was rolled into the program, with HELP offering several additional improvements over the Company's previous Budget Payment Plan.

Stylized design of service area map highlights Company's economic development campaign to attract new business and industry to "The State of Niagara Mohawk."

"We're With You!" is the message in a series of TV commercials introduced across the service area in 1982 and continuing in 1983. It also is prominent in our diverse printed communications tools and public information activities. Customer bill enclosures, press releases, booklets and brochures, displays, films, Speakers Bureau presentations and energy conservation seminars for hundreds of organizations in the communities we serve—all feature this consumer-oriented theme.

Under the Home Insulation and Energy Conservation Program, expanded and revamped with a new title and graphics: "Operation Sunflake", more than 35,000 residential customers requested free-of-charge inspections of home and apartment dwellings for weather effectiveness, furnace, boiler and water-heating equipment during the year. In these visits by trained specialists, computer-linked recommendations are

Energy Conservation Representative Judy Giesler, seated in photo left, discusses inspection data with Mr. and Mrs. Steven Kellerman after conducting energy and heating-efficiency analysis of Kellerman home. More than 35,000 such residential audits were performed by Company in 1982 under "Operation Sunflake" program.

Workers in Summer Youth Employment Program fill hopper, below, as insulation is blown into attic of senior citizen's residence. Jointly sponsored effort reduced heating costs for elderly and low-income consumers while providing temporary jobs for young people.

offered with cost estimates of proposed improvements and the resulting dollar savings. Residents also receive a roster of qualified contractors and are advised on applying for low-cost loans with convenient repayment terms. Some 5,000 customers borrowed $10 million from lending institutions for home energy improvements since this program began.

Late in 1982, Niagara Mohawk launched a separate information drive emphasizing that gas deregulation is causing steep rises in home heating bills and urging consumers "join with us" to resolve the problem. The effort began with an "open letter" (to the President and Congress) advertisement in all major daily newspapers in the system. Opposing any acceleration in the deregulation timetable of the 1978 Natural Gas Policy Act, the letter called for a realistic balance of the consumer's economic concerns, the laws of gas supply and demand and the need for dependable future gas supplies at the lowest possible price. At the same time this message appeared, the Company transmitted personal letters to legislators at all government levels urging passage of resolutions supporting NM's position, while literature was distributed to consumers seeking their support by letter-writing and contacting government leaders. The resulting news coverage and editorial recognition by both print and electronic media for this consumer-action campaign was both widespread and positive for Niagara Mohawk. We plan to continue pursuing this drive.

Many of our services for consumers have been modified or expanded, with an overriding sensitivity and flexibility for individual needs of senior citizens, the physically handicapped and persons with temporary illness or economic troubles. Such services as the extended payment date, third-party notification, in-home service calls, life support and winter-referral plans are vital to these consumers.

We are revitalizing our efforts to attract new businesses and industries to communities served by the Company through a campaign entitled "Discover the State of Niagara Mohawk". The ultimate objective is to bolster economic vitality and create jobs. The program employs media advertising and public relations tools, created specifically for business and industrial leaders with an eye toward relocating or expanding their operations in the territory we serve.□

MONTHLY RESIDENTIAL ELECTRIC COST FOR 500 KILOWATT-HOURS

New York City	$73.22
NY State Avg. (not including NM)*	$55.35
Newark, NJ	$49.28
Boston, MA	$47.90
Philadelphia, PA	$47.10
Cleveland, OH	$42.23
National Avg.**	$36.21
Hartford, CT	$34.95
Portland, ME	$33.84
Los Angeles, CA	$33.55
Niagara Mohawk*	$33.29

Includes fuel and PASNY credit adjustments as applicable.

*NM Rate Department as of 12-1-82

**E.E.I. report with rates effective 7-1-82

All others supplied by local utilities, rates effective 12-1-82.

Power people

A people-helping-people spirit prevailed throughout our new Summer Youth Employment Program, created in 1982 for a dual purpose —putting inner-city youngsters to work winterizing homes of the elderly and disadvantaged.

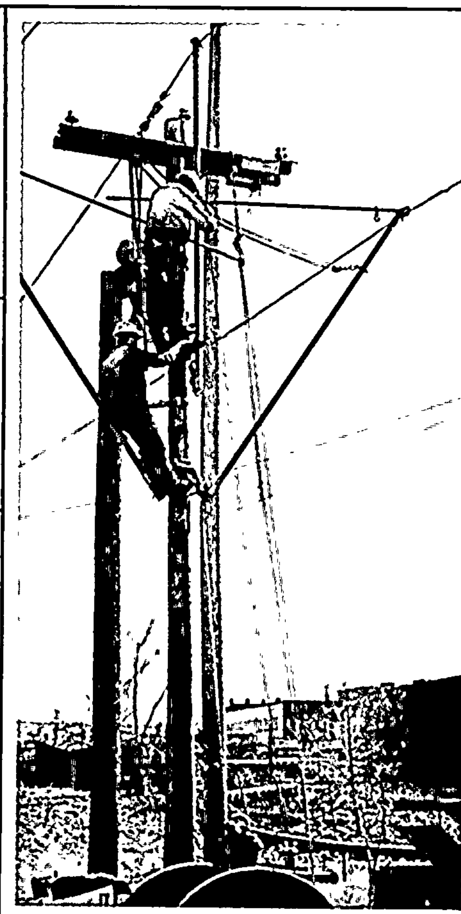
Sponsored by Niagara Mohawk in cooperation with 14 various community action agencies, more than 100 young adults under Company grants caulked and weatherstripped nearly 1,200 low-income homes in our service area. NM consumer relations representatives helped train youths taking part in the program. Warm recognition and praise were accorded Niagara Mohawk as a good corporate neighbor by all taking part, as well as by community leaders and local news media.

To maintain an open, candid flow of information and attitudes from the customer's side of the business, the Consumer Advisory Council on Energy Affairs, formed in 1977, performs an invaluable function. Its 26 volunteers, representing all walks of life, meet every month with NM executives for discussions of energy policies and customer problems. The Council serves as a sounding board to enable the Company to track what the public thinks of us so we can respond to consumer needs more effectively, particularly in today's troubled economic times.

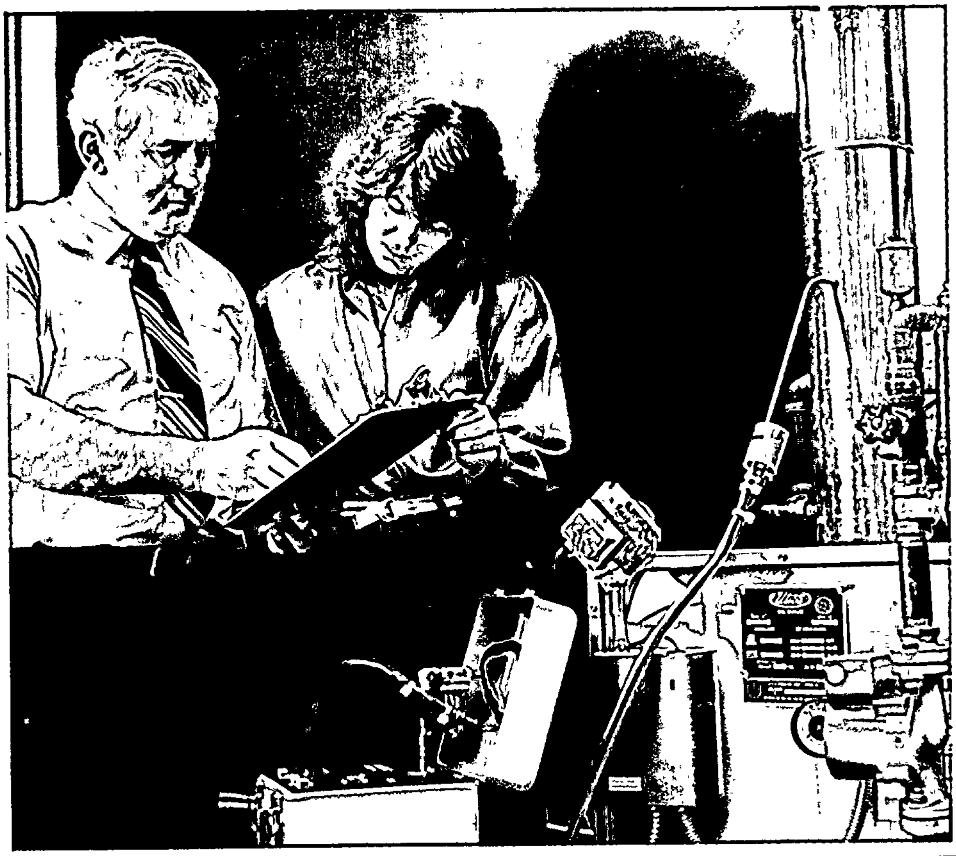
Aware of the growing importance of human resource development and the dramatic impact of new technology on our business, the Training Department becomes more prominent in our operations each year. Productive returns started to surface in 1982 as a result of Training's helping to upgrade generation station performance and further reduce power outages by instructing hot-stick line mechanics in new equipment and power restoration techniques on fully energized lines. Computer-based training methods with video terminals now allow employees to receive instruction on a wide variety of subjects without leaving their work stations. The Training Department is preparing a Center for Human Resource Development in Syracuse for operation in 1983, expanding a supervisory program in cooperation with Clarkson College and participating in middle-management training seminars with Cornell University. The new year will also see a new series of courses for more than 500 customer service representatives and a new welding school for gas operations.

Management and organizational changes in 1982 were highlighted by a new regional concept that replaced an older division/area/district organization. With Syracuse still corporate headquarters, the Company now consists of eight separate geographic regions: Central, Northern, Capital, Genesee, Mohawk Valley, Frontier, Northeastern and Southwestern. This major restructuring of Niagara Mohawk's service area comes after substantial study and planning and offers management efficiency and communications improvements.

Employee Relations Director of Salary Administration Joanne Schwartzott, above center, conducts briefing with Dennis Flood, Employee Relations coordinator, and Mary Ann Hall, Employee Relations clerk. Under Salary Administration Program, a new system of job performance and evaluation ratings was initiated for all Niagara Mohawk management employees in 1982.



Line mechanics, right, learn newly developed methods of repairing transmission circuits under Training Department supervision. "Hot stick" techniques permit repair and maintenance work on energized lines without interruption of service to customers.



System Director of Service Training Leo Glover, above, and Catherine Demers, Consumer Representative, discuss procedures for measuring efficiency of home heating units. Twenty-one specialists were added to the Consumer Relations Department during the year under the Home Insulation and Energy Conservation Program.

A long-admired mainstay in Niagara Mohawk's management and operations, James Bartlett, executive vice president since 1973, retired at the year-end after more than four decades of dedicated utility service. A University of Michigan engineering alumnus, Mr. Bartlett worked his way up through the ranks of NM's electrical operations after joining the Company in 1939. He was elected to the Board of Directors in 1973.

Richard H. Kukuk, vice president of regional operations in Albany, retired in November 1982 following a distinguished career that began as a service representative in 1939. Extremely active in Capital Region community and business organizations, Mr. Kukuk served in a number of district and area managerial posts. He was elected vice president in 1972.

New management appointments during the year included the following veteran employees: John P. Hennessey, senior vice president; Gerald K. Rhode, senior vice president; Robert M. Cleary, vice president of regional operations; Anthony J. Baratta, Jr., vice president and controller; Donald P. Dise, vice president of quality assurance: Kermit E. Hill, vice president of public affairs and corporate communications; Raymond Kolarz, vice president of regional operations; Charles V. Mangan, vice president of nuclear engineering and licensing; Samuel F. Manno, vice president of nuclear construction; John W. Powers, vice president and treasurer; Michael P. Ranalli, vice president of engineering; and Perry B. Woods, Jr., vice president of employee relations.

At the start of 1983, our work force totaled about 10,300. Approximately 8,000 or 78% of Niagara Mohawk employees are members of the 12 locals and System Council U-11 of the International Brotherhood of Electrical Workers.

Approximately 7,100 or 77% of all eligible employees subscribe to the Employee Savings Fund Plan, in which 2% to 6% of wages are allocated for common stock or U.S. Government Bonds. The Plan holds approximately 9.5 million shares or 10% of the outstanding common stock. Employees may also make additional unmatched contributions of up to 4% of their wages.

Stockholders are finding our Dividend Reinvestment and Stock Purchase Plan more attractive than ever, as participants may qualify for tax-deferred treatment under current tax rules. The Plan provides members a considerable investment incentive besides generating significant capital for Niagara Mohawk.

Both common and preferred stockholders taking part in the Plan are allowed to exclude up to $750 ($1,500 for joint returns) of dividend income for federal income tax purposes on reinvested dividends until their shares are sold. When these shares are sold, the gain may be taxed as capital gains if all the shares purchased through the Plan for which an exclusion was claimed had been held for a year or more.

Stockholders are invited to join this program. A membership form and prospectus with details are available by writing NMPC Dividend Reinvestment Plan, P.O. Box 131, Syracuse, N.Y. 13201.□

Market price of common stock and related stockholder matters

The Company's common stock and certain of its preferred series are listed on the New York Stock Exchange. The common stock is also traded on the Amsterdam (Netherlands), Boston, Cincinnati, Midwest, Pacific and Philadelphia stock exchanges. The ticker symbol is "NMK".

