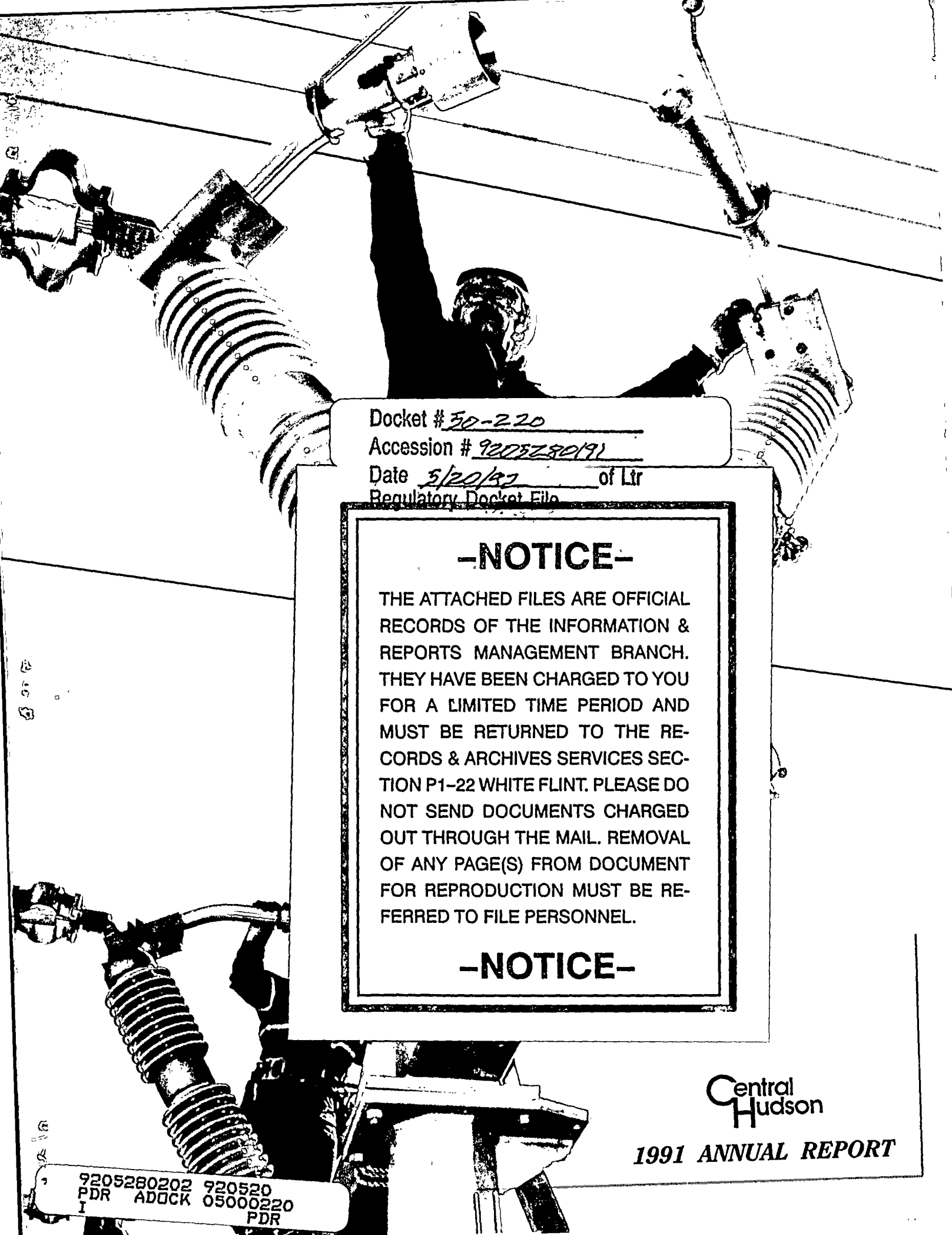
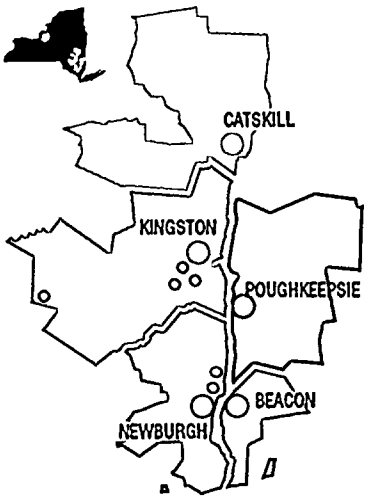


Central Hudson

1991 ANNUAL REPORT

ABOUT CENTRAL HUDSON

Central Hudson is an investor-owned electric and gas utility founded in 1900. We serve a population of approximately 626,000 in a 2,600-square-mile area of New York State's Mid-Hudson Valley. Our service area begins 25 miles north of New York City and extends to 10 miles below the capital city of Albany. It comprises portions of the counties of Albany, Columbia, Dutchess, Greene, Orange, Putnam, Sullivan and Ulster. Major population centers include the cities of Poughkeepsie, Kingston, Newburgh, Beacon and the Village of Catskill.



- GENERATING PLANTS
  Nine Mile 2—nuclear
  High Falls, Sturgeon Pool, Dashville
  Neversink—hydroelectric
  Danskammer—oil, coal or natural gas
  Roseton—oil, natural gas

About Our Cover

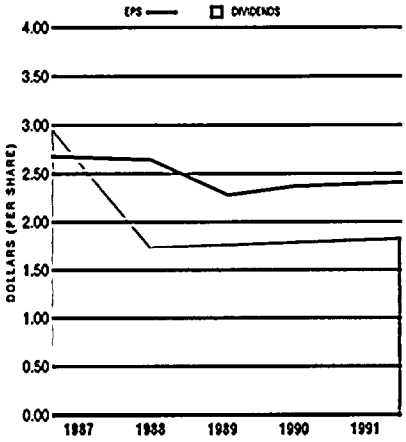
On a cold midwinter day, Substation Electricians Ken Hyland and Walter Kloiber work on insulators at the Todd Hill Substation in Dutchess County. The new substation was placed in service during the summer to improve reliability in the south-central part of the county.

TABLE OF CONTENTS

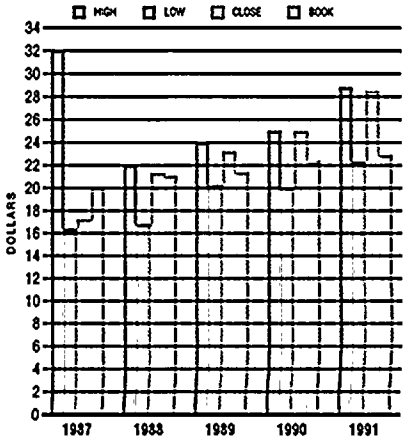
FINANCIAL HIGHLIGHTS FOR 1991

	1991	1990	Change
Operating Revenues	$494,736,000	$503,608,000	(2)%
Net Income	$42,941,000	$41,035,000	5 %
Earnings Per Share	$2.40	$2.38	1 %
Average Shares Outstanding	15,530,000	14,850,000	5 %
Declared Dividends Per Share	$1.90	$1.82	4 %
Total Assets	$1,141,128,000	$1,093,530,000	4 %
Electric Sales—Own Territory (kwh.)	4,941,302,000	4,907,228,000	1 %
Natural Gas Firm Sales (thousands of cubic feet)	8,424,000	8,629,000	(2)%
Electric Customers—Own Territory (average)	253,960	252,015	1 %
Firm Gas Customers (average)	57,200	56,293	2 %

EPS & DIVIDENDS



COMMON STOCK PRICES



CORPORATE AND STOCK INFORMATION

Annual Meeting

The annual meeting of holders of common stock will be held on Tuesday, April 7, 1992 at 10:30 a.m. at the Corporation's General Offices, 284 South Avenue, Poughkeepsie, New York. The management welcomes the personal attendance of shareholders at this meeting. A summary report of the meeting will be mailed to all shareholders of record at a later date.

Financial and Statistical Report

A comprehensive 10-year financial and statistical supplement to this Annual Report will be available to shareholders attending the annual meeting. Copies may also be obtained by writing or calling Steven V. Lant, Assistant Treasurer and Assistant Secretary, 284 South Avenue, Poughkeepsie, NY 12601, Tel. (914) 486-5254.

Annual Report to the SEC—Form 10-K

Shareholders may obtain without charge a copy of Central Hudson's annual report to the Securities and Exchange Commission, on Form 10-K, by writing or calling Gladys L. Cooper, Corporate Secretary, 284 South Avenue, Poughkeepsie, NY 12601, Tel. (914) 486-5535. The copy provided will be without exhibits; these may be purchased for a specified fee.

Stockholder Information

First Chicago Trust Company of New York, Tel. (212) 791-6422

Telephone Hours: 8 a.m. – 6 p.m. weekdays

Security Analysts and Institutional Investors

Steven V. Lant, Assistant Treasurer and Assistant Secretary, Tel. (914) 486-5254

Dividend Reinvestment Plan

Central Hudson offers a Dividend Reinvestment Plan under which all holders of common stock may reinvest dividends and/or make direct cash investments to obtain additional shares. All brokerage and other fees to acquire shares are paid by the Corporation. To participate, call Ms. Janet M. Horvat, Director Risk Management & Shareholder Relations, Tel. (914) 486-5204.

Transfer Agent & Registrar, Common and Preferred Stock

First Chicago Trust Company of New York
30 West Broadway, New York, NY 10007

Stock Exchange Listings

Common
New York Stock Exchange
Depositary Preferred Shares/Adjustable Rate Preferred
New York Stock Exchange

Stock Trading Symbol: CNH

Multiple Copies of this Annual Report

Shareholders who receive multiple copies of this Annual Report may, if they choose, reduce the number received by calling Janet M. Horvat, Director Risk Management and Shareholder Relations, at (914) 486-5204.

Common Stock — Market Price and Dividends Paid per Share

	1991			1990		
	High	Low	Dividend	High	Low	Dividend
1st Quarter.....	$24 7/8	$22 5/8	$.46	$23 7/8	$21 7/8	$.44
2nd Quarter.....	25 1/4	23 7/8	.46	22 7/8	20 5/8	.44
3rd Quarter.....	27 7/8	23 7/8	.48	23 1/2	20	.46
4th Quarter.....	28 7/8	26 7/8	.48	24 7/8	21 1/4	.46

February 28, 1992

Paul J. Ganci *John E. Mack III*

To My Fellow Shareholders:

Central Hudson's earnings per share increased 2 cents in 1991, reflecting a year of solid performance in spite of the lagging state and national economy and unusually warm winter weather which depressed gas earnings. Dividends paid to shareholders increased 4.4 percent, from $1.80 per share in 1990 to $1.88 per share in 1991. The ratio of market price to book value increased from 111 percent at December 31, 1990, to 126 percent at the close of 1991. Additionally, the Company remains in a good cash position.

Strengthening the Company's financial structure was high on our list of objectives for 1991. During the year we sold $100 million of First Mortgage Bonds, the proceeds of which enabled us to redeem $85 million of high coupon debt. This action reduced our embedded cost of debt by almost a full percent. Further, the sale of 600,000 shares of common stock helped increase our common equity ratio to 41 percent.

Three of the four major rating agencies upgraded the Company's bond ratings, and all four now rate the Company's bonds at A minus or the equivalent.

This was a year in which we carried out many activities in pursuit of our goal of being the energy supplier of competitive choice. We continue to place great emphasis on maintaining competitive prices for our products while providing the highest quality of service. We believe that in doing so we provide a strong incentive for new business to locate in this region, as well as enhancing the ability of our existing commercial and industrial customers to compete successfully in the global market place.

A major step in this direction, and in support of our commitment to clean air, involves our largest natural gas construction project in many years. Through an interconnection with a fourth major pipeline, we will be able to provide natural gas for electric generation at the Roseton Generating Plant during the nonheating season. This connection will also make increased firm supplies of natural gas available for future customers, as well as for new uses of this environmentally-preferable fuel, such as in the transportation sector.

Our subsidiary operations continue to make a modest contribution to the success of the Company. These energy related businesses are being expanded at a pace commensurate with the markets in which they operate. Our goal continues to be to maximize the return on investment in these unregulated businesses and thereby provide a benefit to our shareholders.