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

1982	Dividend paid per share	Price range High	Price range Low
1st Quarter	$ .41	$13¾	$11⅞
2nd Quarter	.45	14⅞	12⅞
3rd Quarter	.45	16⅞	13⅛
4th Quarter	.45	16½	14¾
	$1.76		
1981			
1st Quarter	$.38	$12½	$10¾
2nd Quarter	.41	13¼	11
3rd Quarter	.41	13	10⅞
4th Quarter	.41	13¾	11
	$1.61		

Preferred and common stock dividends were paid on March 31, June 30, September 30 and December 31. The Company presently estimates that 30% of the 1982 and 10% of the 1981 common stock dividends are a return of capital and therefore are not taxable as dividend income for income tax purposes. The remaining percentage of common dividends and 100% of preferred stock dividends are taxable as dividend income.

While the Company intends to continue the practice of paying cash dividends quarterly, declarations of future dividends are necessarily dependent upon future earnings, financial requirements and other factors, including restrictions in governing instruments.

The holders of common stock are entitled to one vote per share and may accumulate their votes for the election of Directors. Whenever dividends of preferred stock are in default in an amount equivalent to four full quarterly dividends and thereafter until all dividends thereon are paid or declared and set aside for payment, the holders of such stock can elect a majority of the Board of Directors. Whenever dividends on any issued preference stock are in default in an amount equivalent to six full quarterly dividends and thereafter until all dividends thereon are paid or declared and set apart for payment, the holders of such stock can elect two members of the Board of Directors. No such dividends are now in arrears.

Upon any dissolution, liquidation or winding up of the Company's business, the holders of common stock are entitled to receive pro rata all of the Company's assets remaining and available for distribution after the full amounts to which holders of preferred and preference stock are entitled have been satisfied.

The indenture securing the Company's mortgage debt provides that surplus shall be reserved and held unavailable for the payment of dividends on common stock to the extent that expenditures for maintenance and repairs plus provisions for depreciation do not equal 2.25% of depreciable property as defined. Such provisions have never restricted the Company's surplus.

At year end, over 207,000 stockholders owned common shares of Niagara Mohawk and 10,000 held preferred and preference stock. The chart below summarizes common stockholder ownership by size of holding:

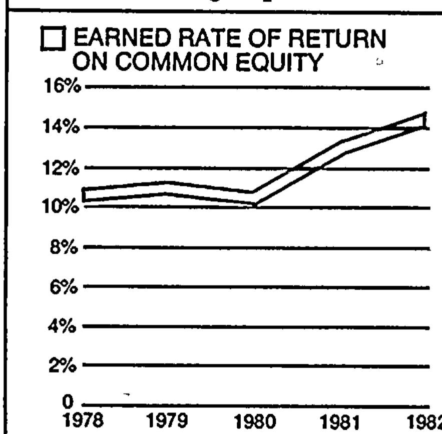
Size of holding (Shares)	Total stockholders	Total shares held
1 to 99	57,996	1,924,165
100 to 999	140,538	33,714,044
1,000 or more	8,898	58,193,942
	207,432	93,832,151

Management's discussion and analysis of financial condition and results of operations

Results of operations. Earnings in 1982 were $2.64 per share, up $.29 from 1981, $.77 above 1980, and $.64 above 1979 earnings, with fewer shares outstanding in each of the earlier years.

A substantial portion of the improvement in the Company's earnings per share for 1982 from 1981 came primarily from rate relief granted in March 1981 and 1982. Total sales of electricity and gas were slightly below the prior year. Electric sales to ultimate consumers were down 4.5% but the decrease was substantially offset by increased sales to other electric systems. Decreased sales to industrial customers and other gas systems were more than offset by an increase in gas sales to commerical customers. However, operating expenses including depreciation increased 8%, Federal income and other taxes increased 28% and financing costs were 18% higher, reducing the impact of the increase in revenues.

The Company's Rate of Return on Common Equity rose to 14.7% for 1982 from 13.5% in 1981 and 10.8% in 1980. Although this earned Return on Common Equity reflects a strong improvement from

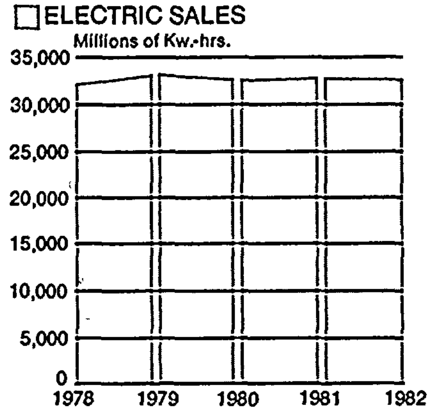


prior years, it still remains below the 17.1% currently approved by the New York State Public Service Commission (PSC) for the rate year beginning March 1982. Recent rate awards have not adequately provided for steadily increasing costs resulting from inflation, thus necessitating annual petitions for rate increases.

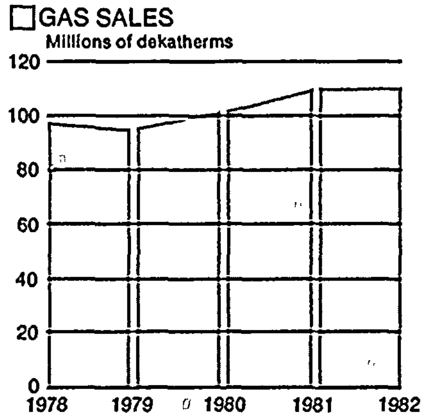
The discussion and analysis that follows highlights items that have had a significant effect on operations during the three-year period ended December 31, 1982 and may not be indicative of future operations or earnings. It should be read in conjunction with the Notes to Consolidated Financial Statements and other financial and statistical information appearing elsewhere in this report.

Electric revenues increased $650 million or 54% over the three-year period. This increase is largely attributable to increased base rates and to recovery of increased fuel and purchased power costs, as indicated in the table at the right.

ELECTRIC SALES



GAS SALES



Electric revenues	Increase (decrease) from prior year *In millions of dollars* 1982	1981	1980	Total
Increase in base rates	$128.8	$115.2	$ 80.8	$324.8
Fuel and purchased power cost increases	(1.9)	141.5	69.9	209.5
Sales to ultimate consumers	(21.9)	27.1	1.1	6.3
Sales to other electric systems	34.2	30.9	23.2	88.3
Miscellaneous operating revenues	1.5	11.8	7.4	20.7
	$140.7	$326.5	$182.4	$649.6

Electric kilowatt-hour sales were 32.6 billion in 1982, a decrease of 0.8% from 1981, reflecting the effects of the recessionary economy in the Company's service area especially on our industrial customers (see Electric and Gas Statistics—Electric Sales appearing on page 36). Details of the changes in our electric revenues and kilowatt-hour sales by customer group are highlighted in the table below:

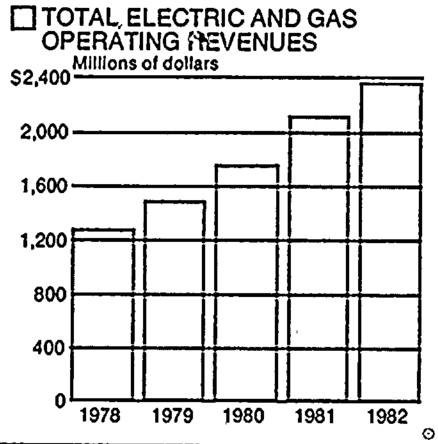
Class of service	1982 % of electric revenues	% Increase (decrease) from prior year 1982 Revenues	1982 Sales	1981 Revenues	1981 Sales	1980 Revenues	1980 Sales
Residential	29.0%	11.5%	0.2%	19.5%	1.5%	13.2%	0.7%
Commercial	33.8	8.7	(0.9)	24.8	0.6	17.8	0.9
Industrial	22.8	(1.1)	(10.9)	24.9	(0.6)	10.0	(6.2)
Municipal service	1.9	11.6	(3.4)	15.2	(2.6)	13.9	(0.4)
Total to ultimate consumers	87.5	6.9	(4.5)	22.9	0.4	14.0	(2.1)
Other electric systems	9.2	24.9	35.4	29.0	6.5	27.9	(3.3)
Miscellaneous	3.3	2.5	—	24.8	—	18.4	—
Total	100.0%	8.2%	(0.8)%	23.4%	0.9%	15.1%	(2.2)%

Gas revenues increased $228 million or 75% over the three-year period. As shown by the table below, this rise is primarily from increased costs of purchased gas which are recovered from customers through the purchased gas adjustment clause.

Gas revenues	Increase (decrease) from prior year *In millions of dollars* 1982	1981	1980	Total
Increase in base rates	$ 17.8	$11.0	$ 1.2	$ 30.0
Purchased gas cost increases	74.1	4.8	67.3	146.2
Gas sales	10.4	31.3	9.7	51.4
	$102.3	$47.1	$78.2	$227.6

Gas sales were 110 million dekatherms in 1982, nearly the same as 1981 and an 8.3% increase from 1980 (see Electric and Gas Statistics—Gas Sales appearing on page 36). The increases for 1981 and 1980 were primarily attributable to industrial sales which increased principally as a result of boiler conversions from oil to gas because of price advantages. However, the weak economy resulted in reduced sales during 1982. In 1982 residential sales were adversely affected by lower usage resulting primarily from customer conservation. During 1982 and 1981 conversions to dual-fueled (oil and gas) boilers increased commercial sales. Changes in gas revenues and dekatherm sales by customer group are detailed in the table below:

Class of service	1982 % of gas revenues	% Increase (decrease) from prior year 1982 Revenues	1982 Sales	1981 Revenues	1981 Sales	1980 Revenues	1980 Sales
Residential	49.7%	19.1%	(1.3)%	6.1%	1.1%	18.6%	(1.5)%
Commercial	25.7	33.5	8.8	15.3	10.5	25.2	1.8
Industrial	21.1	26.0	(3.0)	28.5	23.9	50.3	26.5
Total to ultimate consumers	96.5	24.2	0.8	12.6	8.6	25.2	4.5
Other gas systems	2.9	11.8	(18.7)	2.5	3.6	34.4	12.4
Miscellaneous	.6	23.6	—	21.2	—	50.0	—
Total	100.0%	23.8%	(0.1)%	12.3%	8.3%	25.6%	4.9%



In summary, total operating revenues increased $877 million, or 58% over the three-year period, largely representing recoveries of fuel and purchased gas costs through fuel adjustment clauses and increased rates. Through the energy and purchased gas adjustment clauses, costs of fuel, purchased power and gas purchased, above or below the levels allowed in approved rate schedules, are billed or credited to customers.

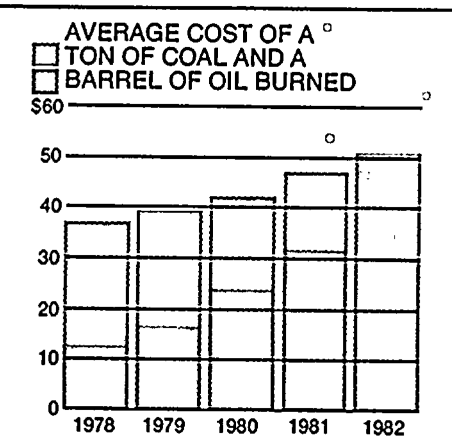
On March 8, 1982, the PSC approved rate increases to provide the Company additional annual revenues of $142,519,000 (7.9%) for electric and $17,143,000 (3.3%) for natural gas. These new rates became effective March 13, 1982. In 1981, the PSC had approved rate increases which became effective March 18, 1981 providing additional annual revenues of $161,286,000 (11.0%) for electric and $16,918,000 (4.1%) for natural gas.

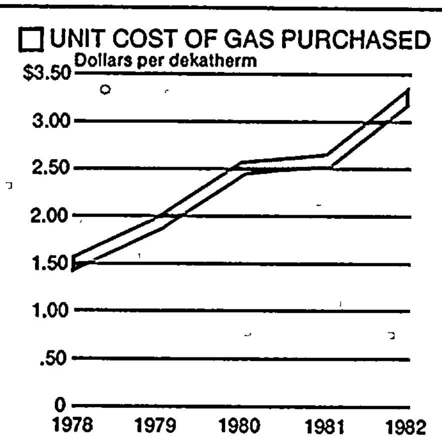
Further rate action, made necessary by the lingering effects of inflation, continued high forecasted interest rates and the need to increase cash flow, was requested on April 30, 1982 when the Company filed for an annual increase of $249.6 million, including $220.3 million (11.9%) electric and $29.3 million (4.2%) gas. In December 1982, a PSC Administrative Law Judge recommended rate increases of $74.8 million (4.2%) electric and $11.6 million (1.7%) gas or about 35% of the original request. This recommended decision in part reflects forecasted improved conditions in financial markets which were not anticipated at the time of the Company's original filing. The Company and other parties have filed exceptions to many of the Judge's recommendations. The PSC's opinion is expected in March 1983 with new rates to be effective promptly thereafter.

In 1982, fuel and purchased power costs decreased to $815 million from $840 million in 1981 after having increased sharply from $540 million in 1979 and $644 million in 1980. The decrease in 1982, despite the extended outage at the Nine Mile Point Nuclear Station Unit No. 1, resulted from a 31% reduction in oil-fired generation. This decrease in oil-fired generation was made possible by purchases from Ontario Hydro of Canada (used in part to replace the generation lost because of the extended outage at the Nine Mile Point Nuclear Station), the conversion from oil to natural gas at the Albany Steam Station and a 12% increase in coal-fired generation. (See Electric and Gas Statistics—Electricity Generated and Purchased appearing on page 36.) The table at the bottom of the page summarizes the Company's average fossil fuel and purchased power unit costs.

Nine Mile Point Nuclear Station Unit No. 1 was out of service for approximately four months in 1981 for scheduled refueling and maintenance. In March 1982, the unit was taken out of service for repairs to safe end pieces which connect the reactor nozzles to recirculation piping. The Company had preliminarily estimated a twelve-month outage to effect these repairs. While detailed planning was underway for the safe end repairs, comprehensive testing of the recirculation piping as well as auxiliary piping revealed the existence of some of the same conditions which necessitated repairs to the safe end pieces, thereby requiring replacement of the recirculation piping. The outage is expected to continue until about September 1983 and the total cost of repairs, which is being capitalized, is expected to be from $50 million to $60 million. The Company has sufficient alternate sources of power to meet customer requirements during the outage. The outage did not have any material impact on results of operations or financial position of the Company for 1982 and the Company does not expect that it will have any material impact on future results of operations or financial position (see Note 9 of Notes to Consolidated Financial Statements).

During 1981, in an effort to minimize the effects of fuel cost increases, the Company converted its Albany Steam Station to burn natural gas as well as oil to enable utilization of lower cost fuel



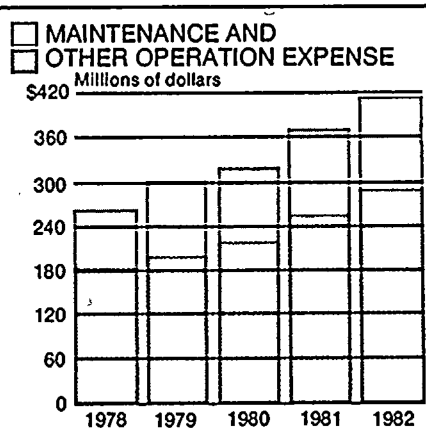


Average cost per:	1982	1981	1980	1979
Ton of coal (dollars)	$50.76	$47.44	$41.95	$39.08
Barrel of oil (dollars)	$29.67	$30.84	$23.72	$16.34
Kilowatt-hour purchased (mills)	19.4	18.1	13.6	12.1

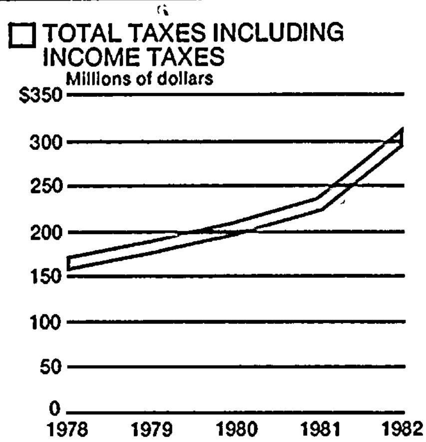
supplies. Substantially all of the cost of this conversion (about $7,900,000) was recovered on an accelerated basis from fuel cost savings.

The total cost of gas purchased, net of refunds from the Company's supplier, rose 29% in 1982, 6% in 1981 and 41% in 1980. These increases are primarily the result of gradual federal deregulation of gas prices at the wellhead. The Company's cost per dekatherm purchased has increased to $3.38 in 1982 from $2.66 in 1981, $2.59 in 1980 and $2.00 in 1979.

Other operation and maintenance expenses increased 11.3% in 1982, 16.8% in 1981 and 7.2% in 1980, primarily as a result of increases in wages and associated benefits, higher costs charged by suppliers and increased levels of maintenance. In June 1982, the Company entered a two-year labor agreement providing for increased wages of 9.5% in the first year and 9.0% in the second year. The increase in other operation and maintenance expenses in 1981 was also attributable, in part, to the refueling of Nine Mile Point Nuclear Station Unit No. 1.



Depreciation and amortization expense for 1982 increased 18.4% over 1981 principally from the accelerated amortization of the costs associated with the modification of the Albany Steam plant to burn natural gas as well as oil as a fuel, amortization over three years of the costs associated with the abandoned Sterling nuclear project and normal plant growth.



Federal and foreign income taxes rose in 1982, 1981 and 1980 as a result of increased income, including an increase in the amounts on which deferred taxes are provided. The increase in taxes other than income taxes in these same three years is due principally to higher property taxes resulting from property additions and higher state and local gross income taxes resulting from increased revenues.

The $22.8 million increase in total Allowance for Funds Used During Construction (AFC) for 1982 results from higher AFC rates (detailed in Note 1 of Notes to Consolidated Financial Statements) applied to increased overall levels of plant under construction. On April 1, 1981, the Company suspended accruing AFC on the N M Uranium, Inc. (NMU) investment because of the uncertainty of full recovery of the investment (see Note 3 of Notes to Consolidated Financial Statements).

The Company's revenues and costs of operation over the past three years show substantial increases in several respects, due primarily to the effect of general inflation and higher fuel costs. Although subsiding in recent months, inflation has eroded the purchasing power of the 1982 dollar, as measured by the Consumer Price Index, to about three-fourths of its 1979 value. The Company is especially sensitive to inflation because of the large amount of capital it must raise to finance its construction program and because its prices are regulated using a rate base that reflects the historical cost of utility plant. Inflation information in Note 12 of the Notes to Consolidated Financial Statements indicates the approximate effect of inflation on certain aspects of the Company's operations and financial position.

Financial position, liquidity and capital resources. As is common in the utility industry, internal funds generated from operations are insufficient to meet the Company's capital requirements. Therefore, large amounts of new capital from external sources are required. External capital needs are first met through utilization of short-term borrowing arrangements, including bank lines of credit and commercial paper. These short-term borrowings are refinanced on a continuing basis through the issuance of securities, consisting of intermediate and long-term debt, preferred and preference stock and common stock.

Capital resources consisting of both internal and external sources are used to pay for the Company's construction program, working capital needs, maturing debt issues and sinking fund provisions on outstanding debt and preferred stocks. Sources and uses of funds during the past three years are reported in the Consolidated Statement of Changes in Financial Position at page 24.

The Company presently has short-term bank credit arrangements aggregating $307 million. At December 31, 1982, $92 million of such arrangements were in use or being held available to support the Company's outstanding commercial paper obligations. The Company issues long-term debt, a majority of which is secured by a mortgage on the Company's properties. In addition, the Company borrows under its revolving credit and term loan agreements and at December 31, 1982 had $41 million outstanding (of a total amount available under these agreements of $135 million including those relating to Oswego Facilities Trust). Preferred stock issues in recent years have typically been redeemable at specified dates and prices. Common stock is sold through periodic public offerings as well as under the Company's Dividend Reinvestment, Employee Savings Fund and Employee Stock Ownership plans.

The Company completed $495,194,000 of financing during 1982 as detailed below:

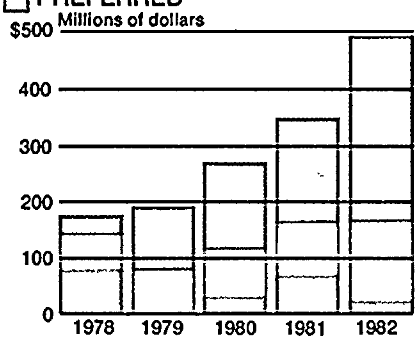
First Mortgage Bonds ...	$330,000,000
Preferred Stock	20,000,000
Common Stock(1)	145,194,000
	$495,194,000

(1) Includes public sale of 5 million shares at $15.20 per share and proceeds from sales through dividend reinvestment, employee savings fund and employee stock ownership plans at varying prices.

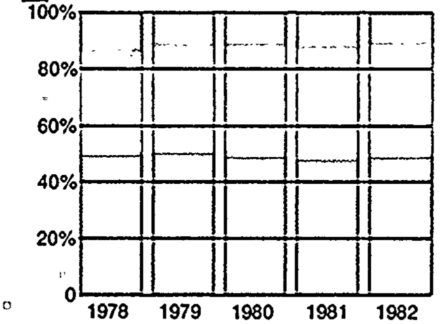
Approximately $77 million of these funds were used to reduce revolving credit and term loan agreements, and to provide for sinking fund requirements on existing obligations and $15 million was used to reduce outstanding short-term debt. The Company expects to finance approximately $400 million in 1983 through the issuance of first mortgage bonds, preferred and common stock. In addition, the Company expects to increase outstanding amounts under other credit facilities by approximately $92 million. Approximately $79 million of these funds will be used to meet maturing debt and sinking fund obligations.

The Company has endeavored to strengthen its capitalization structure through the reduction of long-term debt as a percent of total capitalization. The proportion of long-term debt to total capitaliza-

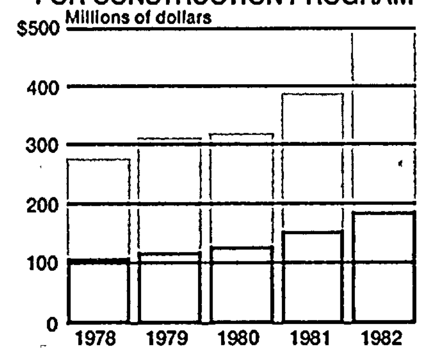
ANNUAL EXTERNAL FINANCING BY
DEBT
COMMON
PREFERRED



CAPITALIZATION RATIOS
PREFERRED
COMMON EQUITY
LONG-TERM DEBT



EXTERNAL AND
INTERNAL SOURCES OF CAPITAL
FOR CONSTRUCTION PROGRAM

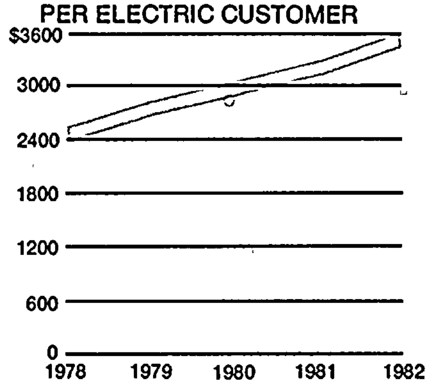


tion has decreased from 48.0% at the end of 1980 to 46.8% at the end of 1982 while common equity as a percent of total capitalization has increased from 39.4% at the end of 1980 to 41.5% in 1982.

Construction and other capital requirements continue to increase. Net additions for construction and nuclear fuel, excluding financing costs, totaled $499.7 million in 1982, $385.5 million in 1981 and $319.7 million in 1980. In recent years, the largest cost component of construction programs has been the cost of new generating stations. The only new station presently under construction is Nine Mile Point Unit No. 2, scheduled for completion in late 1986. The Company is a 41% owner and has invested about $783 million including financing costs in the project through December 31, 1982. Cash expenditures associated with construction of this nuclear unit, along with other construction requirements, are expected to increase in the near term (See Notes 4 and 9 of Notes to Consolidated Financial Statements).

Financial resources provided internally from operations consist of net income adjusted for non-cash expenses, such as depreciation, amortization of nuclear fuel and deferred income taxes, and non-cash income, such as AFC. AFC represents the financing costs of the Company's construction program and is added to the cost of construction until such time as the capital projects are completed, and is then recovered through depreciation included in rates charged to customers.

AVERAGE GROSS
ELECTRIC UTILITY PLANT
PER ELECTRIC CUSTOMER



While financial resources from operations, as determined above, have been increasing in recent years, such increases have not kept pace with the Company's construction and other requirements, necessitating increasing amounts of outside financing. During 1981, the Company began funding most of its disbursements as checks are presented to the banks on which the checks are drawn. Previously these disbursements were funded on a current basis. The PSC, in a 1982 decision concerning financial policies of the state's utilities, reaffirmed its willingness to grant earnings and cash flow improvements on a case-by-case rather than generic basis. The Company will continue to seek appropriate cash flow improvements together with adequate overall earnings levels in its periodic rate filings. Although not significant thus far, adoption of new tax depreciation rates prescribed under the Economic Recovery Tax Act of 1981 (ERTA), and the full normalization requirements thereunder, are expected to moderately improve cash flow.

The Company's future requirement for capital will be affected by changes in construction costs, inflation, regulatory requirements and many other factors. Continued increases in internally generated funds and their adequacy in relation to the Company's needs depend quite heavily on the results of current and future rate decisions and the extent to which these decisions can be translated into improved earnings and cash flow. The cost and availability of external sources of funds is affected by the retention and maintenance of an adequate credit rating by the Company and conditions in the financial markets. These same financial market conditions influence the timing and types of securities to be offered, repayment terms and the decision to place such offerings privately with institutional investors or publicly through underwriters. Changes in any of these factors could have an effect on the Company's ability to fully implement its intended construction and financing programs. The Company expects to secure the majority of its capital needs from traditional financing sources, however, it will continue to explore and utilize, as appropriate, other methods of financing.