A major focus of this annual report reflects another of our goals, the preservation of our environment. We have long accepted the responsibility for corporate environmental stewardship, integrating it into our strategic planning process and our everyday activities. Indeed, over the decades, it has become part of our corporate culture.

Looking ahead to the remaining years of the 20th century, we believe that they will bring significant changes in both federal and state regulation, affecting our industry and impacting the manner in which we operate our business. But regardless of these changes, we remain committed to increasing customer satisfaction and achieving the position of being the energy supplier of competitive choice. To do this, we will avail ourselves of all reasonable business opportunities, opportunities which should also provide increased value to our shareholders.

Very truly yours,

John E. Mack III

Chairman of the Board
and Chief Executive Officer

THE YEAR IN REVIEW

January

Records set for both gas and electric use during extended cold spell.

Customer rebates for energy efficiency programs pass the $1 million mark.

Nine Mile 2 Plant completes its first refueling outage.

February

"Operation Family Support" aids customers who are dependents of Persian Gulf troops.

March

600,000 additional shares of common stock are sold.

PSC approves global settlement of outstanding Nine Mile 2 Plant issues.

25 Company crews help neighboring upstate utilities recover from major ice storm.

Duff & Phelps upgrades our bond ratings to A–.

April

Moody's upgrades bond ratings to A 3; Fitch reaffirms our A– rating.

Scholarship award increased from $2,500 to $20,000 to encourage pursuit of engineering degrees.

May

$100 million of first mortgage bonds are issued and sold.

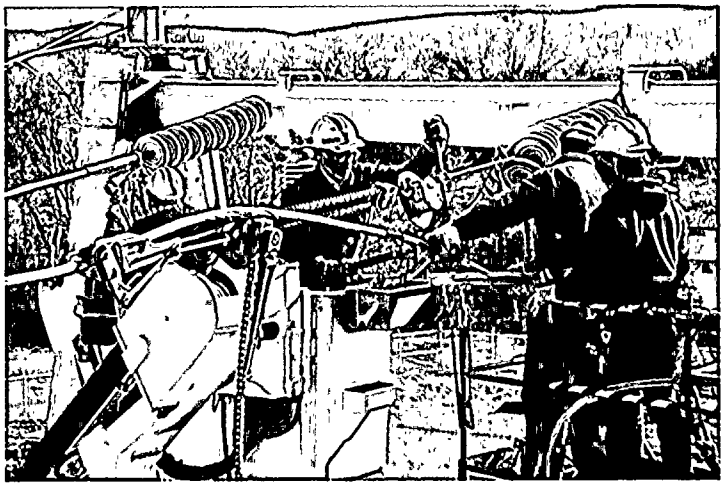
Company files for an electric rate increase of 7.4%.

June

Nuclear Regulatory Commission removes Nine Mile 2 Plant from its "watch list."

Standard & Poor's upgrades our bond ratings to A–.

Directors increase common stock quarterly dividend by 2 cents per share.



Line crews string conductor at a new substation in southern Dutchess County.

July

First gas rate increase in almost six years takes effect.

New three-year contract reached with International Brotherhood of Electrical Workers.

Electric usage peaks at 950 megawatts, an all-time record.

Cumulative refinancing of First Mortgage Bonds reduces average embedded cost of debt by 89 basis points.

August

Ground is broken for new Computer Center/System Operations building and two district office additions.

Company crews help Long Island recover from Hurricane Bob.

September

Catskill District completes 13 years without a lost-time accident.

October

Employee United Way contributions top $160,000.

Land operations completed on 10 miles of gas line to supply Roseton.

November

Company officers meet with security analysts in New York City.

Employee blood donations top 350 pints in year's four drives.

Zebra mussels discovered in Roseton Plant and Danskammer Plant intakes.

December

Conversion of Roseton Plant Unit 2 to dual-fuel use completed.

Construction completed on Danskammer Plant's new solid waste management facility.

Good Neighbor Fund passes $100,000 mark.

ENERGY RESOURCE PLAN

The utility manager of the 90s is faced with a number of planning constraints unimagined a few short years ago. Historically, we projected future electric demand and met it with our own resources or through arrangements with other utilities. Today, we are mandated not only to moderate a rising demand but to give consideration to nonutility generators to meet that growth which cannot be forestalled.

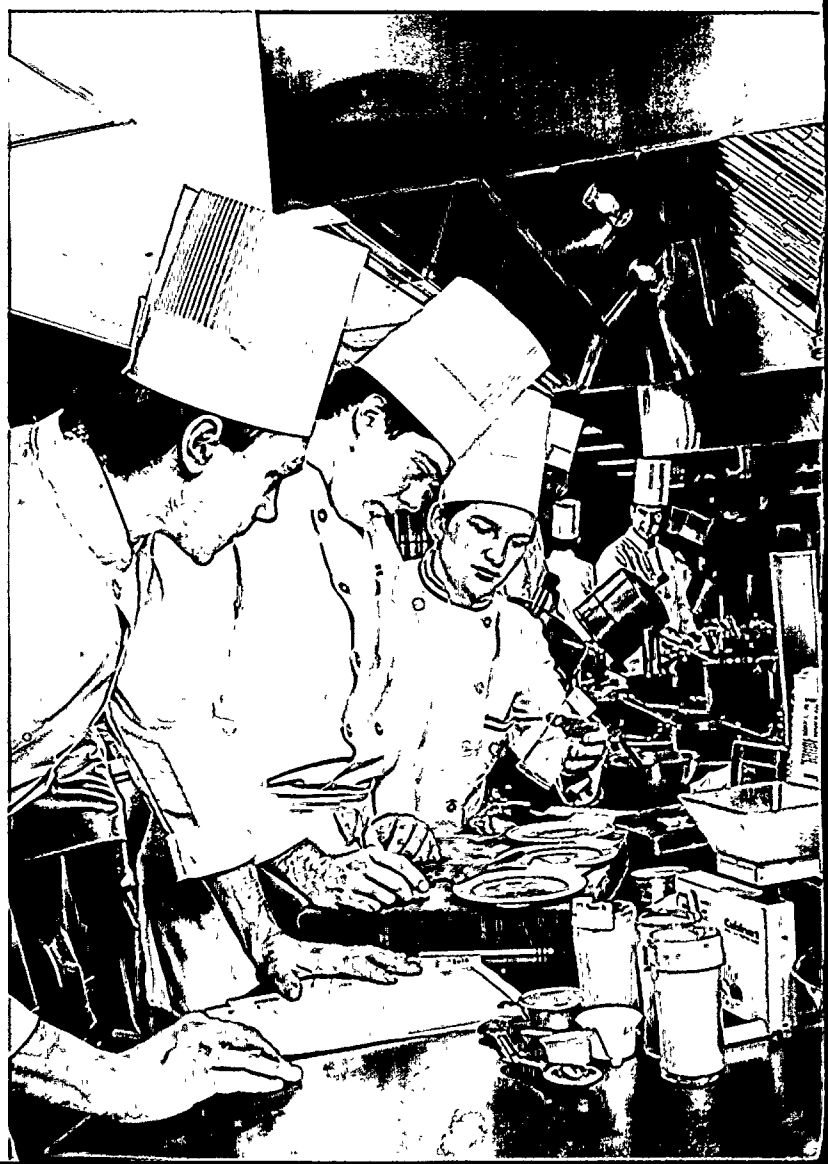
It requires taking a fresh look at our responsibility as a supplier of energy, adopting nontraditional methods to meet not only our customers' needs but those needs dictated by a society whose values are changing. And, just as we have adapted in the past to increased concerns for the environment, to the need to reduce our dependence on imported fuel oil, and a host of other challenges, we are preparing to meet those we face in the waning years of the 20th century.

From 1991 through 1995, peak electric demand on our system is expected to increase by approximately 100 megawatts. Our plan to meet this is a two-fold one, using both savings from increased energy efficiency and supply side additions.

As a corporation, we have embraced the principles of improved energy efficiency because it is in the best interests of our customers, providing them an opportunity to use electricity more efficiently and reducing the need for future generating plant additions.

Through our energy efficiency program, we expect to reduce our projected system peak by some 50 megawatts. Working with commercial and industrial customers, our Energy Efficiency Services Division is demonstrating the benefits of more efficient lighting and motors, reducing both their energy usage and the need to develop additional energy sources in the future. This program, begun in mid-1990, has already achieved a peak reduction of 16 megawatts, one third of our goal.

Our energy resource plan includes working with customers to help them become more energy efficient. The Culinary Institute of America, which installed major lighting improvements at its 1,850-student Hyde Park campus, is a typical beneficiary of our services.



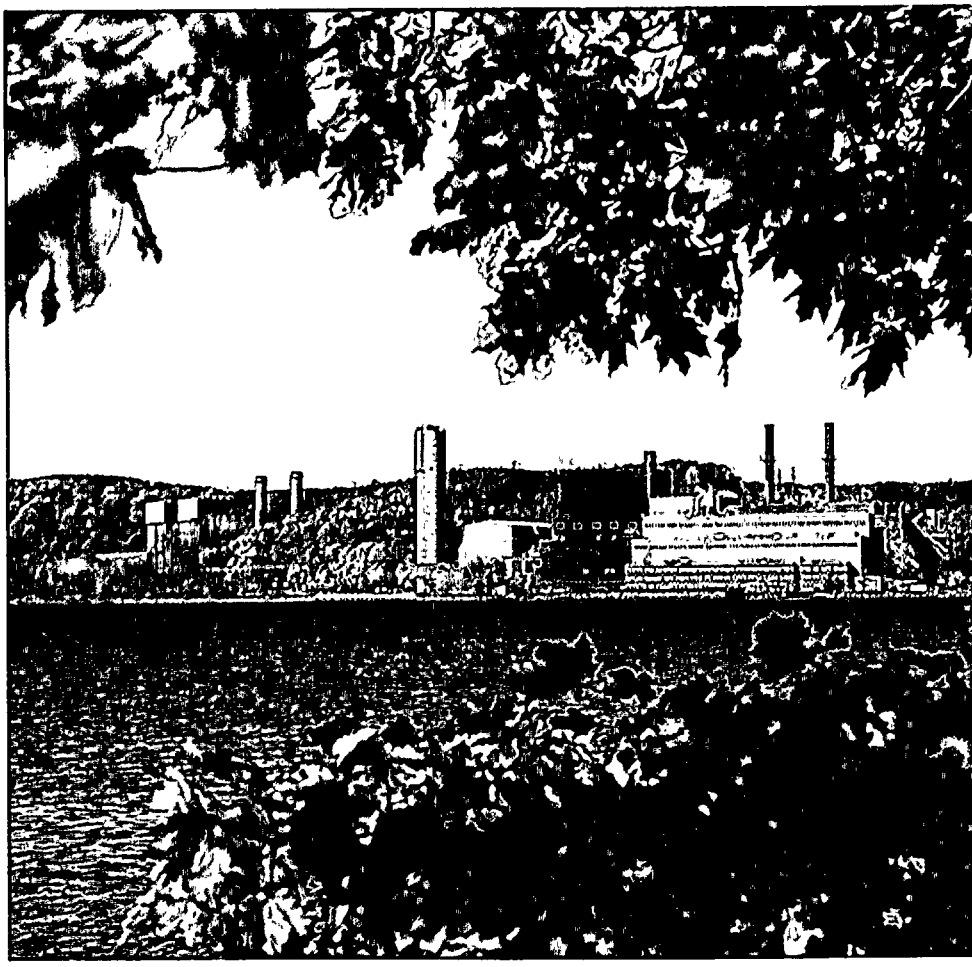
It complements our long-standing program of promoting the wise and effective use of energy among our residential customers and energy efficiency among our industrial customers.

The costs of demand side management, including direct costs and lost net revenues, are currently recoverable through electric rates. In addition, an equity incentive has earned our shareholders one-quarter of one percent return on common equity.

Another aspect of this program is a newly-developed curtailable electric service rate for large industrial customers which can reduce peak demand by 8 to 10 megawatts.

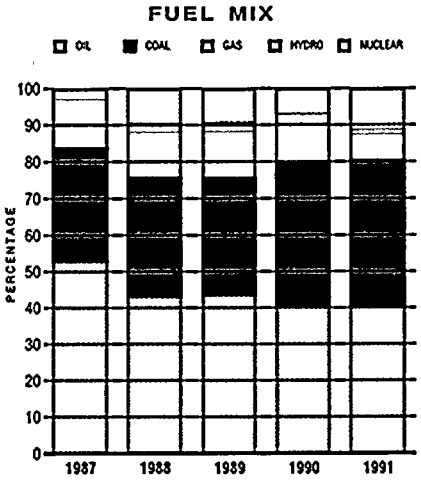
To meet the growth which is projected to occur, we anticipate the purchase of Niagara Mohawk's 300-megawatt share of the Roseton Generating Plant in annual 30-megawatt increments beginning December 31, 1994. We have solicited competitive bids for alternate sources to ensure that this is the most effective supply side option. In addition, we have also solicited bids for up to 50 megawatts of peaking capacity and 20 megawatts of energy efficiency services.

In August, a total of 41 bids were received in response to these three separate requests for proposals. The evaluation of these bids is in process.



Improved efficiency at our older generating units, such as the Danskammer Point Plant (foreground), combined with plans to increase our ownership in the Roseton Plant (left background), are important components of our supply side energy strategy.

New contracts for coal were negotiated during the year, resulting in first-year reductions of over $4 million in electric generating fuel costs. Also, we are seeking to restructure an existing contract with the Tennessee Gas Transmission Company. If approved by the Federal Energy Regulatory Commission, this modification would result in a reduction of $1.3 million a year in natural gas supply demand charges.



ELECTRIC OPERATIONS

This was a year in which a three-year-old record in peak usage demand was exceeded three times in as many weeks while the Hudson Valley endured an extended heat wave. The new system peak of 950 megawatts was nearly 60 megawatts above the prior record set in 1988. Generation, transmission and distribution facilities were available to meet the demand, demonstrating the value of our maintenance programs.

A Thermal Information Program System (TIPS), tested in 1990 on one unit at our Danskammer Generating Plant, was successful in improving operators' ability to maintain peak unit operating efficiency. This system has now been installed on all units at both Danskammer and Roseton. TIPS provides plant operators with a wealth of computer data which allows them to exercise greater control over unit combustion.

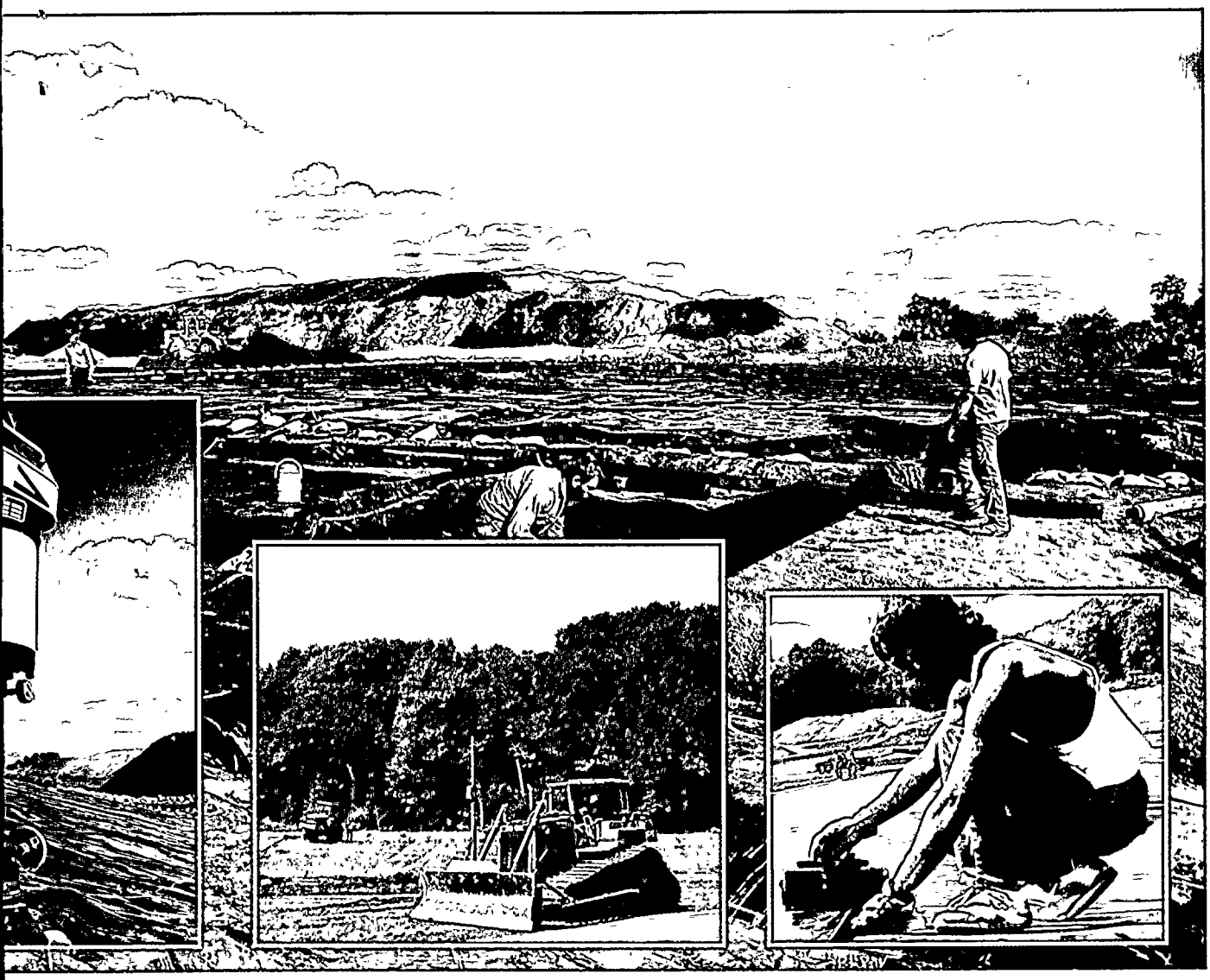
Conversion of the Roseton Plant to include natural gas in its fuel mix requires an expenditure of approximately $15 million. Unit 2 was converted during a major overhaul in late 1991; Unit 1 is scheduled to be converted during its spring 1992 overhaul. Many performance enhancements are being incorporated into the conversion, including a state-of-the-art burner management system. Roseton's conversion to dual-fuel use will provide greater fuel flexibility, further reducing our dependence on imported oil. The use of natural gas will also produce important environmental benefits.

Significant advances in improved operations were made at the Nine Mile 2 Nuclear Unit during 1991, and it has now achieved availability and capacity factors which compare favorably with industry averages for units of this type. Further improvements are expected when several major modifications are made to the unit during its second refueling in the spring of 1992. Another milestone occurred in June when, citing an overall improvement in management oversight and staff performance, the Nuclear Regulatory Commission (NRC) removed Nine Mile from its list of plants which require close monitoring.

In August, a Site Area Emergency was declared at the plant due to the loss of control room annunciators and other critical equipment, followed by a shutdown of the plant. The NRC noted the good performance of the plant's operators, stating that "the licensee's emergency response organization, and in particular, its licensed operators, performed well" during the shutdown. Design modifications have been made to prevent recurrence of a similar situation.

At our Danskammer Point Plant, a new solid waste management facility was constructed this

Construction of a new solid waste management facility at our Danskammer Point Plant required laser-guided earth moving machinery to maintain strict slope contours and multiple layers of heat-sealed plastic liner to prevent leachates from reaching the water table.

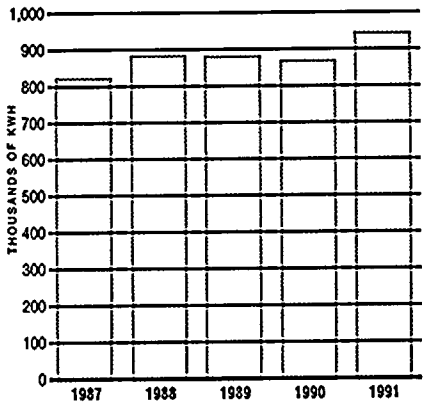


year. This $6 million project represents state-of-the-industry design standards to minimize the environmental impacts of fly ash storage. Meanwhile, we are continuing our efforts to market fly ash, which could reduce future storage needs.

Improvements to our electric transmission system also form a large part of our construction activity. Two new or expanded substations, and a new 345/115-kilovolt transformer at a third, have improved service reliability in central and northeastern Dutchess County. Construction has also begun on a major substation to serve growing loads in southern Dutchess County. And in Orange County, we are implementing a plan to support the expansion programs of Stewart International Airport, where above-average load growth is anticipated to continue.

We have also begun the lengthy approval process to rebuild and upgrade some 40 miles of transmission lines and seven substations in Ulster County. This $33 million project will be carried out over several years.