Report of management

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

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

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

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

Report of independent accountants

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

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income and retained earnings and of changes in financial position present fairly the financial position of Niagara Mohawk Power Corporation and its subsidiaries at December 31, 1982 and 1981, and the results of their operations and the changes in their financial position for each of the three years in the period ended December 31, 1982, in conformity with generally accepted accounting principles consistently applied. Our examinations of these statements were made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

Price Waterhouse

Syracuse, New York
January 26, 1983

Consolidated statement of income and retained earnings

NIAGARA MOHAWK POWER CORPORATION AND SUBSIDIARY COMPANIES

For the year ended December 31,	1982	1981 (In thousands of dollars)	1980
Operating revenues:			
Electric	$1,860,649	$1,719,933	$1,393,467
Gas	533,122	430,785	383,648
	2,393,771	2,150,718	1,777,115
Operating expenses:			
Operation:			
Fuel for electric generation	502,491	582,033	462,573
Electricity purchased	312,451	257,788	181,223
Gas purchased	377,596	292,863	276,680
Other operation expenses	290,091	258,124	221,879
Maintenance	128,801	118,331	100,470
Depreciation and amortization *(Note 2)*	121,422	102,536	92,210
Federal and foreign income taxes *(Note 8)*	109,519	53,043	43,498
Other taxes	235,615	214,624	186,830
	2,077,986	1,879,342	1,565,363
Operating income	315,785	271,376	211,752
Other income and deductions:			
Allowance for other funds used during construction *(Note 1)*	69,195	48,281	38,209
Federal income tax credits *(Note 1)*	26,390	19,548	15,651
Other items (net)	10,557	9,598	5,995
	106,142	77,427	59,855
Income before interest charges	421,927	348,803	271,607
Interest charges:			
Interest on long-term debt	156,133	131,146	115,809
Other interest	22,801	20,623	13,766
Allowance for borrowed funds used during construction *(Note 1)*	(25,541)	(23,609)	(20,607)
	153,393	128,160	108,968
Net income	268,534	220,643	162,639
Dividends on preferred stock	37,586	34,285	29,438
Balance available for common stock	230,948	186,358	133,201
Dividends on common stock	153,681	127,781	106,967
Retained earnings for the year	77,267	58,577	26,234
Retained earnings at beginning of year	488,756	430,179	403,945
Retained earnings at end of year	$ 566,023	$ 488,756	$ 430,179

Average number of shares of common stock outstanding *(in thousands)*	87,340	79,204	71,257
Balance available per average share of common stock	$ 2.64	$ 2.35	$ 1.87
Dividends per average share of common stock	$ 1.76	$ 1.61	$ 1.50

( ) Denotes deduction

Consolidated balance sheet

NIAGARA MOHAWK POWER CORPORATION AND SUBSIDIARY COMPANIES

At December 31,	1982	1981
	In thousands of dollars	
ASSETS		
Utility plant, at original cost *(Notes 1 and 3)*	$5,516,532	$4,985,315
Less accumulated depreciation and amortization *(Note 2)*	1,434,584	1,348,738
Net utility plant	4,081,948	3,636,577
Other property and investments *(Note 7)*	63,751	42,130
Current assets:		
Cash, including time deposits of $4,216 and $500, respectively *(Note 6)*	19,383	8,259
Accounts receivable (less allowance for doubtful accounts of $3,200 and $2,800, respectively)	229,249	195,957
Materials and supplies, at average cost:		
Coal and oil for production of electricity	142,153	149,102
Other	54,106	51,742
Prepayments	10,260	8,956
	455,151	414,016
Deferred debits:		
Unamortized debt expense	22,268	16,029
Deferred recoverable energy costs	73,293	50,477
Extraordinary property loss *(Note 9)*	21,233	—
Other	18,651	16,703
	135,445	83,209
	$4,736,295	$4,175,932
CAPITALIZATION AND LIABILITIES		
Capitalization *(Note 7):*		
Common stockholders' equity:		
Common stock	$ 93,832	$ 83,973
Premium on capital stock	1,031,139	895,804
Capital stock expense	(10,344)	(10,599)
Retained earnings	566,023	488,756
	1,680,650	1,457,934
Redeemable preferred stock	262,792	254,748
Non-redeemable preferred stock	210,000	210,000
Long-term debt	1,829,969	1,619,369
Total capitalization	3,983,411	3,542,051
Current liabilities:		
Short-term debt *(Note 6)*	92,000	107,000
Long-term debt due within one year	75,500	25,580
Sinking fund requirements on redeemable preferred and preference stock *(Note 7)*	9,950	7,450
Accounts payable	177,751	165,354
Payable on outstanding bank checks	60,915	50,358
Customers' deposits	5,049	4,769
Accrued taxes	22,132	23,343
Accrued interest	47,497	36,340
Accrued vacation pay	20,519	18,367
Gas supplier refunds payable to customers	13,299	34,080
Other	15,671	5,814
	540,283	478,455
Deferred credits:		
Income tax refunds *(Note 8)*	9,943	9,943
Mandated refunds to customers *(Note 8)*	4,065	16,418
Accumulated deferred Federal income taxes *(Note 8)*	178,580	112,544
Other	20,013	16,521
	212,601	155,426
Commitments and contingencies *(Notes 3 and 9)*	—	—
	$4,736,295	$4,175,932

Consolidated statement of changes in financial position

NIAGARA MOHAWK POWER CORPORATION AND SUBSIDIARY COMPANIES

For the year ended December 31,	1982	In thousands of dollars 1981	1980
FINANCIAL RESOURCES WERE PROVIDED BY:			
Operations:			
Net income	$268,534	$220,643	$162,639
Charges (credits) to income not requiring (not providing) working capital—			
Depreciation and amortization	121,422	102,536	92,210
Allowance for funds used during construction	(94,736)	(71,890)	(58,816)
Amortization of nuclear fuel	12,967	37,427	48,829
Provision for deferred Federal income taxes (net)	68,900	19,734	20,895
	377,087	308,450	265,757
Outside financing:			
Sale of common stock	145,194	101,313	93,823
Sale of preferred stock	20,000	58,000	25,500
Sale of mortgage bonds	316,578	113,650	66,350
Issuance of long-term notes payable	—	67,000	—
Net borrowings under revolving credit facilities *(Note 7)*	(61,330)	5,350	80,055
Increase (decrease) in short-term debt	(15,000)	680	41,205
	405,442	345,993	306,933
Other sources:			
Deferred recoverable energy costs	(22,816)	11,362	(17,669)
Mandated refunds to customers *(Note 8)*	(8,416)	(10,445)	(6,758)
Income tax refunds	—	9,943	—
Other investments	(6,577)	(23,349)	—
Sale of utility plant *(Notes 3 and 4)*	13,316	—	13,983
Unamortized debt expense	(6,239)	(1,988)	83
(Increase) decrease in working capital other than short-term debt *(see below)*	35,693	(75,599)	48,401
Miscellaneous (net)	(28,016)	1,280	30
	(23,055)	(88,796)	38,070
Total resources provided	$759,474	$565,647	$610,760
FINANCIAL RESOURCES WERE USED FOR:			
Construction additions	$562,749	$439,418	$341,237
Nuclear fuel	31,720	17,997	37,266
Allowance for funds used during construction	(94,736)	(71,890)	(58,816)
Net additions	499,733	385,525	319,687
Reduction of long-term debt	56,518	8,880	145,442
Reduction of preferred and preference stock *(Note 7)*	11,956	9,176	9,226
Dividends	191,267	162,066	136,405
Total resources used	$759,474	$565,647	$610,760
(Increase) decrease in working capital other than short-term debt:			
Cash	$ (11,124)	$ 5,570	$ (5,302)
Accounts receivable	(33,292)	2,193	(18,660)
Coal and oil for production of electricity	6,949	(41,594)	1,770
Other materials and supplies	(2,364)	(3,567)	(12,632)
Long-term debt due within one year	49,920	(133,900)	54,055
Accounts payable	12,397	20,478	26,149
Payable on outstanding bank checks	10,557	50,358	—
Accrued taxes and interest	9,946	(972)	4,391
Gas supplier refunds due customers	(20,781)	23,644	—
Other (net)	13,485	2,191	(1,370)
	$ 35,693	$(75,599)	$ 48,401

Notes to consolidated financial statements

NOTE 1. Summary of Significant Accounting Policies

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

Principles of Consolidation: The consolidated financial statements include the Company and its four wholly-owned subsidiaries. All significant intercompany balances and transactions have been eliminated.

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

	In thousands of dollars		
At December 31,	1982	%	1981
Electric plant	$3,598,488	65	$3,411,098
Nuclear fuel *(Note 3)*	279,738	5	248,836
Gas plant	449,398	8	420,654
Common plant	78,347	2	71,198
Construction work in progress	1,110,561	20	833,529
Total utility plant	$5,516,532	100	$4,985,315

Allowance for Funds Used During Construction: The Company capitalizes AFC in amounts equivalent to the cost of funds devoted to plant under construction. AFC rates are determined in accordance with FERC and PSC regulations. As a result of rate proceedings, the Company began computing AFC at a rate which is reduced to reflect the income tax effect of the borrowed funds component of AFC for its Oswego Steam Station Unit No. 6 and Nine Mile Point Nuclear Station Unit No. 2 in December 1976, for the capitalized costs associated with its investment in N M Uranium, Inc. in July 1978 (See Note 3), and for all additions to electric utility plant beginning in April 1982. The AFC rates in effect during the three-year period ended December 31, 1982 were:

Period	AFC rate	Net of tax AFC rate
January 1, 1980 through February 29, 1980	10.00%	7.90%
March 1, 1980 through June 30, 1980	11.00	8.40
July 1, 1980 through September 30, 1980	10.00	8.20
October 1, 1980 through December 31, 1980	10.25	8.30
January 1, 1981 through March 31, 1981	11.10	8.75
April 1, 1981 through June 30, 1981	11.50	9.30
July 1, 1981 through September 30, 1981	11.75	9.60
October 1, 1981 through March 31, 1982	11.85	9.75
April 1, 1982 through December 31, 1982	12.45	10.15

AFC is segregated into its two components, borrowed funds and other funds and is reflected in the Interest Charges section and the Other Income and Deductions section, respectively, of the consolidated statement of income.

Depreciation, Amortization and Nuclear Generating Plant Decommissioning Costs: For accounting purposes, depreciation is computed on the straight-line basis using the average or remaining service lives by classes of depreciable property. In addition, certain costs associated with the discontinued Sterling Nuclear Station (See Notes 2 and 9) and the natural gas modification of the Albany Steam Station (See Note 2) are being amortized over shorter periods as approved by the PSC. For Federal income tax purposes, the Company computes depreciation using accelerated methods and shorter allowable depreciable lives.

Estimated decommissioning costs (costs to take the plant out of service in the future) of the Company's Nine Mile Point Nuclear Station Unit No. 1 are recovered in rates and charged to operations through depreciation charges and are currently estimated to be approximately $71,000,000 in 1982 dollars. From July 1978 through March 1981, the annual nuclear plant depreciation rate reflected an estimated service life of the plant of 30 years and an allowance for decommissioning costs at the annual rate of 1% of the plant's cost. Beginning in April 1981, as a result of a PSC rate decision, the 1% decommissioning cost allowance was replaced by a gradually increasing annual allowance set initially at $2,476,000 for the twelve months ended March 1982 and $2,695,000 for the twelve months ending March 1983. There is no assurance that the revenues provided by the decommissioning allowance will ultimately aggregate a sufficient amount to decommission the plant. The Company believes that decommissioning costs, if higher than currently provided, will ultimately be recovered in the rate process, although no such assurance can be given.

Amortization of Nuclear Fuel: The cost of nuclear fuel, plus a provision for disposal cost based upon a permanent storage assumption, is charged to operating expenses on the basis of the quantity of heat produced for the generation of electric energy. These costs are charged to customers through base rates or through the fuel adjustment clause. The Company believes that nuclear fuel disposal costs, which may be higher than presently provided for, will continue to be recovered in the rate process, although no such assurance can be given.

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

Federal Income Taxes: The general policy, in accordance with PSC requirements, is to flow through the tax effect of timing differences between book and taxable income, that is, to record only income taxes currently payable. However, deferred taxes are provided on benefits realized from the class life system of depreciation permitted under the Revenue Act of 1971 (shorter depreciable lives, repair allowance and cost of removal), on Accelerated Cost Recovery System (ACRS) tax depreciation in excess of book depreciation calculated on tax basis as a result of the Economic Recovery Tax Act of 1981 (ERTA), on deferred energy and purchased gas costs, on nuclear fuel disposal costs, on nuclear generating plant decommissioning costs and on certain other items, as approved by the PSC (see Notes 3 and 8). No deferred taxes are presently provided for certain items which are deductions currently for tax purposes but capitalized for accounting purposes, such as taxes, a portion of AFC, pensions and certain other employee benefits.

The benefits resulting from an increase in the investment tax credit from 4% to 10% and from the change in the limitation on the amount of credit which may be claimed in any year for property additions prior to January 1, 1981 have been deferred and are being amortized over the book life of the property which gives rise to such credits. One-half of the 4% investment tax credits realized have been allocated to Other Income and Deductions, consistent with PSC directives. As a result of ERTA, all investment tax credits on property additions subsequent to December 31, 1980 are being deferred and amortized over the book life of the property which gives rise to such credit. For the projects specified in the AFC section above, the imputed tax benefit of the borrowed funds component of AFC has been credited to Other Income and Deductions.

During 1981, the Company adopted the provisions of ERTA. The most significant provisions of ERTA, as previously described, are a shortening of tax depreciable lives through use of ACRS and full normalization of book and tax depreciation timing differences and investment tax credits for property additions. In accordance with ERTA transition rules, the Company adopted normalization requirements for financial accounting purposes in March 1982 coincident with the first PSC rate order subsequent to enactment of ERTA. Also, in July 1982, the FERC approved rates charged for certain transmission revenues. Such rates also incorporated the normalization requirements of ERTA.