ELECTRIC PEAKS OWN TERRITORY



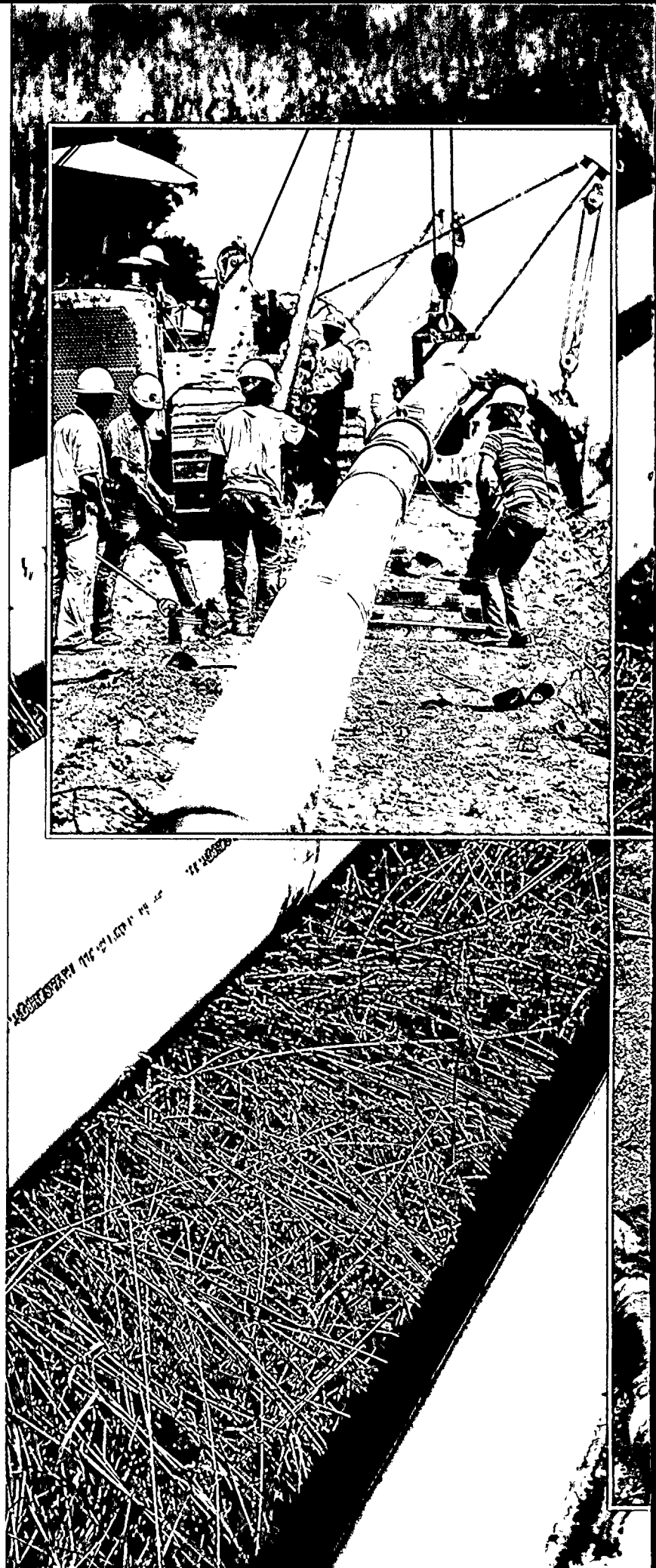
GAS OPERATIONS

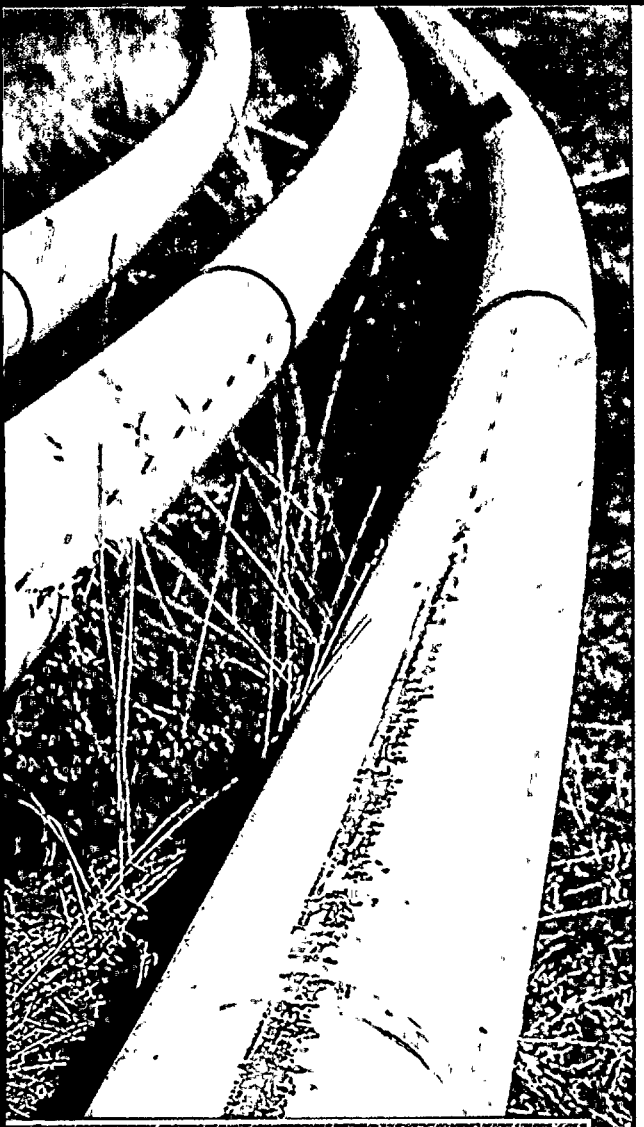
Above-normal temperatures during the heating season caused a decline in gas usage per customer during 1991. Nevertheless, a January cold snap led to a gas peak of 79,956 mcf, a record sendout in a single 24-hour period.

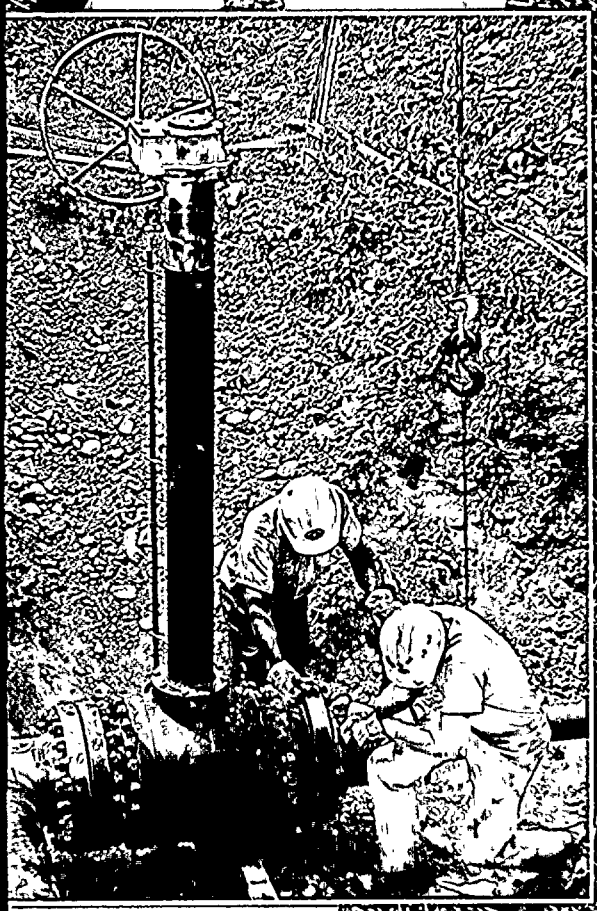
Supplies adequate to meet such peak usage demands are being provided by contracts with pipeline, storage, and vaporized liquefied natural gas sources, spot purchases, and two Company-owned propane-air peaking plants. However, continued provision for expanding our gas markets, as well as the use of natural gas to supply part of Roseton's needs during the non-heating season, requires a major increase in available sources.

This is being accomplished through our largest gas construction project in two decades, linking the Company to a fourth supplier, the Iroquois Gas Transmission System. The $14 million interconnection project was planned in two sections totalling 10 miles in length, using existing electric rights-of-way. One section will join our system with the Iroquois line, which will extend from Canada to Long Island. A second section will supply gas to Roseton.

The 16-inch line for this project crosses 21 federally-designated wetlands, several streams and the Hudson River, necessitating strict mitigation measures during construction to avoid adverse environmental impacts. For the 4,000-foot







Ten miles of 16-inch line were laid to connect the Roseton Plant to its supply of natural gas. Insets show a Central Hudson crew installing a control valve, and contractor crews lowering welded steel pipe into the trench.

river crossing itself, we chose to bore deeply below the bed of the river, rather than following the customary procedure of laying the line in a trench. This directional drilling technique, which has never before been attempted for any Hudson River crossing, avoids any disturbance of the river itself.

Most construction work on this project was completed in the fall of 1991. The directional bore is scheduled to be completed during the second quarter of 1992.

REGULATORY MATTERS

In March, the New York State Public Service Commission (PSC) issued its order approving the global settlement of the remaining issues related to construction of the Nine Mile 2 Nuclear Plant. This action was one of the key factors in the subsequent decisions by three major credit rating agencies to upgrade the ratings of the Company's first mortgage bonds.

Our first increase in firm gas rates since 1985 went into effect in July following 11 months of hearings by the PSC. We had requested a revenue increase of $6.8 million and a 13 percent return on common equity; the PSC approved a $4.9 million increase with an authorized 11.7 percent return on common equity.

In May, we filed a request to increase electric rates by $30.3 million, with a 12.5 percent return on common equity. The proposed increase, our first in two years, would be well below the increase in the Consumer Price Index for the same period. A decision is not expected until April 1992.

The rapid growth of Stewart International Airport as a commercial passenger and cargo facility is spurring economic development in eastern Orange County.

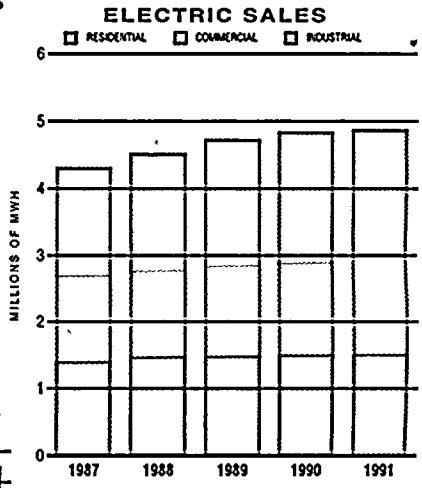
ENERGY EFFICIENCY PROGRAMS

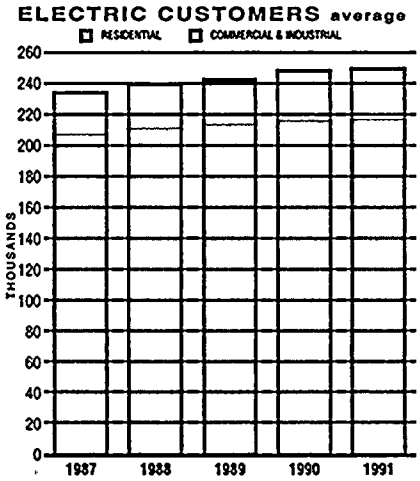
Electric sales for 1991 increased only about 1 percent from 1990. Obviously, the national economic recession has led to belt-tightening at the local level, as well. While we witnessed a decline in housing starts, there was a significant increase in commercial construction.

Our electric energy efficiency program is aimed at providing our customers with choices which enable them to manage their energy use better. This includes providing rebates for installing high-efficiency air conditioners or add-on heat pumps, a major focus of our 1991 demand side management efforts.

Our voluntary time-of-use rates are an important aspect of this program, offering an opportunity to reduce electric costs to those customers whose life style permits them to shift much of their usage to off-peak hours. We are also working closely with those residential customers whose high usage requires that they be placed on time-of-use rates. This includes providing them with free automatic-setback thermostats and water heater timers.

We are also establishing demonstration projects for ground-source heat pumps. Operating effectively at lower temperatures than air-source units, these types of heat pumps are substantially more efficient and, for new construction, are cost-competitive with most fossil systems.





GAS MARKETING PROGRAM

New construction and conversions added some 600 residential and commercial gas customers during the year, with an annual sales potential of 400,000 mcf. Our marketing program continues to benefit from our recent expansions into new areas and the outstanding participation of employees in providing sales leads. We are very pleased with this continuation of significant growth. We continue to review the cost benefits of future gas line extensions to open new markets.

The national emphasis on reducing pollution in the transportation sector seems certain to create great opportunities for natural gas vehicles. To assess this market, we are purchasing two school buses fueled solely by natural gas. These will be provided for six-month test periods to the fleets serving several local school districts. The potential market is more than 1,000 school buses, the equivalent of adding about 5,000 residential customers. We are also continuing our research program involving a dozen Company cars and light trucks which have been converted to dual-fuel use.

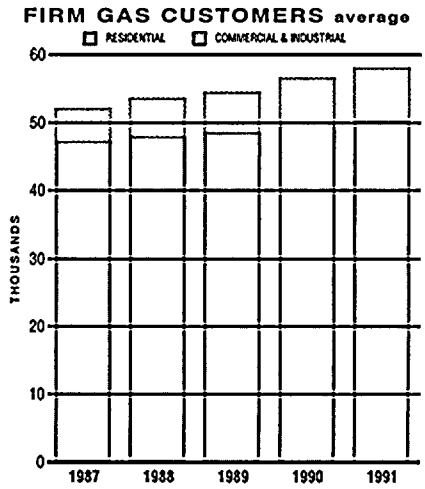
CUSTOMER OPERATIONS

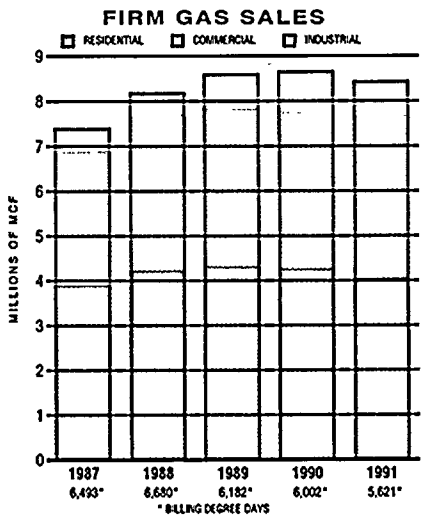
Being the energy supplier of competitive choice continues to be our goal. In spite of the changes facing the utility industry, we believe our success is assured as long as we continue to make the customer the focus of our business, creating and delivering products and services of value.

It was with this precept in mind that we introduced our Quality Initiative in 1990. This program recognizes that quality is not defined by the supplier, but by the customer, whose needs must be identified and met. It is a process demanding continuous improvement. During 1991, all management employees attended workshops on quality and the program will have been extended to all employees by spring 1992.

A key part of the process is obtaining feedback from our customers. Several thousand "How Are We Doing?" survey forms were sent to customers who had telephone or personal contact with Company representatives during the year. Their responses are being used in a continuing program of monitoring customer satisfaction as we seek further ways to improve our service.

Another part of the quality process has been our concentrated effort to improve service reliability. This improved significantly in 1991 as a result of a number of actions aimed at providing quality service.



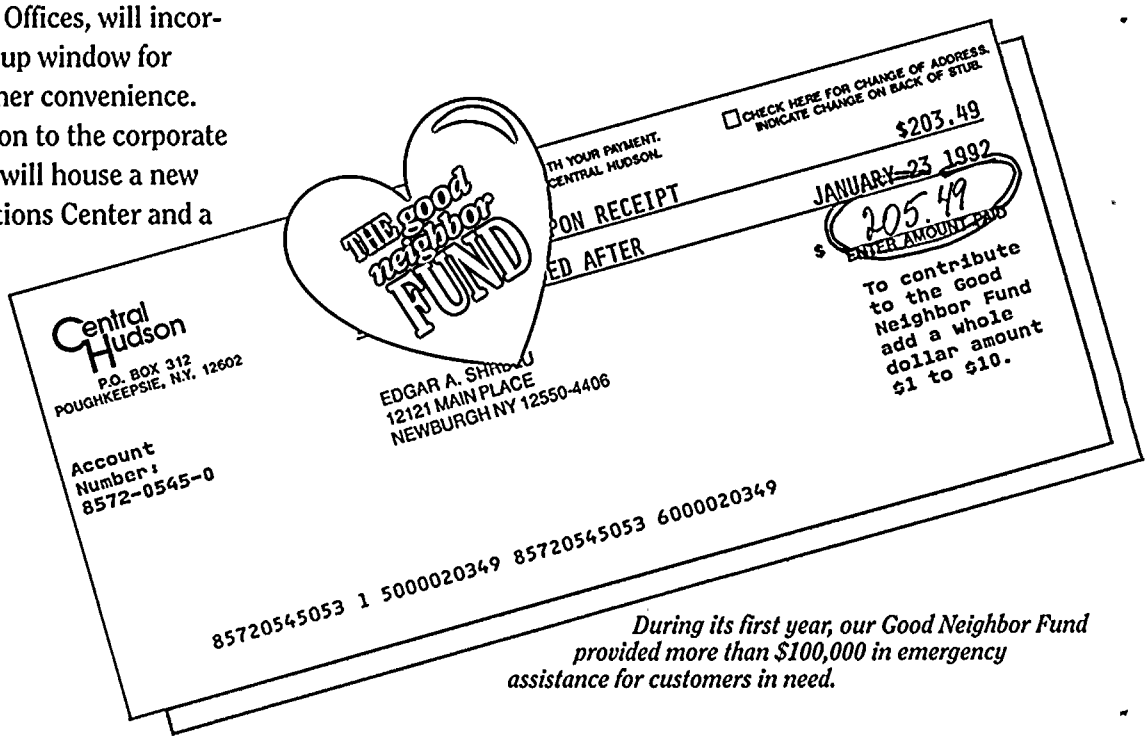


We are now trimming our rights-of-way every three years, rather than every four, and we have increased the clearances between trees and power lines. This has measurably reduced weather-related interruptions. We have also added increased lightning protection and concentrated on higher levels of maintenance on our transmission, substation and distribution systems.

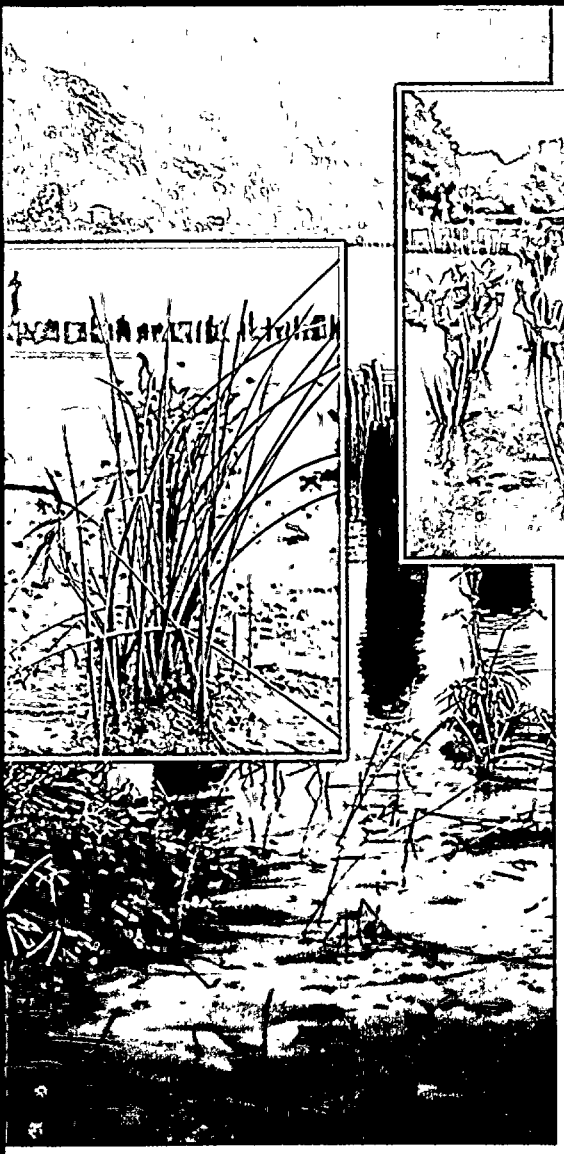
Construction began during the year on additions to our Operating Headquarters in Fishkill and our Customer Service Office in Poughkeepsie. The former project includes moving our Beacon Customer Relations Office to Fishkill. This will complete the consolidation of our Customer Service operations in all five districts. The latter project, located adjacent to our Corporate Offices, will incorporate a drive-up window for greater customer convenience. A major addition to the corporate complex itself will house a new System Operations Center and a new Computer Center, each providing expanded capabilities enabling us to conduct our business and serve customers more effectively.

This year our meter readers began using new and improved hand-held units to record customer usage. With the power of lap-top computers, these were instrumental in helping to reduce the number of estimated bills by 20 percent. In addition, because their data is downloaded directly to the corporate mainframe, these units have also helped to reduce processing time and billing errors.

Our Community Relations and Consumer Outreach Section has developed a number of programs for customers with special needs, including senior citizens, low-income, and disabled customers.



During its first year, our Good Neighbor Fund provided more than $100,000 in emergency assistance for customers in need.



Decaying pilings of a 19th century pier offer protection to a tidal marsh opposite Breakneck Mountain. Here, desirable plants (inset photos) are being introduced under Company-funded research which seeks to improve the Hudson River's ecology.

OUR ENVIRONMENTAL COMMITMENT

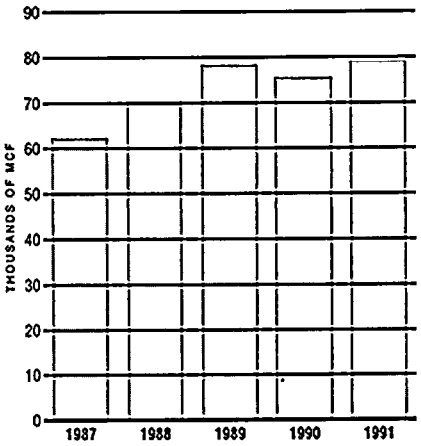
Serving an area as richly endowed as the Hudson Valley, our commitment to helping preserve the environment has been a long-standing one, one carried out not simply in words but in deeds, not simply through mandated activities but also through those which we initiate ourselves. Among them:

- More than 75 years ago, we pioneered the use of underwater cables to avoid unsightly aerial crossings of the Hudson River. The section of the river served by Central Hudson remains the only stretch without an overhead power-line crossing.
- In the 60s, we funded a major study of regional planning by Arthur D. Little, Incorporated, with emphasis on the preservation of historic and scenic values.
- In the 70s, we transferred title to New York State of two potential generating sites, one for a state park at Breakneck Mountain, in the Hudson Highlands, and the second for a wildlife conservation zone and bird sanctuary at Tivoli Bay, in northern Dutchess County.

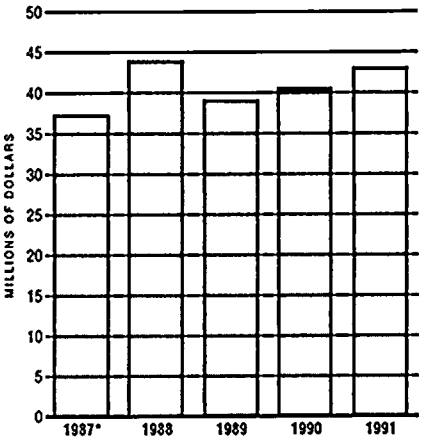
We also work closely with the many public and private agencies which offer those customers support and financial services.

In late 1990, we established a Good Neighbor Fund by which customers could include with each bill payment up to $10 to help those in need. This program, administered by The Salvation Army, provides one-time grants to provide emergency assistance with gas and/or electric payments. Customer contributions during the first year exceeded $55,000, with the Company matching the first $50,000.

FIRM GAS PEAKS



CENTRAL HUDSON NET INCOME

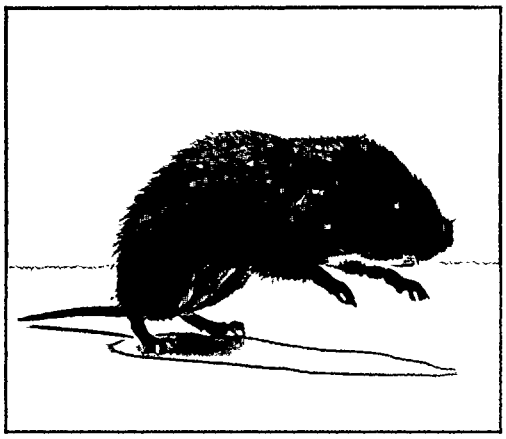


*For comparative purposes, the reduction in 1987 earnings due to the write-off of the Nine Mile 2 Plant disallowance under SFAS 90 has been excluded.

- The cooling water intakes at the Roseton Plant incorporated novel screen designs to reduce the impact of plant operations on aquatic life, and we are leading the research on even more advanced screens which are now being tested at Roseton.
- In the mid-80s, we built a state-of-the-art facility to treat all wastewater from the Roseton Plant.
- In 1984, we built nesting platforms to attract bald eagles back to the upper stretches of the Hudson River valley.
- After a multi-year effort, all high-level PCBs have been removed from our electric equipment outside of fenced substations.
- We have instituted a major recycling program for paper and metal scrap.
- The addition of natural gas to our generating mix supports the goals of the Clean Air Act.

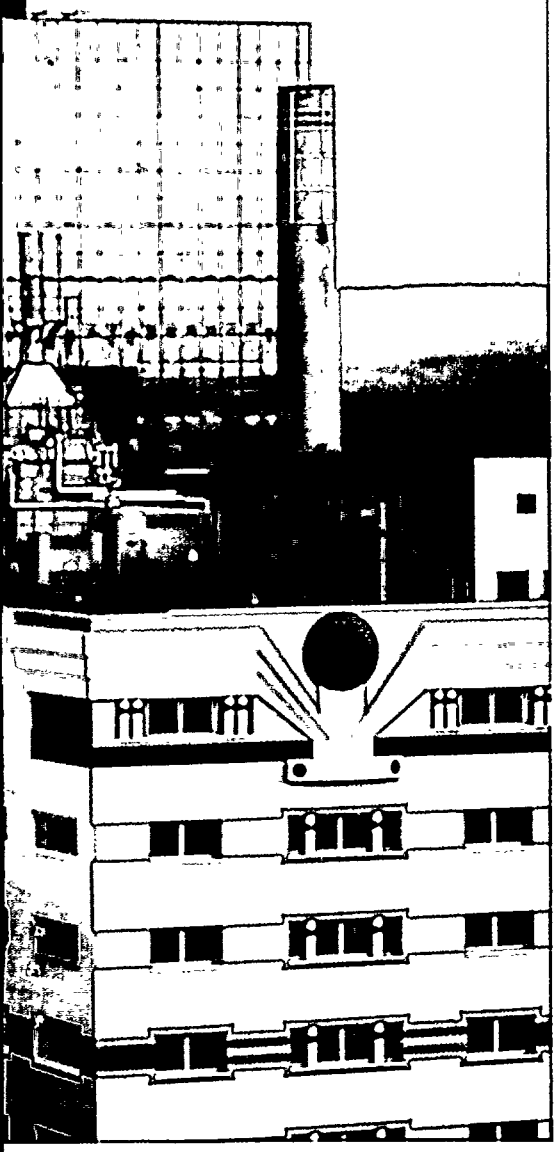
As major users of the Hudson River, we are sensitive to its unique environmental attributes. This year, we funded a $375,000 research project to demonstrate methods of restoring and enhancing the river's marshlands, which over the years have been disappearing as a result of siltation and increasing freshwater runoff.