Amortization of Debt Issue Costs: The premium or discount on long-term debt issues is amortized ratably over the lives of the issues.

Pension Plans: The cost of pension plans is based upon current costs, amortization of unfunded past service benefits over periods ranging from 15 to 40 years and amortization over 15 years of unfunded past service benefits arising from plan amendments. The Company's policy is to fund pension costs accrued.

Statement of Financial Accounting Standards No. 71: In December 1982, Statement of Financial Accounting Standards No. 71, "Accounting for the Effects of Certain Types of Regulation," was issued and is effective for fiscal years beginning after December 15, 1983. Accounting changes adopted to conform with the provisions of this statement will be applied retroactively in the year of adoption. The adoption of this statement and the retroactive application of its provisions is not currently anticipated to have a significant effect on the results of operations or financial position of the Company as shown in the Consolidated Financial Statements.

NOTE 2. Depreciation and Amortization

The total provision for depreciation and amortization, including amounts charged to clearing accounts, was $122,936,000 for 1982, $104,084,000 for 1981 and $93,848,000 for 1980. The 1982 expense includes approximately $6,400,000 resulting from the PSC allowed accelerated recovery of the costs to modify the Company's Albany Steam Station to burn natural gas as a fuel and approximately $6,700,000 representing the amortization of costs associated with the discontinued Sterling Nuclear Station (See Note 9). The percentage relationship between the total provision for depreciation and average depreciable property was 2.9% in 1982, 2.8% in 1981 and 2.7% in 1980. The Company makes depreciation studies on a continuing basis and, upon approval by the PSC, periodically adjusts the rates of its various classes of depreciable property.

NOTE 3. N M Uranium, Inc.

During 1976, through a wholly-owned subsidiary, N M Uranium, Inc. (NMU), the Company purchased a 50 percent undivided interest in uranium deposits and associated mining equipment to be held by a jointly-owned mining venture. The venture is an operating arrangement whereby the Company pays its share of the capital and operating costs and in turn receives its proportionate share of production. Although acquisition of this interest was made primarily to provide a more assured future supply of nuclear fuel for the Nine Mile Point Nuclear Station Units No. 1 and No. 2, the Company has previously sold a portion of the output to reduce net assets. Due to depressed market conditions, the Company has not sold any NMU uranium since December 1980. The investment in the subsidiary, which includes costs incurred since acquisition and AFC accrued through March 31, 1981, has been reduced by the proceeds from the sale of uranium, net of tax, and transfers to the Company and is included in the consolidated financial statements as part of the nuclear fuel component of utility plant (See Note 1). Such investment (including inventory with a spot market value of approximately $18,300,000 at January 1, 1983 and 1982) totaled $83,000,000 at December 31, 1982 and $84,500,000 at December 31, 1981.

In 1978, the PSC issued an order approving the Company's investment in NMU, its guaranty of certain NMU notes and permitting, with prior approval, such subsequent advances as may be necessary to finance the uranium project. Further, effective July 1978, all benefits associated with NMU accounting-tax timing differences have been deferred. The approval was subject to the condition that rates which the PSC will approve in the future will reflect the cost of NMU uranium at the lower of cost or the market price. The PSC also stated that the reasonableness of the Company's future uranium costs will be judged with reference to costs of uranium under "currently" available long-term contracts and in the spot market. Subject to PSC approval, the comparison of cost to market will be on an aggregate basis over the life of the project.

Because of unsettled conditions in the uranium industry, the spot market price of uranium continues to be depressed below levels anticipated by the Company at the time of its investment. The spot market price of uranium was $20.25 per lb. at January 1, 1983 and $23.50 per lb. at January 1, 1982 as compared to approximately $43.00 per lb. during 1979. Due to regulatory restrictions on the extent to which the costs of uranium produced by this mining operation will be allowed in future rates and considering the current spot market price level, a substantial portion of the Company's investment may not be recoverable. Accordingly, the Company suspended accruing AFC on this investment as of April 1, 1981. Due to the uncertainty of operating costs over the remaining productive life of the mine and of future uranium market prices during the period of utilization of the mine's output, the potential loss, if any, cannot be reasonably estimated. Management is continually evaluating the status of this mining operation to assure maximum recovery of the Company's investment. Based upon current forecasts of spot market prices and the Company's uranium requirements through 1989, it is presently anticipated that the mining process will be completed and all production utilized.

NOTE 4. Jointly-Owned Generating Facilities

The following table reflects the Company's share of jointly-owned generating facilities at December 31, 1982. The Company is required to provide financing for the unit in process of construction and for any additions to the units in service. The Company's share of expenses associated with the Roseton units and Oswego Steam Station Unit No. 6 are included in the appropriate operating expenses in the consolidated statement of income.

		In thousands of dollars		
	Percentage ownership	Utility plant	Accumulated depreciation	Construction work in progress
Roseton Steam Station Units No. 1 and 2*(a)*	25	$ 85,318	$18,848	$ 223
Oswego Steam Station Unit No. 6	76	$260,833	$17,528	$ 667
Nine Mile Point Nuclear Station Unit No. 2*(b)(c)*	41	—	—	$783,161

(a) Central Hudson Gas and Electric Corporation, the operator of the plant, acquired, as obligated, an additional ⅛ of the Company's original 40% interest in this unit in December 1982 for book value of approximately $13,300,000 (see Note 8).

(b) See Note 9. (c) Excludes amounts spent for nuclear fuel.

NOTE 5. Pension Plans

The Company and its subsidiaries have non-contributory pension plans covering substantially all their employees. The total pension cost was $38,000,000 for 1982, $34,100,000 for 1981 and $32,100,000 for 1980 (of which $11,000,000 for 1982, $9,300,000 for 1981 and $8,500,000 for 1980 was charged to construction projects).

Studies indicate that the accumulated plan benefits, as determined by consulting actuaries, and plan net assets for the Company's plans at December 31, 1982 and 1981 are as follows:

	In thousands of dollars 1982	1981
Actuarial present value of accumulated benefits:		
Vested	$302,000	$270,000
Non-vested	18,000	16,000
Total	$320,000	$286,000
Net assets available for plan benefits	$341,000	$265,000

The weighted average assumed rate of return used in determining the actuarial present value of accumulated plan benefits was 7% in each year.

The table summarizes accumulated plan benefits attributable to employee wage levels and service rendered through December 31, 1982 and 1981. These amounts do not take into consideration expected future service, wage increases and associated actuarial assumptions. These additional factors and assumptions are considered in determining the funding requirements of the Company's ongoing pension plans, based upon an approved actuarial cost method, and are in conformity with generally accepted actuarial principles and practices.

NOTE 6. Short-Term Debt and Compensating Balances

At December 31, 1982, the Company had available $307,000,000 of bank credit arrangements consisting of $70,000,000 in contractual commitments with several banks under Credit Agreements, lines of credit of $112,000,000, and a Bankers Acceptance Facility Agreement of $125,000,000. All of these arrangements are renewable on an annual basis. The Credit Agreements and certain of the lines of credit require the Company to maintain a combination of fees and compensating balances which are averaged over time. Cash representing compensating balance requirements was not significant at December 31, 1982. The Company has elected to pay fees in lieu of maintaining compensating balances on its other lines of credit. The Bankers Acceptance Facility Agreement, which is used to finance the fuel oil inventory for one of the Company's generating stations, provides for the payment of fees only upon the issuance of each acceptance.

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

	In thousands of dollars 1982	1981
At December 31:		
Short-term debt:		
Commercial paper	$ 44,000	$ 57,000
Bankers acceptances	48,000	50,000
	$ 92,000	$107,000
Weighted average interest rate *(a)*	9.76%	13.35%
For year ended December 31:		
Daily average outstanding	$147,910	$ 99,639
Daily weighted average interest rate *(a)*	13.03%	16.26%
Maximum amount outstanding	$260,890	$186,750

(a) Excluding compensating balances and fees.

NOTE 7. Capitalization

CAPITAL STOCK

The following table summarizes the shares of capital stock authorized, issued and outstanding:

At December 31,	1982	1981	1980
Common stock, $1 par value:			
Authorized	125,000,000	125,000,000(a)	85,000,000
Issued & outstanding	93,832,151	83,973,252	75,231,144
Preferred stock, $100 par value:			
Authorized	3,400,000	3,400,000	3,400,000
Issued & outstanding	3,161,920	3,199,980	2,985,240
Preferred stock, $25 par value:			
Authorized	9,600,000	9,600,000	9,600,000
Issued & outstanding	5,742,000	5,008,000	3,754,000
Preference stock, $25 par value:			
Authorized	4,000,000	4,000,000	4,000,000
Issued & outstanding	920,000	1,080,000	1,220,000

(a) In May 1981, an increase of 40 million shares in the authorized shares of common stock was approved by shareholders.

The table below summarizes changes in capital accounts for 1980, 1981 and 1982:

	Common stock ($1 par value)		Non-redeemable preferred stock ($100 par value)		Redeemable preferred stock ($100 par value)		Redeemable preferred stock ($25 par value)		Capital stock premium and expense (net)
	Shares	Amount*	Shares	Amount*	Shares	Amount*	Shares	Amount*	Amount*
Balance January 1, 1980:	67,952,043	$67,952	2,100,000	$210,000	926,000	$92,600	4,160,000	$104,000	$705,828
Sales in 1980	4,000,000	4,000					1,020,000	25,500	50,134
Issued to stock purchase plans in 1980	3,279,101	3,279							35,998
Redemptions					(40,760)	(4,076)	(206,000)	(5,150)	631
Balance December 31, 1980:	75,231,144	75,231	2,100,000	210,000	885,240	88,524(a)	4,974,000	124,350(a)	792,591
Sales in 1981	5,000,000	5,000			250,000	25,000	1,320,000	33,000	51,706
Issued to stock purchase plans in 1981	3,742,108	3,742							40,049
Redemptions					(35,260)	(3,526)	(206,000)	(5,150)	859
Balance December 31, 1981:	83,973,252	83,973	2,100,000	210,000	1,099,980	109,998(a)	6,088,000	152,200(a)	885,205
Sales in 1982	5,000,000	5,000					800,000	20,000	70,705
Issued to stock purchase plans in 1982	4,858,899	4,859							64,285
Redemptions					(38,060)	(3,806)	(226,000)	(5,650)	600
Balance December 31, 1982	93,832,151	$93,832	2,100,000	$210,000	1,061,920	$106,192(a)	6,662,000	$166,550(a)	$1,020,795

*In thousands of dollars (a) Includes sinking fund requirements due within one year

NON-REDEEMABLE PREFERRED STOCK (Optionally Redeemable)

At December 31,	In thousands of dollars 1982	1981	1980	Optional redemption price per share (Before adding accumulated dividends) December 31, 1982	Eventual minimum
Preferred $100 par value:					
3.40% Series; 200,000 shares	$ 20,000	$ 20,000	$ 20,000	$103.50	$103.50
3.60% Series; 350,000 shares	35,000	35,000	35,000	104.85	104.85
3.90% Series; 240,000 shares	24,000	24,000	24,000	106.00	106.00
4.10% Series; 210,000 shares	21,000	21,000	21,000	102.00	102.00
4.85% Series; 250,000 shares	25,000	25,000	25,000	102.00	102.00
5.25% Series; 200,000 shares	20,000	20,000	20,000	102.00	102.00
6.10% Series; 250,000 shares	25,000	25,000	25,000	101.00	101.00
7.72% Series; 400,000 shares	40,000	40,000	40,000	105.44	102.36
	$210,000	$210,000	$210,000		

MANDATORILY REDEEMABLE PREFERRED STOCK

At December 31,	In thousands of dollars 1982	1981	1980	Optional redemption price per share (Before adding accumulated dividends) December 31, 1982	Eventual minimum
Preferred $100 par value:					
7.45% Series; 492,000, 510,000 and 528,000 shares	$ 49,200	$ 51,000	$ 52,800	$105.29	$100.00
10.60% Series; 319,920, 339,980 and 357,240 shares	31,992	33,998	35,724	110.60	102.65
12.75% Series; 250,000 shares	25,000	25,000	—	*(a)*	*(a)*
Preferred $25 par value:					
8.375% Series; 1,600,000 shares	40,000	40,000	40,000	26.65	25.00
9.75% Series; 1,002,000, 1,068,000 and 1,134,000 shares ...	25,050	26,700	28,350	26.6725	25.00
9.75% Series (second); 1,020,000 shares	25,500	25,500	25,500	*(b)*	25.00
12.25% Series; 700,000 shares	17,500	17,500	—	*(c)*	25.00
12.50% Series; 620,000 shares	15,500	15,500	—	*(c)*	25.00
15.00% Series; 800,000 shares	20,000	—	—	28.75	25.00
Preference $25 par value:					
7.75% Series; 920,000, 1,080,000 and 1,220,000 shares ...	23,000	27,000	30,500	25.55	25.00
	272,742	262,198	212,874		
Less sinking fund requirements	9,950	7,450	6,950		
	$262,792	$254,748	$205,924		

(a) Entire issue to be redeemed at par value of $100 per share June 30, 1991.
(b) Not redeemable until April 1, 1983. (c) Not redeemable until April 1, 1991.

These series require mandatory sinking funds for annual redemption and provide optional sinking funds through which the Company may redeem, at par, a like amount of additional shares (limited to 120,000 shares of the 7.45% series and 300,000 shares of the 9.75% series). The option to redeem additional amounts is not cumulative.