The importance of these tidal marshes to fish and wildlife has long been understood. More recently, it has become recognized that the plant and aquatic life they support also serve an important role in helping the river cleanse itself. Through this three-year study, volunteers from the Museum of the Hudson Highlands will assess their ability to help nature heal itself.



The dietary habits of this sprightly meadow vole are among the environmentally-benign measures being studied which may reduce high growing vegetation on our transmission rights-of-way.

We are also looking at a way to use nature to help reduce the amount of trimming required on our electric transmission rights-of-way. Through an unusual research project we are cofunding with the Empire State Electric Energy Research Corporation, we are studying the feasibility of using the natural competition between trees and shrubs and the feeding activities of mice and deer to inhibit the establishment of tall-growing trees within the right-of-way. The collection of field data was completed during the fall of 1991.



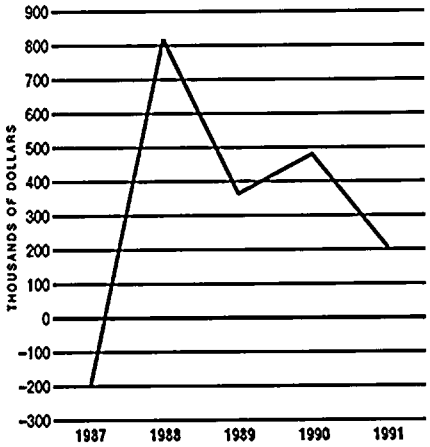
SUBSIDIARY OPERATIONS

Our two major subsidiaries are involved in areas which are related to our core business, specifically energy efficiency and electric generation. Considering the difficulties experienced by some utilities which have invested outside their sphere of expertise, we continue to believe that this has proven to be a wise decision.

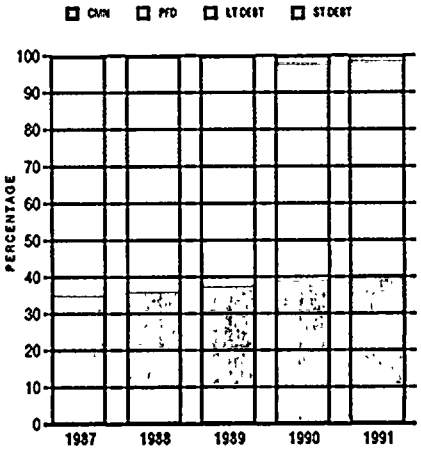
Central Hudson Enterprises Corporation (CHEC) is a full-service energy company, offering clients engineering evaluation, design, construction, financing and operational services. It enjoyed its most successful year in 1991, returning about $367,000 to Central Hudson shareholders, primarily due to completing a major lighting conservation retrofit in the Stone & Webster building in Boston.

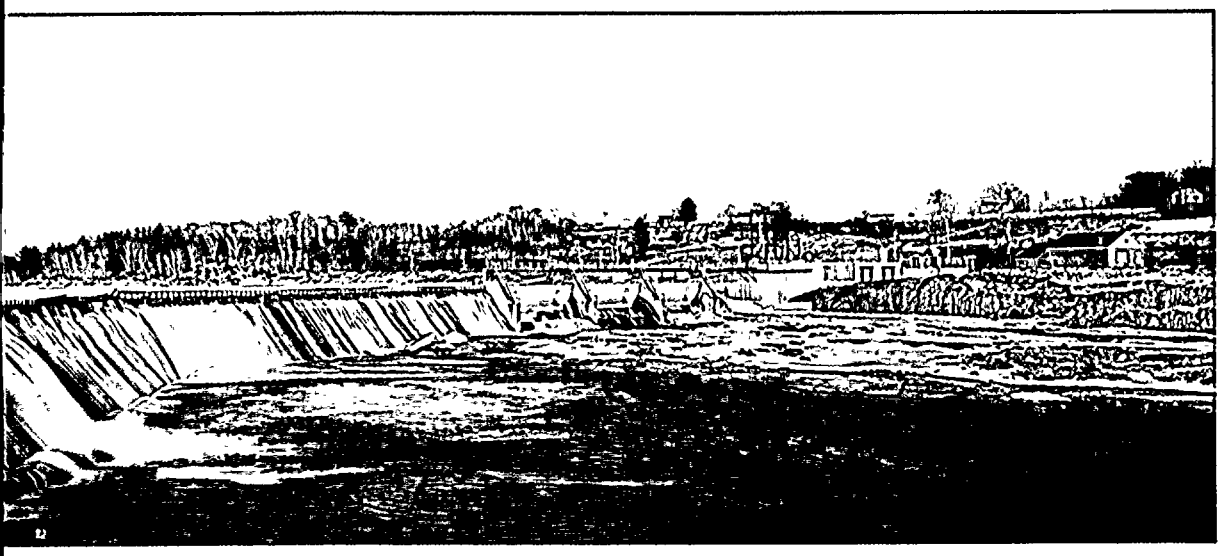
During the year, CHEC began implementing a major demand side management contract, involving 4.8 megawatts of energy savings, with Public Service Electric and

NET INCOME OF SUBSIDIARIES



CAPITALIZATION RATIOS





Cencogen, one of our subsidiaries, acquired a 40 percent interest in a 4-megawatt cogeneration plant atop the G. Fox building (top) in Hartford during 1991. The 15-megawatt Hydro-Kennebec plant in Maine, in which Cencogen has a 7 percent interest, appears at left.

Gas Company of New Jersey, and substantially implemented energy conservation measures in the Syracuse City School System.

Central Hudson Cogeneration, Inc. (Cencogen) is in the business of investing in existing or planned cogeneration or generating facilities which use renewable resources. Its failure to contribute to profits in 1991 was due to low water conditions which drastically restricted operations at the West Delaware Hydro Plant, in which Cencogen has a 50 percent interest.

In April 1991, Cencogen acquired a 40 percent interest in a 4-megawatt cogeneration plant which produces steam for heating and cooling buildings in downtown Hartford, Connecticut and sells electricity to the Connecticut Light & Power Company. Since the acquisition, earnings from this two-year-old plant have been well above budget.

Cencogen also became a 50 percent partner in the development of two similar cogeneration projects for the State of New Jersey. One will produce steam and electricity for Montclair State College, an expanding institution. The second will meet the steam and electric needs of the Hunterdon Development Center, which houses a correctional facility for women and a residence for the mentally handicapped. Both are expected to enter service in 1993.

JOHN WILKIE, 1904-1991

We note with regret the passing on August 10 of John Wilkie, a friend and associate throughout his 62 years of service with our Company.

Mr. Wilkie joined the Company in 1925. During his career, he held the offices of Treasurer, Vice President, Vice Chairman of the Board, Chairman and Chief Executive Officer, as well as serving as a director of the Corporation. He was regarded in the utility industry and among the investment community as an authority on public utility financing. His leadership, concern for employees and high principles were credited as being fundamental to the development of the character of Central Hudson.

His contributions were great, and his passing is a loss to us all.

FINANCIAL SECTION

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FINANCIAL HIGHLIGHTS

Earnings Per Share: (Page 22)

Earnings per share of common stock were $2.40 in 1991, an increase of 2 cents, or 1% from 1990.

Dividends Per Share: (Page 28)

The quarterly dividend rate was increased to $.48 per share, effective August 1, 1991. This represented an increase of 4.3% over the previous quarterly rate of $.46 per share. Dividends paid to shareholders in 1991 were $1.88 per share as compared to $1.80 per share in 1990. No portion of the 1991 dividend constitutes a return of capital.

Nine Mile 2 Plant: (Note 2)

By Order issued and effective March 1991, the Public Service Commission (PSC) approved a settlement agreement, dated June 6, 1990, which brings to a close all outstanding issues related to the cost of construction of the Nine Mile 2 Plant, its operation through January 19, 1990 and the 1986 Settlement. Such approval did not require any adjustment to the amount of the disallowed investment written off by the Company in 1987.

Economy:

The Company continued to recognize the effects of a slowing national and regional economy in 1991. Although the sales of electricity within Central Hudson's service territory increased for the ninth consecutive year and firm sales of natural gas, normalized for weather, grew for the sixth consecutive year, the rate of growth has slowed for both services.

Electric Sales: (Page 24)

Electric sales within the service territory increased .7% in 1991. Sales to residential customers remained stable from last year reflecting an increase of less than 1% in the number of customers. Sales to commercial customers increased 1% due to the net effect of a 2% growth in the number of customers and a 1% decrease in usage per customer. The rate of growth in industrial sales declined from 7% in 1990 to 1% in 1991 primarily as a result of the slow down in the economy.

Gas Sales: (Page 25)

Firm sales of natural gas decreased 2.4% in 1991 primarily due to warmer weather. Sales to residential customers decreased 4% due to the net effect of a 5% decrease in usage per customer and a 1% increase in the number of customers. Sales to commercial customers increased 2% due to the net effect of a 5% increase in the number of customers and a 3% decrease in usage per customer. Firm sales to industrial customers decreased 10% primarily from decreased sales to existing customers and the shift of a large customer to interruptible service.

Rate Proceedings: (Page 22)

On August 10, 1990, the Company filed a request with the PSC to increase its base rates for firm gas service by $6.8 million or 9% for the twelve-month period ending June 30, 1992. On July 1, 1991, the PSC issued its Opinion and Order (Order) authorizing the Company to increase its base gas revenues by $4.9 million, an increase in gas operating revenue of approximately 5.3%. The new rates became effective on July 8, 1991 and are applicable to all usage thereafter. The Order authorized a return on common equity of 11.7% and an overall rate of return for the rate year of 9.45%.

On May 17, 1991, the Company filed a request with the PSC to increase its base rates for electric service to produce additional annual revenue of $30.3 million, or 7.4% for the twelve-month period May 1, 1992 through April 30, 1993. On January 21, 1992 the Administrative Law Judge in this proceeding issued his Recommended Decision. Such Decision recommended additional annual revenue of $14.6 million, or 3.7%, and an increase of $2.5 million in the amount of Mirror CWIP proposed to be used as a rate moderator. The Company expects a final decision in this proceeding in April 1992.

Common Stock: (Note 5)

The Company sold 600,000 shares of common stock in 1991, realizing proceeds of $13.8 million. The Dividend Reinvestment Plan and Customer Stock Purchase Plan raised $5.5 million. These issuances increased the number of common shares outstanding to 15,767,657. At December 31, 1991, a share of common stock was selling at $28.75 while the book value per share was $22.84. At December 31, 1991, the Company's shares were held approximately 41% by individuals registered with the Registrar and Transfer Agent, 10% by institutional investors, and 49% in "street name." Total return to shareholders in 1991 amounted to $5.88 (24%) per share, consisting of $4.00 of market appreciation and $1.88 of cash dividends.

1991 Financing Program: (Notes 5 and 6)

During 1991, the Company issued 600,000 additional shares of common stock and $100 million of new long-term debt. The proceeds from these offerings were used for the purpose of optionally redeeming $85 million of higher coupon debt and for the repayment of short-term debt. This program helped strengthen the Company's capital structure, increasing the common equity ratio at December 31, 1991 to 40.8% from 39.0% at December 31, 1990, and reduced debt expense by approximately $5 million. The replacement of higher coupon debt with lower cost debt offerings reduced the Company's embedded cost of debt by approximately one percentage point, from 9¼% to 8¼%.

1992/1993 Financing Program: (Page 21)

The Company has the option in 1992 to redeem one or more of three series of its First Mortgage Bonds, totaling $52 million. In order to provide for these possible redemptions, to fund its construction program and to provide for other contingencies, the Company has requested authorization from the PSC to issue up to one million additional shares of common stock and up to $125 million of new long-term debt during 1992 and 1993.

Taxes: (Page 27)

In 1991, the Company incurred $83.2 million for operating taxes levied by federal, state and local governments.