The Company's five-year mandatory sinking fund redemption requirements for preferred and preference stock are as follows:

	No. of shares	Commencing	1983	1984	1985	1986	1987
			In thousands of dollars				
Preferred $100 par value:							
7.45% Series	18,000	6/30/77	$1,800	$ 1,800	$ 1,800	$ 1,800	$ 1,800
10.60% Series	20,000	3/31/80	(a)	1,992(a)	2,000	2,000	2,000
12.75% Series	250,000	6/30/91	—	—	—	—	—
Preferred $25 par value:							
8.375% Series	100,000	4/1/83	2,500	2,500	2,500	2,500	2,500
9.75% Series	66,000	10/1/80	1,650	1,650	1,650	1,650	1,650
9.75% Second Series	204,000	4/1/86	—	—	—	5,100	5,100
12.25% Series	43,060	3/31/87	—	—	—	—	1,077
12.50% Series	38,139	3/31/87	—	—	—	—	953
15.00% Series	40,000	3/31/87	—	—	—	—	1,000
Preference $25 par value:							
7.75% Series	160,000(b)	9/30/80	4,000	6,000	13,000	—	—
			$9,950	$13,942	$20,950	$13,050	$16,080

(a) Requirements for 1983 and a portion of 1984 requirements have been met by advance purchases.
(b) Increases to 240,000 shares at September 30, 1984; the balance of the issue is to be redeemed September 30, 1985.

LONG-TERM DEBT

Long-term debt and long-term debt due within one year consisted of the following:

At December 31,	1982	1981
	In thousands of dollars	
First mortgage bonds:		
3½% Series due February 1, 1983	$ 25,000	$ 25,000
3¼% Series due October 1, 1983	40,000	40,000
3⅛% Series due August 1, 1984	25,000	25,000
10⅝% Series due September 1, 1985.....	47,000	47,000
3⅝% Series due May 1, 1986	30,000	30,000
4⅞% Series due September 1, 1987.....	50,000	50,000
3⅞% Series due June 1, 1988	50,000	50,000
14⅞% Series due August 11, 1988	50,000	50,000
4¾% Series due April 1, 1990	50,000	50,000
15% Series due March 1, 1991	50,000	50,000
4½% Series due November 1, 1991	40,000	40,000
15½% Series due March 1, 1992	50,000	—
15¾% Series due June 1, 1992	75,000	—
4⅝% Series due December 1, 1994	40,000	40,000
5⅞% Series due November 1, 1996	45,000	45,000
6¼% Series due August 1, 1997	40,000	40,000
6½% Series due August 1, 1998	60,000	60,000
9⅛% Series due December 1, 1999	75,000	75,000
12.95% Series due October 1, 2000	80,000	80,000
7⅜% Series due February 1, 2001	65,000	65,000
7⅝% Series due February 1, 2002	80,000	80,000
7¾% Series due August 1, 2002	80,000	80,000
8¼% Series due December 1, 2003	80,000	80,000
9½% Series due December 1, 2003	50,000	50,000
9.95% Series due September 1, 2004	100,000	100,000
10.2% Series due March 1, 2005	38,935	40,833
8.35% Series due August 1, 2007	72,800	75,000
8⅝% Series due December 1, 2007	50,000	50,000
13½% Series due April 1, 2012	30,000	—
16% Series due August 1, 2012	75,000	—
12⅞% Series due November 1, 2012	100,000	—
Paul Smith's Electric Light & Power & Railroad Company First Mortgage Bonds:		
5½% Series due May 1, 1985	450	450
Promissory notes:		
8% Series A due June 1, 2004	46,600	46,600
Notes payable:		
17% Eurodollar Guaranteed Notes due September 15, 1989	50,000	50,000
13% Adjustable London Interbank Offered Rate due September 15, 1989 ..	17,000	17,000
Prime rate plus ½% (not to exceed 7½%) due in equal quarterly installments through April 1, 1984	3,750	6,250
Revolving credit and term loan agreements	35,000	80,000
Revolving credit notes, floating prime rate	—	6,000
Revolving credit agreement, Oswego Facilities Trust	6,000	16,330
Unamortized premium	2,934	4,486
TOTAL LONG-TERM DEBT	1,905,469	1,644,949
Less long-term debt due within one year..	75,500	25,580
	$1,829,969	$1,619,369

The 13½% First Mortgage Bonds were issued to secure a like amount of Pollution Control Revenue Bonds issued by the New York State Energy Research and Development Authority (NYSERDA) pursuant to an agreement between NYSERDA and the Company, which among other things establishes a trust fund with the proceeds from the bond issue. Such proceeds are to be used for the purpose of constructing certain water pollution control facilities at the Company's Nine Mile Point Nuclear Station Unit No. 2. Unexpended proceeds in the trust fund amounted to $13,422,000 at December 31, 1982 and are recorded in Other Property and Investments.

Notes Payable include $50,000,000 Eurodollar Guaranteed Notes issued by the Company's subsidiary Niagara Mohawk Finance, N.V. and guaranteed by Credit Lyonnais. Annual bank guarantee and support fees totaling ½% of the notes outstanding are paid by the subsidiary. In connection with the formation and capitalization of this subsidiary, the Company also issued a $17,000,000 note payable which bears interest at the London Interbank Offered Rate, currently set at 13% through March 15, 1983.

The Company has Revolving Credit and Term Loan Agreements with seven banks aggregating $90 million. Each agreement provides for borrowings on a revolving credit basis during the first three years with the option to convert borrowings to a term basis for the last four years. Amounts converted to term loans are payable in equal installments during the remaining term of the agreements. There are no penalties for early termination or prepayment of these loans. The Company pays fees in lieu of maintaining compensating balances for the unused portion of these credit arrangements. Interest on domestic borrowings during the revolving credit period approximates the floating prime rate or, under a Eurodollar option, ½% above the London Interbank Offered Rate.

In 1981, the Company entered into agreements with NYSERDA and a group of four commercial banks under which the Company may borrow up to $20 million on notes maturing no later than July 1984, to finance a portion of its hydro-electric construction program. The Company pays fees in lieu of compensating balances for the unused portion of this facility. Borrowings under these agreements are unsecured and bear interest at the floating prime rate. No amounts were outstanding as of December 31, 1982.

The arrangements with Oswego Facilities Trust (Trust) have been amended in 1982 to provide financing for the first construction phase of a new energy management system. The Trust has a $25,000,000 Direct Pay Letter of Credit Facility and Revolving Credit Agreement which is available through December 31, 1985, and is used to support its commercial paper obligations. All such obligations are secured by certain assets held by the Trust. The Company is required to purchase, or otherwise arrange for, the disposition of the Trust assets upon the termination of the Trust. The Letter of Credit Facility and Revolving Credit Agreement of the Trust requires payment of fees which are based upon the amount of commercial paper outstanding.

Certain of the Company's First Mortgage Bonds provide for a mandatory sinking fund for annual redemption. The Company's five-year mandatory sinking fund redemption requirements for First Mortgage Bonds are as follows:

	Principal amount	Commencing	1983	1984	1985	1986	1987
			In thousands of dollars				
First mortgage bonds:							
10.20% Series due March 1, 2005	$1,500	3/1/78	$ *(a)*	$ 935*(a)*	$ 1,500	$ 1,500	$ 1,500
8.35% Series due August 1, 2007	750	8/1/82	*(a)*	50*(a)*	750	750	750
8⅝% Series due December 1, 2007	2,000	12/1/83	2,000	2,000	2,000	2,000	2,000
9.95% Series due September 1, 2004 ..	5,000	9/1/85	—	—	5,000	5,000	5,000
14⅞% Series due August 11, 1988	16,000	8/11/86	—	—	—	16,000	17,000
12.95% Series due October 1, 2000	5,333	10/1/86	—	—	—	5,333	5,333
9½% Series due December 1, 2003	2,941	12/1/87	—	—	—	—	2,941
			$ 2,000	$ 2,985	$ 9,250	$30,583	$34,524

(a) Requirements for 1983 and a portion of 1984 requirements have been met by advance purchases.

Additionally, certain other series of mortgage bonds provide for a debt retirement fund whereby payment requirements may be met, in lieu of cash, by the certification of additional property, the waiver of additional bonds or the retirement of outstanding bonds. The 1982 requirements for these series were satisfied by the certification of additional property. The Company anticipates that the 1983 requirements for these series will be satisfied by other than payment in cash. Total annual debt retirement fund requirements for these series based upon mortgage bonds outstanding December 31, 1982 are $8,500,000.

NOTE 8. Federal and Foreign Income Taxes

Income Tax Refunds: In 1974, 1975 and 1978, the Company received refunds resulting primarily from the adoption of the "guideline" method of depreciation. These refunds, including interest net of tax, less amounts principally representing prior tax deficiencies paid, have been recorded in Mandated Refunds to Customers and, since March 1980, are being refunded to electric customers over three years and were refunded to gas customers over two years in accordance with a PSC order.

In September 1981, the Company received a refund of Federal income tax, including interest thereon, amounting to $9,943,000, net of Federal income taxes on the interest portion of the refund. The refund was in settlement of a refund claim filed with the Internal Revenue Service in February 1973 relating to a deficiency assessment paid by the Company in October 1972 as a result of an audit of the tax years 1957 through 1962. The deficiency assessment arose as a result of the disallowance of certain deductions taken by the Company for the loss of water rights at Niagara Falls resulting from the redevelopment of Niagara power by the Power Authority of the State of New York. The Company has notified the PSC of this refund and the reasons why a distribution of this refund to customers should not be made. As a result of this notification, the PSC ordered a public proceeding to consider the Company's petition to retain the refund. In December 1982, a PSC Administrative Law Judge recommended an equal sharing of the refund between the Company and ratepayers. The Company has filed exceptions to the recommendations of the Administrative Law Judge and reiterated its opinion that the Company is entitled to retain the full amount of the refund. Pending a determination as to the ultimate disposition of this refund by the PSC, the Company has recorded such amount, net of Federal income taxes on the interest portion of the refund, in Deferred Credits: Income Tax Refunds. The Company is unable to predict the ultimate disposition of this refund.

Investment Tax Credits: The Company deferred the net benefit of investment tax credits of approximately $21,900,000 ($.25 per share), $21,500,000 ($.27 per share) and $8,000,000 ($.11 per share) for the years ended December 31, 1982, 1981 and 1980, respectively, in accordance with the general policy as stated in Note 1. The Company has no unused credits at December 31, 1982.

Oswego Steam Station Unit No. 6 attained in-service status for Federal income tax purposes in 1979 and generated investment tax credits amounting to $14,400,000. During 1979, the year in which these credits would normally be recognized under the Company's previously described Federal income tax accounting policies, the Company deferred the full amount of these credits, subject to the final decision of the PSC in a then pending rate case where the treatment of such credits was at issue. In accordance with a 1980 PSC Order and consistent with the Company's 1979 deferral, the deferred investment tax credits attributable to the 4% portion are being amortized over three years and the additional 6% portion is being amortized over the book life of the plant.

Sale of Generating Facility: As directed by the PSC, the Company deferred a portion of the increase in Federal income taxes for the year 1982 associated with the tax gain on the sale of a portion of its interest in the Roseton Steam Station. The PSC authorized the Company to recover such increased taxes through its electric adjustment clause over a one-year period commencing March 1982.

United States and foreign components of income before income taxes:

	In thousands of dollars 1982	1981	1980
United States	$341,962	$247,374	$185,026
Foreign	20,908	14,175	10,769
Consolidating eliminations	(11,207)	(7,411)	(5,309)
Income before income taxes	$351,663	$254,138	$190,486

Summary Analysis:

	In thousands of dollars 1982	1981	1980
Components of Federal and foreign income taxes:			
Current tax expense: Federal	$ 4,860	$ 6,996	$ 1,492
Foreign	9,369	6,765	5,460
	14,229	13,761	6,952
Deferred Federal income tax expense	95,290	39,282	36,546
Income taxes included in Operating Expenses	109,519	53,043	43,498
Federal income tax credits included in Other Income and Deductions	(26,390)	(19,548)	(15,651)
Total	$83,129	$33,495	$27,847
Components of deferred Federal income taxes *(Note 1):*			
Depreciation	$26,842	$12,533	$12,834
Cost of removal of property	5,930	193	(127)
Investment tax credit	21,859	21,501	7,985
Recoverable energy and purchased gas costs	24,307	(1,811)	7,236
Necessity certificates	(700)	(700)	(700)
Nuclear fuel disposal cost	(9,940)	(12,224)	(12,383)
Sales and loans of nuclear fuel	(47)	(83)	(1,304)
Sterling abandonment	(908)	2,018	5,195
Gain on Roseton sale	(829)	—	—
Other	2,386	(1,693)	2,159
Deferred Federal income taxes (net)	$68,900	$19,734	$20,895
Reconciliation between Federal and foreign income taxes and the tax computed at prevailing U.S. statutory rate on income before income taxes:			
Computed tax	$161,765	$116,904	$87,624
Reduction attributable to flow-through of certain tax adjustments:			
Depreciation	796	9,422	8,616
Allowance for funds used during construction	43,579	33,069	27,056
Taxes, pensions and employee benefits capitalized for accounting purposes	19,092	12,515	11,429
Real estate taxes on an assessment date basis	4,282	3,086	3,458
Investment tax credit	7,861	12,354	1,289
Deferred taxes provided at other than the statutory rate	1,598	7,424	743
Other	1,428	5,539	7,186
	78,636	83,409	59,777
Federal and foreign income taxes	$83,129	$33,495	$27,847

NOTE 9. Commitments and Contingencies

Construction Program: The Company presently estimates that the construction program for the years 1983 through 1987 will require approximately $1,909 million, excluding AFC and certain overheads capitalized. By years the estimates are $495 million, $428 million, $364 million, $311 million and $311 million, respectively. At December 31, 1982, substantial construction commitments existed, including those for the Company's share of Unit No. 2 at Nine Mile Point Nuclear Station.