FIVE-YEAR SUMMARY OF CONSOLIDATED OPERATIONS AND SELECTED FINANCIAL DATA*

(Thousands of Dollars)

	1991	1990	1989	1988	1987
Operating Revenues					
Electric	$ 424,121	$ 433,859	$ 403,235	$ 379,249	$ 374,951
Gas	70,615	69,749	66,767	59,136	54,126
Total	494,736	503,608	470,002	438,385	429,077
Operating Expenses					
Operations	267,339	279,602	263,104	232,243	223,916
Maintenance	31,504	30,364	23,939	23,813	20,632
Depreciation and amortization	37,230	36,134	35,344	31,938	28,163
Operating taxes	60,554	57,234	51,240	47,953	44,379
Federal income tax	22,613	22,456	19,828	21,843	31,476
Total	419,240	425,790	393,455	357,790	348,566
Operating Income	75,496	77,818	76,547	80,595	80,511
Other Income and Deductions					
Equity component of AFDC	921	785	463	403	3,371
Federal income tax – net	1,252	2,082	910	703	(71)
Current year effect of adoption of SFAS 90	—	—	—	—	(51,919)
Other – net	854	1,505	3,419	2,739	2,198
Total	3,027	4,372	4,792	3,845	(46,421)
Income before Interest Charges and Cumulative Effect of a Change in Accounting Principle	78,523	82,190	81,339	84,440	34,090
Interest Charges	35,582	41,155	42,222	40,636	42,559
Income (Loss) before Cumulative Effect of a Change in Accounting Principle	42,941	41,035	39,117	43,804	(8,469)
Cumulative Effect on Prior Years of Adoption of SFAS 90	—	—	—	—	(101,475)
Net Income (Loss)	42,941	41,035	39,117	43,804	(109,944)
Dividends on Preferred Stock	5,659	5,681	5,698	5,753	5,593
Income (Loss) Available for Common Stock	37,282	35,354	33,419	38,051	(115,537)
Dividends Declared on Common Stock	29,800	27,067	25,825	24,851	37,666
Amount Retained in the Business	7,482	8,287	7,594	13,200	(153,203)
Retained Earnings – beginning of year	40,611	32,324	24,730	11,530	164,733
Retained Earnings – end of year	$ 48,093	$ 40,611	$ 32,324	$ 24,730	$ 11,530
Common Stock					
Average Shares Outstanding (000's)	15,530	14,850	14,657	14,473	14,230
Income (Loss) Available Per Average Share	$2.40	$2.38	$2.28	$2.63	$(8.12)**
Dividends Declared Per Share	$1.90	$1.82	$1.76	$1.715	$2.645
Book Value Per Share (at year end)	$22.84	$22.31	$21.76	$21.24	$20.35
Total Assets	$1,141,128	$1,093,530	$1,073,695	$1,046,290	$1,024,371
Long-term Debt	416,030	407,638	447,440	448,605	429,958
Cumulative Preferred Stock	81,030	81,030	81,030	81,030	81,030
Common Equity	360,203	333,587	320,709	309,269	292,240

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

** The per share loss of the 1987 change in accounting principle was $7.13.

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

CAPITAL RESOURCES AND LIQUIDITY

CONSTRUCTION PROGRAM

As shown in the Consolidated Statement of Cash Flows, the cash expenditures related to the Company's construction program amounted to $70.0 million in 1991, an increase of $20.0 million from the $50.0 million expended in 1990. As shown in the table below, cash construction expenditures for 1992 are estimated to be $73.8 million, an increase of $3.8 million over 1991 expenditures. Internal sources funded 88% of the 1991 cash construction expenditures and are presently estimated to fund approximately 85% of the forecasted expenditures for 1992.

Estimates of construction expenditures, internal funds, mandatory redemption of long-term securities and working capital requirements for the five-year period 1992-1996 are set forth by year in the following table:

	1992	1993	1994	1995	1996	Total 1992-1996
			(Thousands of Dollars)			
Construction Expenditures (a):						
Electric	$ 44,500	$ 43,600	$ 44,300	$ 44,000	$ 41,600	$218,000
Gas	7,300	6,800	7,200	6,700	7,100	35,100
Common	19,500	13,200	13,100	12,600	13,900	72,300
Connection to Iroquois Gas Pipeline (b)	1,300	—	—	—	—	1,300
Roseton buy-back (c)	—	—	7,300	7,100	7,000	21,400
Nuclear fuel	1,200	3,000	5,300	1,400	3,000	13,900
Total	73,800	66,600	77,200	71,800	72,600	362,000
Internal Funds Available:						
Depreciation accruals	39,900	42,100	43,800	45,500	47,600	218,900
Deferred income tax – net	15,800	11,700	13,000	13,200	12,300	66,000
Other	7,300	8,000	7,400	8,400	8,400	39,500
Total	63,000	61,800	64,200	67,100	68,300	324,400
Excess of Construction Expenditures over Internal Funds	10,800	4,800	13,000	4,700	4,300	37,600
Mandatory Redemption of Long-term Securities:						
Long-term debt	4,100	4,100	54,100	6,600	—	68,900
Preferred stock	—	800	800	800	800	3,200
Total	4,100	4,900	54,900	7,400	800	72,100
Working Capital Requirements	6,100	7,800	7,700	7,400	5,800	34,800
Total Cash Requirements	$ 21,000	$ 17,500	$ 75,600	$ 19,500	$ 10,900	$144,500

(a) Excluding the equity portion of Allowance for Funds used During Construction (AFDC), a noncash item.

(b) Described in Note 9 of the Notes to Consolidated Financial Statements, under the subcaption "Natural Gas Supply."

(c) Described in Note 9 of the Notes to Consolidated Financial Statements, under the subcaption "Roseton Plant."

Estimates of construction expenditures are subject to continuous review and adjustment, and actual construction expenditures may vary from such estimates. The depreciation accrual for the Nine Mile 2 Plant ((NMP-2) described in Note 2 of the Notes to Consolidated Financial Statements (Notes)), assumes a 2.5% annual rate applied to the allowed investment included in electric rate base. The assumed amortization rate for the Danskammer Plant coal reconversion investment is 5%. The deferred income tax projections are based on applicable federal income tax law.

Excluded from the construction expenditures are any costs which may be required to comply with the Clean Air Act Amendments of 1990. The Company cannot currently predict the level of required expenditures which may result from such legislation. A discussion of the Clean Air Act Amendments is included in Note 9 of the Notes.

As shown in the table above, it is presently estimated that funds available from internal sources will finance 90% of the Company's cash construction expenditures for the five-year period 1992-1996. During this same five-year period, total external financing requirements are projected to amount to $144.5 million, of which $68.9 million is related to the redemption of long-term debt.

CAPITAL STRUCTURE

Prior to 1987, the Company's policy with regard to capital structure was to maintain its common equity ratio in the 40%-45% range. As a result of the Company's recognizing the Nine Mile 2 Plant disallowance for financial reporting purposes in 1987 and recording a write-off of $169.3 million in its financial statements, the common equity component of the Company's capital structure dropped from 46.4% at December 31, 1986 to 35.4% at December 31, 1987.

As shown in the table below, the Company has been gradually rebuilding its common equity ratio through retained earnings and the issuance of common stock under its Automatic Dividend Reinvestment and Customer Stock Purchase Plans, and in March 1991 accelerated that rebuilding process through the public sale of 600,000 additional shares of common stock to refinance a portion of high coupon debt that had been called for redemption.

	Year-end Capital Structure		
	1989	1990	1991
Long-term debt	52.8%	48.2%	47.8%
Short-term debt	—	3.3	2.2
Preferred stock	9.5	9.5	9.2
Common equity	37.7	39.0	40.8
	100.0%	100.0%	100.0%

The Company plans to continue this rebuilding process by selling additional shares of common stock through a public underwritten offering in late 1992 or the first half of 1993. Such sale will further improve the Company's capital structure and its coverage ratios. Improvement in these two key financial indices assisted the Company in securing its recent credit rating upgrades by Moody's Investor Service, Duff & Phelps Inc., and Standard & Poor's Corporation to the A– level and moved the Company closer to its longer-term goal of attaining an A credit rating.

1992/1993 FINANCING PROGRAM

The Company in 1991 optionally redeemed three series of First Mortgage Bonds, totaling $85 million. The funds to redeem these bonds were obtained from a combination of the public sale of $100 million of new First Mortgage Bonds in May 1991, the sale of 600,000 additional shares of common stock in March 1991 and the sale of additional shares of stock under the Company's Automatic Dividend Reinvestment and Customer Stock Purchase Plans. The excess of the funds so raised over the $85 million of debt optionally redeemed in 1991 was used to retire the short-term debt outstanding at year-end 1990 (such debt had been incurred in late 1990 to help fund the optional redemption of the Company's 13% Series of First Mortgage Bonds) to fund the 1991 construction program and to reduce the sale of accounts receivable.

In 1992 the Company has the option to redeem three additional series of its First Mortgage Bonds, totaling $52 million. For a period of twelve months beginning on April 15, 1992, the Company has the option to redeem its 9¼% Series First Mortgage Bonds ($15 million principal amount) due 2004 at a redemption price of 104.08% of their principal amount. For a period of twelve months beginning on June 1, 1992, the Company has the option to redeem its 9⅜% Series First Mortgage Bonds ($25 million principal amount) due 2000 at a redemption price of 102.39% of their principal amount. For a period of twelve months beginning on July 2, 1992, the Company has the option to redeem its 11% Series First Mortgage Bonds ($12 million principal amount) due 1995 at a redemption price of 102.445% of their principal amount. If existing conditions in the credit markets continue to be favorable, the Company plans to redeem one or more series of these Bonds within the redemption periods noted above.

In addition to such $52 million of optional redemptions, the Company faces modest external funding requirements related to its construction program and working capital requirements in 1992 and 1993. In order to provide these funds and to provide for other contingencies, the Company contemplates issuing a combination of long-term debt and additional shares of common stock. With regard to the debt financing, the Company has filed a petition with the Public Service Commission of the State of New York (PSC) for authorization to issue up to $125 million of Medium-term notes (which Notes can include maturities from one to 30 years). It is presently planned that the first offering of Medium-term notes will be issued in the spring of 1992, with additional Medium-term notes to be issued as required through December 31, 1993. With regard to the common stock financing, the Company has filed a petition with the PSC for

authorization to issue up to one million additional shares of common stock. The present timetable for issuance of the additional shares of common stock is late 1992 or the first half of 1993. Any cash requirements in 1992 and 1993 not met through the sale of Medium-term notes or additional shares of common stock will be met through short-term borrowings, the issuance of common stock under the Company's Automatic Dividend Reinvestment and Customer Stock Purchase Plans or by sales of accounts receivable.

SHORT-TERM DEBT AND SALE OF RECEIVABLES

As more fully discussed in Note 4 of the Notes, the Company has a revolving credit agreement with four commercial banks for borrowing up to $50 million through December 14, 1997. In addition, the Company continues to maintain confirmed lines of credit totaling $2 million with three regional banks.

As discussed in Note 8 of the Notes, the Company also has the ability to accelerate its cash flow by selling its accounts receivable from retail sales when deemed desirable.

RATE PROCEEDING – ELECTRIC

On May 17, 1991, the Company filed a request with the PSC to increase its base rates for electric service to produce additional annual revenue of $30.3 million, or 7.4%. The higher rates were requested to cover increases in operating costs, projected for the twelve-month period May 1, 1992 through April 30, 1993, that are not adequately provided for in present rates and will not be offset by increased revenues from sales.

The Company's filing was based on a return on common equity of 12.5%, an overall return on invested capital of 9.9% and a targeted cash coverage of total interest charges of 2.9 times.

On January 21, 1992 the Administrative Law Judge in this proceeding issued his Recommended Decision. Such Decision recommended additional annual revenue of $14.6 million, or 3.7%, a return on common equity of 11.25% and cash coverage of total interest charges of 2.7 times. The lower-than-requested cash coverage target resulted from the lower return on common equity and the Judge's inclusion of an additional $2.5 million of Mirror CWIP as a rate moderator. For a description of Mirror CWIP, see subcaption "Allowance for Funds used During Construction" in Note 1 of the Notes.

The Company expects a final decision in this proceeding in April 1992. The Company can make no prediction as to the PSC's final determination in this proceeding.

RATE PROCEEDING – GAS

On August 10, 1990, the Company filed a request with the PSC to increase its base rates for firm gas service to produce additional annual revenue of $6.8 million based on projected operations during the rate year comprised of the twelve months ending June 30, 1992 (Rate Year). This represented an overall increase in firm gas revenues of 9.0%.

The higher rates were requested to cover costs associated with new gas distribution facilities, increased operating expenses and higher taxes projected for the Rate Year that were not adequately provided for in present rates and would not be offset by increased revenues from sales. In its filing, the Company requested a 13.0% return on common equity and a 10.26% return on total invested capital.