Nine Mile Point Nuclear Station Unit No. 2: Nine Mile Point Nuclear Station Unit No. 2 (Unit), a nuclear power plant to be constructed and operated by the Company and shared with other utilities, is the only major generating facility currently under construction by the Company. Ownership is shared by the Company (41%), Long Island Lighting Company (18%), New York State Electric & Gas Corporation (18%), Rochester Gas and Electric Corporation (14%), and Central Hudson Gas & Electric Corporation (9%). Output of the Unit, which will have a projected capability of 1,084,000 kw., will be shared in the same proportions as the cotenants' respective ownership interests.

The Unit is presently scheduled to begin operation in late 1986 and the cost is currently estimated to be $2.65 billion (exclusive of AFC and nuclear fuel). The Company's share of the construction cost, exclusive of AFC and nuclear fuel, is estimated to be $1,087 million ($2,445 per kilowatt). The co-tenants in September 1980 had estimated the cost of the Unit to be $2.4 billion, exclusive of AFC and nuclear fuel. The increased estimated cost of the Unit is primarily attributable to inflation, design changes and new regulatory requirements.

In September 1981, the Staff of the PSC issued a report on a comparative analysis of the economic and financial feasibility of the Unit and coal alternatives. This report concluded that completion of the Unit is warranted. Also in September 1981, the PSC ordered a public proceeding to inquire into the financial and economic cost implications of completing the Unit. In an opinion and order issued on April 16, 1982 (the Order), the PSC affirmed that completion of the Unit is warranted and indicated its intention to closely monitor construction activities. In addition, the PSC adopted an incentive rate of return (IROR) program in connection with the remaining construction costs of the Unit. The purpose of this program is to reward savings in construction costs and penalize cost overruns based on a "sharing factor" of 20% of the variation in revenue requirements from a target completion cost of $4.6 billion, including AFC, as apportioned to each co-tenant. The completion cost for the Unit is currently estimated by the co-tenants to be $4.2 billion including AFC. The PSC stated that adjustments to this target cost may be permitted should extraordinary events beyond the control of the co-tenants occur, or if regulatory treatment different from that assumed in determining the target cost is adopted by the PSC in future rate proceedings. Under the IROR program, 20% of the variation in revenue requirements caused by construction cost overruns would penalize, and those caused by underruns would reward, stockholders. Any IROR-induced reduction in the return on equity may not exceed one-half of the unadjusted equity return on the remaining investment in the Unit. The IROR program will be implemented as part of the first rate proceeding involving each co-tenant following completion of the Unit.

In May 1982, various parties including the New York State Attorney General and the New York State Consumer Protection Board (CPB), petitioned the PSC to reconsider the Order. The PSC denied the petition in August 1982. In December 1982 several parties, including the CPB and the Attorney General of the State of New York, filed a motion in the Supreme Court, Albany County, to appeal the PSC's decision. On December 31, 1982 the co-tenants filed a motion to dismiss this proceeding. Oral arguments were held in January 1983 at which time decision was reserved by the presiding judge. Pending resolution and determination of the cotenant's motion to dismiss, the Company is unable to predict what future action, if any, may be taken by the various parties to this proceeding.

Long-term Contracts for the Purchase of Electric Power: At January 1, 1983 the Company had contracts to purchase electric power from the following generating facilities owned by the Power Authority of the State of New York (PASNY) and from Ontario Hydro of Canada:

Facility	Expiration date of contract	Purchased capacity in kw.	Estimated annual capacity cost
PASNY			
St. Lawrence—hydroelectric project	1985	115,000	$ 1,380,000
Niagara—hydroelectric project	1990	1,122,432	13,469,000
Blenheim-Gilboa—pumped storage generating station	2002	550,000	12,540,000
FitzPatrick—nuclear plant ..	year-to-year basis	118,000*	12,837,000
Ontario Hydro	1986	400,000	39,200,000
		2,305,432	$79,426,000

*99,000 kw. for winter of 1983-84.

The purchase capacities shown above are based on the contracts currently in effect. The estimated annual capacity costs are subject to price escalation and are exclusive of applicable energy charges. In October 1982, FERC issued an order requiring the Company to negotiate reformation of its present contracts with PASNY for Niagara Project power such that preference be given to municipal electric utilities along with rights to interconnections and/or wheeling service. The Company and PASNY intend to appeal this order.

Litigation: In 1978, several electric customers brought suit against the Company and PASNY requesting that certain power purchased from PASNY be allocated exclusively for their benefit and asking monetary damages for the difference between rates charged by the Company and rates that would otherwise have been charged if this power had been furnished to them since the initiation of the suit in 1978 and for the six years prior thereto. A settlement was reached in January 1982 wherein these electric customers will receive an initial allocation of power and thereafter an increased allocation (through December 31, 1987) when their proposed plant expansion activities are completed. No monetary damages were awarded. In February 1982, certain parties that did not join in the original litigation commenced separate action seeking to set aside the January 1982 settlement and seeking substantially similar relief to that sought in the initial litigation, including monetary damages. In the opinion of management, the ultimate disposition of this matter will not materially affect the consolidated financial statements of the Company.

In October 1982, the CPB petitioned the PSC to exclude the Nine Mile Point Nuclear Station Unit No. 1 from rate base for the duration of the current outage which commenced in March 1982. In addition, the CPB requested evidentiary hearings to determine whether imprudence played a role in either the cause or the duration of the outage. In November 1982, the PSC rejected the CPB petition, but did announce it would conduct a formal investigation into the cause and duration of the outage after completion of repairs to the unit. The Company is unable to predict the outcome of this proceeding.

FERC Audit: During 1979, the staff of FERC conducted a compliance audit of the Company covering the years 1973 through 1978. All of the adjustments proposed by FERC have been resolved and recorded by the Company except certain adjustments concerning the base cost of nuclear fuel on which AFC should be applied. The resolution of these adjustments has been deferred pending the development of generic rulemakings by the FERC concerning accounting for nuclear fuel. If these recommended adjustments are sustained by FERC, the resulting reduction in retained earnings would approximate $26,000,000 through 1982. The Company believes that the adjustments are not justified and is contesting them. The recommended adjustments result from FERC staff taking exception to regulatory accounting treatment prescribed by the PSC, the Company's primary rate setting body. Although FERC has ratemaking jurisdiction over only about 12% of the Company's electric revenues, representing sales to other electric systems and revenues from transmission of energy, it has the power to prescribe books of account on which reports to stockholders are based. Due to the extensive jurisdiction which the PSC has over the Company's affairs, it is the opinion of the Company that the financial statements based on the requirements of the PSC represent the proper presentation of the financial position and the results of operations of the Company.

Sterling Nuclear Station: As a result of a January 1980 decision by the New York State Board on Electric Generation Siting and the Environment to vacate the construction permit it had previously issued because it could no longer find a public need for the proposed jointly-owned Sterling Nuclear Station generating facility, the project was discontinued.

In January 1982, the PSC granted the Company permission to recover over a three-year period its investment, together with carrying charges on the unrecovered balance, in the discontinued Sterling Nuclear Station. The PSC, in the Company's March 1982 rate decision, allowed such recovery to commence coincident with implementation of new electric rates allowed under such decision. Accordingly, the investment is recorded in Deferred Debits: Extraordinary Property Loss and is being amortized. Such amortization is included in depreciation and amortization in the consolidated statement of income.

NOTE 10. Information Regarding the Electric and Gas Businesses

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

	In thousands of dollars		
	1982	1981	1980
Operating revenues:			
Electric	$1,860,649	$1,719,933	$1,393,467
Gas	533,122	430,785	383,648
Total	$2,393,771	$2,150,718	$1,777,115
Operating income before taxes:			
Electric	$ 381,378	$ 288,990	$ 235,811
Gas	43,926	35,429	19,439
Total	$ 425,304	$ 324,419	$ 255,250
Pretax operating income, including AFC:			
Electric	$ 476,006	$ 360,580	$ 294,039
Gas	44,034	35,729	20,027
Total	520,040	396,309	314,066
Income taxes	109,519	53,043	43,498
Other income and deductions	36,947	29,146	21,646
Interest charges	178,934	151,769	129,575
Net income	$ 268,534	$ 220,643	$ 162,639
Depreciation:			
Electric	$ 109,215	$ 91,571	$ 82,188
Gas	12,207	10,965	10,022
Total	$ 121,422	$ 102,536	$ 92,210
Construction expenditures (including nuclear fuel):			
Electric	$ 562,047	$ 424,596	$ 347,182
Gas	32,422	32,819	31,321
Total	$ 594,469	$ 457,415	$ 378,503
Identifiable assets:			
Electric	$3,965,793	$3,517,290	$3,203,737
Gas	406,940	370,608	344,419
Total	4,372,733	3,887,898	3,548,156
Corporate assets	363,562	288,034	260,663
Total assets	$4,736,295	$4,175,932	$3,808,819

NOTE 11. Quarterly Financial Data (Unaudited)

Operating revenues, operating income, net income and earnings per common share by quarters for 1982, 1981 and 1980 are shown in the following table. The Company, in its opinion, has included all adjustments necessary for a fair presentation of the results of operations for the quarters. Due to the seasonal nature of the utility business, the annual amounts are not generated evenly by quarter during the year.

	In thousands of dollars			
Quarters ended	Operating revenues	Operating income	Net income	Earnings per common share
December 31				
1982	$608,939	$66,325	$54,621	$.49
1981	529,844	63,879	52,063	.52
1980	479,512	52,085	37,756	.41
September 30				
1982	$510,983	$63,981	$52,699	$.50
1981	481,377	60,831	48,500	.48
1980	379,705	37,742	26,020	.25
June 30				
1982	$587,350	$85,745	$73,271	$.75
1981	528,216	69,303	55,696	.61
1980	425,238	57,729	44,701	.54
March 31				
1982	$686,499	$99,734	$87,943	$.94
1981	611,281	77,363	64,384	.76
1980	492,660	64,196	54,162	.69

NOTE 12. Supplementary Information to Disclose the Effects of Changing Prices (Unaudited)

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

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

In recognition of the fact that users of financial reports need to have an understanding of the effects of inflation on a business enterprise, the following supplementary information is supplied for the purpose of providing certain information about the effects of both general inflation and changes in specific prices. It should be viewed as an estimate of the approximate effect of inflation, rather than as a precise measure.

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

The current cost of utility plant net of accumulated depreciation and amortization, represents the estimated cost of replacing existing plant assets in kind. Since existing utility

Statement of income from continuing operations adjusted for changing prices for the year ended December 31, 1982

	Conventional historical cost	Constant dollar average 1982 dollars	Current cost average 1982 dollars
	In thousands of dollars		
Operating revenues	$2,393,771	$2,393,771	$2,393,771
Fuel for electric generation	502,491	502,491	502,491
Electricity purchased	312,451	312,451	312,451
Gas purchased	377,596	377,596	377,596
Depreciation	121,422	257,647	312,154
Other operating and maintenance expenses	654,507	654,507	654,507
Federal and foreign income taxes	109,519	109,519	109,519
Interest charges	153,393	153,393	153,393
Other income and deductions—net	(106,142)	(106,142)	(106,142)
	2,125,237	2,261,462	2,315,969
Income from continuing operations (excluding reduction to net recoverable cost)	$ 268,534	$ 132,309*	$ 77,802
Increase in specific prices (current cost) of utility plant held during year**			$ 732,527
Reduction to net recoverable cost		$ (18,853)	(121,708)
Effect of increase in general price level			(575,165)
Excess of increase in specific prices over increase in general price level after reduction to net recoverable cost			35,654
Gain from decline in purchasing power of net amounts owed		80,553	80,553
Net		$ 61,700	$ 116,207

*Including the reduction to net recoverable cost, the income from continuing operations on a constant dollar basis would have been $113,456 for 1982.

**At December 31, 1982, current cost of utility plant, net of accumulated depreciation, was $8,768,413 while historical cost or net cost recoverable through depreciation was $4,227,715.

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

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

The Company is subject to the jurisdiction of regulatory commissions in the determination of a fair rate of return on its investment. Current ratemaking policy provides for the

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

For the year ended December 31,	1982	1981	1980	1979	1978
	In thousands of average 1982 dollars				
Operating revenues	$2,393,771	$2,282,557	$2,081,713	$2,016,646	$1,894,127
Historical cost information adjusted for general inflation:					
Income from continuing operations (excluding adjustment to net recoverable cost)	$ 132,309	$ 78,916	$ 28,076	$ 71,557	
Income (loss) per common share (after dividend requirements on preferred stock and excluding adjustment to net recoverable cost)	$ 1.08	$ .54	$ (.09)	$ .55	
Net assets at year end at net recoverable cost	$1,869,311	$1,712,954	$1,691,100	$1,735,295	
Current cost information:					
Income (loss) from continuing operations (excluding adjustment to net recoverable cost)	$ 77,802	$ 20,314	$ (36,173)	$ (2,678)	
Income (loss) per common share (after dividend requirements on preferred stock and excluding adjustment to net recoverable cost)	$ .46	$ (.20)	$ (1.00)	$ (.63)	
Excess (deficiency) of increase in general price level over increase in specific prices after adjustment to net recoverable cost	$ (35,654)	$ 135,925	$ 234,802	$ 336,090	
Net assets at year end at net recoverable cost	$1,869,311	$1,712,954	$1,691,100	$1,735,295	
General information:					
Gain from decline in purchasing power of net amounts owed	$ 80,553	$ 183,360	$ 245,460	$ 282,803	
Cash dividends declared per common share	$ 1.76	$ 1.71	$ 1.76	$ 1.91	$ 2.02
Market price per common share at year end	$ 15.63	$ 13.13	$ 13.03	$ 16.79	$ 20.71
Average consumer price index	289.1	272.4	246.8	217.4	195.4

recovery of historical costs. Therefore, any difference between the historical cost of utility plant stated in terms of constant dollars or current cost not presently includible in rates as depreciation, is reflected as an increase (reduction) to net recoverable cost. While the ratemaking process gives no recognition to the current cost of replacing utility plant, based on past practices, the Company believes it will be allowed to earn on the increased cost of its net investment when replacement of facilities actually occurs.

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

Selected financial data

	1982	1981	1980	1979	1978
Operations: *(000's)*					
Operating revenues	$2,393,771	$2,150,718	$1,777,115	$1,516,503	$1,280,248
Net income	268,534	220,643	162,639	156,030	141,162
Common stock data:					
Book value per share at year end	$17.91	$17.36	$17.25	$17.33	$17.14
Market price at year end	15⅝	12⅜	11⅛	12⅝	14
Ratio of market price to book value at year end	87.2%	71.3%	64.5%	72.9%	81.7%
Earnings per average common share	$ 2.64	$ 2.35	$ 1.87	$ 2.00	$ 1.89
Rate of return on common equity	14.7%	13.5%	10.8%	11.4%	11.1%
Dividends paid per common share	$ 1.76	$ 1.61	$ 1.50	$ 1.44	$ 1.36½
Capitalization: *(000's)*					
Common equity	$1,680,650	$1,457,934	$1,298,001	$1,177,725	$1,065,976
Non-redeemable preferred stock	210,000	210,000	210,000	210,000	210,000
Redeemable preferred stock	262,792	254,748	205,924	189,650	198,600
Long-term debt	1,829,969	1,619,369	1,443,607	1,443,056	1,414,997
Total	3,983,411	3,542,051	3,157,532	3,020,431	2,889,573
First mortgage bonds maturing within one year	65,000	—	140,000	80,000	—
Total	$4,048,411	$3,542,051	$3,297,532	$3,100,431	$2,889,573
Capitalization ratios: *(including first mortgage bonds maturing within one year):*					
Common stock equity	41.5%	41.2%	39.4%	38.0%	36.9%
Preferred stock	11.7	13.1	12.6	12.9	14.1
Long-term debt	46.8	45.7	48.0	49.1	49.0
Financial ratios:					
Ratio of earnings to fixed charges	2.94	2.63	2.43	2.61	2.58
Ratio of AFC to balance available for common stock	41.0%	38.6%	44.2%	44.9%	40.0%
Ratio of earnings to fixed charges and preferred stock dividends	2.31	2.10	1.93	2.03	1.95
Other ratios-% of operating revenues:					
Fuel, purchased power and purchased gas	49.8%	52.6%	51.8%	48.6%	44.5%
Maintenance and depreciation	10.4	10.3	10.8	12.1	12.6
Total taxes	13.2	11.2	11.9	12.4	13.5
Operating income	13.2	12.6	11.9	12.8	14.4
Balance available for common stock	9.6	8.7	7.5	8.5	8.8
Ratio of depreciation reserve to gross utility plant	26.0	27.1	27.0	26.3	26.2
Ratio of mortgage bonds to net utility plant	42.7	39.0	43.4	47.0	46.7
Miscellaneous: *(000's)*					
Gross additions to utility plant	$ 594,469	$ 457,415	$ 378,503	$ 374,530	$ 316,280
Total utility plant	5,516,532	4,985,315	4,563,309	4,218,528	3,905,374
Accumulated depreciation and amortization	1,434,584	1,348,738	1,232,675	1,110,563	1,021,417
Total assets	4,736,295	4,175,932	3,808,819	3,528,937	3,189,112

Electric and gas statistics

ELECTRIC CAPABILITY

Thousands of kilowatts

At January 1,	1983	%	1982	1981
Thermal:				
Coal fuel				
Huntley, Niagara River	705	9	705	785
Dunkirk, Lake Erie	540	7	540	600
Total coal fuel	1,245	16	1,245	1,385
Residual oil fuel				
Albany, Hudson River**	400	5	400	400
Oswego, Lake Ontario	1,723	23	1,736	1,821
Roseton, Hudson River	300	4	358	357
Middle distillate oil fuel				
20 Combustion turbine and diesel units	310	4	310	310
Total oil fuel	2,733	36	2,804	2,888
Nuclear fuel				
Nine Mile Point, Lake Ontario	610	8	610	610
Purchased— firm contract Power Authority— FitzPatrick, Lake Ontario	118	2	116	141
Total nuclear fuel	728	10	726	751
Total thermal sources	4,706	62	4,775	5,024
Hydro:				
Owned and leased hydro stations (83)	685	9	650	733
Purchased—firm contracts				
Power Authority—Niagara River	1,122	15	1,122	1,122
Power Authority— St. Lawrence River	115	1	115	115
Power Authority— Blenheim-Gilboa Pumped Storage Plant	550	7	550	550
Other	64	1	67	75
Total hydro sources	2,536	33	2,504	2,595
Other purchases	400	5	—	—
Total capability*	7,642	100	7,279	7,619

	1982	1981	1980
Electric peak load during year	5,512	5,616	5,543

*Available capability can be increased during heavy load periods by purchases from neighboring interconnected systems. Hydro station capability is based on average December stream-flow conditions.

**Converted in 1981 to burn natural gas (as well as oil) as a fuel.

ELECTRICITY GENERATED AND PURCHASED *(Millions of kw-hrs.)*

	1982	%	1981	%	1980	%
Thermal:						
Generated						
Coal	7,897	22	7,046	20	7,213	20
Oil	4,892	14	7,044	19	7,392	21
Nuclear	1,135	3	3,270	9	4,538	13
Natural gas	1,999	6	681	2	—	—
Purchased— Nuclear from Power Authority	768	2	690	2	934	2
Total thermal	16,691	47	18,731	52	20,077	56
Hydro:						
Generated	3,575	10	3,703	10	3,175	9
Purchased from Power Authority	8,000	22	8,522	24	8,925	25
Total hydro	11,575	32	12,225	34	12,100	34
Other purchased power— various sources	7,621	21	4,907	14	3,616	10
Total generated and purchased	35,887	100	35,863	100	35,793	100

ELECTRIC STATISTICS

	1982	1981	1980
Electric sales *(Millions of kw-hrs.)*			
Residential	8,475	8,459	8,330
Commercial	9,330	9,418	9,361
Industrial	10,366	11,636	11,703
Municipal service	257	266	273
Other electric systems	4,212	3,111	2,921
	32,640	32,890	32,588
Electric revenues *(Thousands of dollars)*			
Residential	$ 539,317	$ 483,852	$ 404,899
Commercial	628,601	578,186	463,315
Industrial	425,331	429,870	344,063
Municipal service	34,907	31,274	27,147
Other electric systems	171,597	137,341	106,429
Miscellaneous	60,896	59,410	47,614
	$1,860,649	$1,719,933	$1,393,467
Electric customers *(Average)*			
Residential	1,232,164	1,223,484	1,217,214
Commercial	130,872	131,119	131,210
Industrial	2,686	2,807	2,896
Other	3,260	3,232	3,222
	1,368,982	1,360,642	1,354,542
Residential *(Average)*			
Annual kw-hr. use per customer	6,878	6,914	6,843
Cost to customer per kw-hr.	6.36¢	5.72¢	4.86¢
Annual revenue per customer	$437.70	$395.47	$332.64

GAS STATISTICS

	1982	1981	1980
Gas sales *(Thousands of dekatherms)*			
Residential	51,019	51,701	51,121
Commercial	28,672	26,342	23,833
Industrial	26,026	26,826	21,647
Other gas systems	3,976	4,889	4,720
	109,693	109,758	101,321
Gas revenues *(Thousands of dollars)*			
Residential	$264,747	$222,280	$209,416
Commercial	137,105	102,727	89,088
Industrial	112,582	89,337	69,506
Other gas systems	15,418	13,795	13,455
Miscellaneous	3,270	2,646	2,183
	$533,122	$430,785	$383,648
Gas customers *(Average)*			
Residential	396,729	393,182	388,720
Commercial	31,188	30,564	29,682
Industrial	534	530	530
Other	2	2	2
	428,453	424,278	418,934
Residential *(Average)*			
Annual use per customer *(dekatherms)*	128.6	131.5	131.5
Cost to customer *(per dekatherm)*	$5.19	$4.30	$4.10
Annual revenue per customer	$667.32	$565.34	$538.73
Maximum day gas sendout *(dekatherms)*	832,307	824,777	740,594

Directors

James Bartlett
Consultant (formerly Executive Vice President)
Syracuse

Thomas J. Brosnan*
Consultant (formerly Vice President—Research and Development, Environmental Matters)
Syracuse

Edmund M. Davis *(A, B, E)*
Partner, Hiscock, Lee, Rogers, Henley & Barclay, attorneys-at-law
Syracuse

William J. Donlon
President
Syracuse

*Deceased June 4, 1982

Edward W. Duffy *(C)*
Chairman of the Board and Chief Executive Officer, Marine Midland Banks, Inc., a bank holding company
Buffalo

John G. Haehl, Jr. *(A)*
Chairman of the Board and Chief Executive Officer
Syracuse

Edwin F. Jaeckle *(A, B)*
Senior Partner, Jaeckle, Fleischmann & Mugel, attorneys-at-law
Buffalo

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

Baldwin Maull *(A, B)*
Director of various corporations
New York

Martha Hancock Northrup *(D)*
Homemaker, former President, Crouse-Irving Memorial Hospital Board
Syracuse

Frank P. Piskor *(A, C, D)*
President Emeritus
St. Lawrence University
Canton

Donald B. Riefler *(E)*
Chairman, Sources and Uses of Funds Committee, Morgan Guaranty Trust Company of New York
New York

Lewis A. Swyer *(B, C, D)*
President, L.A. Swyer Company, Inc., builders and construction managers
Albany

John G. Wick *(D, E)*
Cox, Barrell, Walsh, Grace & Roberts, attorneys-at-law
Buffalo

A. Member of the Executive Committee
B. Member of the Compensation Committee
C. Member of the Audit Committee
D. Member of the Committee on Corporate Public Policy
E. Member of the Finance Committee

Officers

John G. Haehl, Jr.
Chairman of the Board and Chief Executive Officer

William J. Donlon
President

James Bartlett*
Executive Vice President

Richard C. Clancy
Senior Vice President

John M. Endries
Senior Vice President

John M. Haynes
Senior Vice President

John P. Hennessey
Senior Vice President

James J. Miller
Senior Vice President

Gerald K. Rhode
Senior Vice President

John H. Terry
Senior Vice President
General Counsel and Secretary

Richard F. Torrey
Senior Vice President

*Retired December 31, 1982

Anthony J. Baratta, Jr.
Vice President—Controller

Robert M. Cleary
Vice President—Regional Operations

Donald P. Dise
Vice President—Quality Assurance

William C. Franklin
Vice President—Purchasing

Kermit E. Hill
Vice President—Public Affairs and Corporate Communications

Raymond Kolarz
Vice President—Regional Operations

Richard H. Kukuk**
Vice President—Regional Operations

Thomas E. Lempges
Vice President—Nuclear Operations

Donald L. MacVittie
Vice President—Fossil Generation

**Retired November 1, 1982

Charles V. Mangan
Vice President—Nuclear Engineering and Licensing

Samuel F. Manno
Vice President—Nuclear Construction

Eugene J. Morel
Vice President—Risk Management

James F. Morrell
Vice President—Corporate Planning

John W. Powers
Vice President—Treasurer

Michael P. Ranalli
Vice President—Engineering (Non-nuclear)

Kenneth A. Tramutola
Vice President—Gas and Consumer Services

Perry B. Woods, Jr.
Vice President—Employee Relations

Edward P. Gueth, Jr.
Assistant General Counsel

Herman B. Noll
Assistant General Counsel

Nicholas L. Prioletti, Jr.
Assistant Controller

Adam F. Shaffer
Assistant Controller

Henry B. Wightman, Jr.
Assistant Controller

Harold J. Bogan
Assistant Secretary

Joseph F. Cleary
Assistant Secretary

Frederick C. McCall, Jr.
Assistant Secretary

Richard N. Wescott
Assistant Treasurer

NIAGARA MOHAWK
300 Erie Boulevard West
Syracuse, New York 13202

Color abounds in Adirondacks as Bog River rushes toward Tupper Lake in background.
Niagara Mohawk's hydroelectric heritage is rooted in cherished Adirondack watersheds.