On July 1, 1991, the PSC issued its Opinion and Order (Order) with regard to the Company's request. In the Order, the PSC authorized the Company to increase its base rates for firm gas service to produce additional annual revenue of $4.9 million, an increase in gas operating revenue of approximately 5.3%. The new rates became effective on July 8, 1991 and are applicable to all usage thereafter. The Order authorized a return on common equity of 11.7% and an overall rate of return for the Rate Year of 9.45%.

The Company's base gas rates were last increased in September 1985. Subsequently, the Company decreased its base gas rates in September 1987 and agreed to freeze such rates for a 40-month period, which ended on January 1, 1991.

RESULTS OF OPERATIONS

The following discussion and analysis includes an explanation of significant changes in revenues and expenses during the years 1989, 1990 and 1991. Additional information relating to changes between these years is provided in the Notes on pages 34 through 48 of this Report.

The Notes also discuss future accounting changes required by the Financial Accounting Standards Board and a number of environmental matters (see Notes 3, 7 and 9).

EARNINGS

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

	1989	1990	1991
Average shares outstanding (000's)	14,657	14,850	15,530
Earnings per share	$ 2.28	$ 2.38	$ 2.40
% increase (decrease) over prior year	(13%)	4%	1%
Return earned on common equity per books*	10.6%	10.8%	10.6%

* Return on equity for regulatory purposes differs

The 35-cent reduction in 1989 per share earnings resulted principally from moderating sales growth and expense increases not provided for in the rate-making process. Electric sales in the Company's service territory increased only 3.5% compared to the year earlier growth rate of 5.3%. Residential sales, which provide the highest operating margins, increased only 1% compared to an 8% increase in 1988. Nine Mile 2 Plant operation and maintenance expenses substantially exceeded expense levels provided for in rates. Also, subsidiary company results were lower in 1989 because 1988 results included substantial fee income and investment tax credits which were associated with the completion of two major hydroelectric projects at the end of the year.

The 10-cent per share increase in the 1990 earnings resulted primarily from the increase in base electric rates which became effective on May 24, 1990 and the very favorable relationship between sales and related production costs which the Company experienced in 1990. Sales of electricity within the Company's service territory increased 3.3% during 1990; however, electric generation and purchased power increased only 1%. Firm sales of natural gas for 1990 remained unchanged from 1989 whereas purchases of natural gas were 10% less than the prior year.

The 2-cent per share increase in the 1991 earnings reflects the following favorable results. Reduced interest charges resulting from the refinancing of high interest rate debt, increased electric base rates which became effective May 24, 1990 and favorably impacted the first half of 1991, and increased gas base rates which became effective July 8, 1991 and favorably impacted the second half of 1991. Also contributing to the increase were a reduction in the amount of fuel cost increases absorbed by the Company, an increase in the incentive provided to the Company for successful participation in its energy efficiency program and a marked improvement in the relationship between the actual cost of operating the Nine Mile 2 Plant and the amount provided for in the rate-making process. While actual costs exceeded those provided for in rates by $2.4 million and $4.8 million in 1989 and 1990, respectively, actual costs for 1991 were $492,000 less than those provided for in rates.

These favorable variations were partially offset, however, by decreased gas sales, a slow down in the rate of growth in electric sales, higher expenses related to tree trimming work, increased payroll and related fringe benefits and higher property taxes.

OPERATING REVENUES

Total operating revenues increased $31.6 million (7%) and $33.6 million (7%) in 1989 and 1990, respectively, and decreased $8.9 million (2%) in 1991. As shown in the table below, in 1989 the increase in revenues was due to increased sales of electricity both within the service territory and to other utilities and increased revenues collected pursuant to the electric and gas fuel adjustment clauses. The 1990 increase in revenues was due to increased sales of electricity, the higher electric base rates which became effective May 24, 1990 and increased revenues collected pursuant to the electric fuel cost adjustment clause. The 1991 decrease in revenues was due to decreased revenues collected pursuant to the electric fuel cost adjustment clause and decreased sales of electricity to other utilities, partially offset by higher electric and gas base rates. Details of the revenue changes are as follows:

	Increase or (Decrease) from Prior Year					
	1989*		1990*		1991	
	Electric	Gas	Electric	Gas	Electric	Gas
	(Thousands of Dollars)					
Customer sales	$ 9,169	$ 3,963	$ 13,071	$ 2,530	$ 2,503	$(2,812)
Sales to other utilities	10,662	—	(100)	—	(4,413)	—
Increases (decreases) in base rates	(1,444)	—	7,356	—	5,811	1,157
Fuel cost changes reflected in base rates	—	—	—	—	—	2,499
Fuel cost adjustment	5,072	5,929	8,691	(547)	(11,123)	(2,015)
Deferred revenues	462	(3,451)	1,235	133	(2,927)	2,293
Miscellaneous	65	1,190	371	866	411	(256)
Total	$ 23,986	$ 7,631	$ 30,624	$ 2,982	$(9,738)	$ 866

* Effective 1991, unbilled revenues previously reported as customer sales have been reclassified as miscellaneous. For comparative purposes, prior years have been restated.

The Company's electric fuel cost adjustment clause provides for a partial sharing of fuel cost variations, pursuant to an incentive/penalty formula. The program adopted by the PSC requires an 85%/15% sharing, on average, between the customers and the Company for the first $20 million of variations in actual fuel costs from the forecasted amounts which have been approved by the PSC for a specific twelve-month period. Any variations in excess of $20 million are credited or charged in total to the customers. See subcaption "Deferred Electric Fuel Costs" of Note 1 of the Notes.

The Company's base rates for electricity include an imputed amount of net revenue (gross revenues less incremental costs, principally fuel) from sales of electricity to other utilities. The PSC requires an 80%/20% sharing between customers and the Company of any variations from the imputed amount, either higher or lower. The Company reflects any credits or charges to its customers resulting from these provisions through the electric fuel cost adjustment clause. The following table sets forth the variation in actual net revenue realized from the amounts imputed; the amount charged or credited to retail customers through the electric fuel cost adjustment clause; and the amount of such net revenues retained by the Company and recognized in income:

	1989	1990	1991
		(Thousands of Dollars)	
Variation in actual net revenue from imputed amounts	$ 4,499	$ 2,337	$ (785)
Customer (charge) credit	3,599	1,870	(628)
Amount recognized by Company	$ 900	$ 467	$ (157)

The Company's largest customer is International Business Machines Corporation (IBM). For the year 1991, sales to IBM accounted for 18% of the Company's total electric revenues and 7% of its total gas revenues.

SALES

Kwh. sales of electricity within the Company's service territory increased 3.7% in 1989, 3.4% in 1990 and .7% in 1991. The decline in the growth rate from 1990 to 1991 primarily reflects the effect of a slow down in the region's economy. Firm sales of natural gas, excluding sales to the electric department, increased 3.9% in 1989 and .7% in 1990 and decreased 2.4% in 1991 (see footnote to chart below). The 1991 decrease results primarily from the unusually warm weather which occurred in the winter periods and the transfer of a large industrial customer from firm service to interruptible service. Changes in sales by major customer classification are set forth below (parentheses denote decrease):

	Electric %		
	1989*	1990*	1991
Residential	1	1	—
Commercial	4	2	1
Industrial	6	7	1

	Gas %		
	1989*	1990*	1991
Residential	1	(1)	(4)
Commercial	3	1	2
Industrial	30	12	(10)

* Effective 1991, unbilled sales have been excluded. For comparative purposes, prior years have been restated.

Residential electric sales: Residential electric sales are primarily affected by the growth in the number of customers and the change in kwh. usage per customer. Customer usage is also sensitive to weather. Changes in these components are set forth in the table below (parentheses denote decrease):

	Residential Sales %		
	1989	1990	1991
Growth in number of customers	1	1	1
Change in average usage per customer	(1)	(1)	—
Change in heating degree days	(7)	(3)	(6)

The usage per customer remained stable in 1991 as the warmer weather experienced during the winter heating season was offset by the hotter weather experienced during the summer air conditioning months.

Commercial electric sales: The commercial sales increase of 4% in 1989 and 2% in 1990 was primarily due to growth in the number of customers at a rate of 4% and 3%, respectively. Commercial sales increased 1% in 1991 primarily due to the net effect of a 2% growth in the number of customers and a 1% decrease in usage per customer.

Industrial electric sales: The 1989 industrial sales increase of 6% was primarily due to the increased usage at existing

manufacturing facilities and a full year's operation of a container manufacturer at Stewart International Airport, located in the Company's service territory, which commenced operation in July 1988. The increase in industrial electric sales of 7% in 1990 and 1% in 1991 was due primarily to increased usage by existing customers.

Gas sales – firm: The following tables set forth customer growth, changes in customer usage and heating degree days for the residential and commercial classifications. Although the changes in residential gas sales are primarily weather related, the growth in the number of customers has remained a positive factor. Commercial sales are also weather sensitive.

	Residential Sales %		
	1989	1990	1991
Growth in number of customers	2	2	1
Change in average usage per customer	—	(5)	(5)
Change in heating degree days:			
Bimonthly billing cycle	(7)	(3)	(6)
Calendar year	(4)	(15)	3

	Commercial Sales %		
	1989	1990	1991
Growth in number of customers	6	6	5
Change in average usage per customer	(4)	(4)	(3)
Change in heating degree days:			
Bimonthly billing cycle	(7)	(3)	(6)
Calendar year	(4)	(15)	3

Firm gas sales to industrial customers increased 30% in 1989, aided primarily by the opening in July 1988 of the container manufacturing company referred to above. Firm gas sales to industrial customers increased 12% in 1990, primarily due to an increase in usage by existing customers. Firm gas sales to industrial customers decreased 10% in 1991 primarily from decreased sales to existing customers and the shift of the container manufacturing company to interruptible service.

Gas sales – interruptible: Interruptible gas sales increased 31% in 1989 and 14% in 1990 and decreased 20% in 1991. The 1989 and 1990 increases resulted primarily from the changes in the competitive position of the cost of natural gas for boiler fuel usage, as compared to the cost of alternative fuel sources. The 1991 decrease in interruptible gas sales is attributable primarily to a decrease in customer usage and a shift of several customers from interruptible sales service to interruptible transportation service. Transportation service permits large volume users of natural gas to purchase gas directly from producers and wholesalers and transport the gas through the Company's distribution system. The Company has offered transportation service since 1985 but only during the last two years have several of our larger customers elected to use this service. Net revenues from transportation service are approximately equal to those net revenues from the customers who shifted from interruptible service.

NUCLEAR OPERATIONS

During 1989 and 1990 the Company's per share earnings were reduced by 11 cents and 21 cents, respectively, because the cost of operating the Nine Mile 2 Plant (NMP-2 or Plant) exceeded the amounts provided for in the rate-making process. During 1991, however, there was a marked improvement in the relationship between the actual cost of operating the Plant and the amount provided for in the rate-making process, thereby eliminating any negative impact on earnings.

During 1989 and 1990, the Plant was an immature unit not only in terms of its physical factors, but also in terms of its operating expense requirements. There had not been enough actual operating experience for the Plant to establish an adequate data base to serve as a solid foundation for making future forecasts. For example, the Company's share of the Plant's operating and maintenance expenses exceeded those provided for in rates by $4.8 million during 1990. Of this amount, $2.2 million occurred in the first five months of the year where the rate projections had been based on expense forecasts contained in a rate filing made in April 1988. Another $1.5 million was related to the substantial overrun in the expenses forecasted for the Plant's first refueling outage. Conversely, in 1991 the Plant's operating and maintenance expenses were $492,000 less than those provided for in rates. Additional operating experience, improvements made in budgeting and forecasting processes and management's efforts to control cost and staffing levels have all contributed to the reduction in operating costs. Additionally, most of the costs for the first refueling outage were incurred in 1990, while allowed revenues associated with the outage costs were not fully realized until May 1991.

The Company has continued actively to participate on the management, operations and accounting committees for the Plant and also the financial task force dealing with regulatory issues. Such participation has helped to produce better forecasts and control costs.

OPERATING EXPENSES

Changes in operating expenses from the prior year are set forth below:

	Increase or (Decrease) from Prior Year					
	1989		1990		1991	
	Amount	%	Amount	%	Amount	%
	(Thousands of Dollars)					
Operating Expenses:						
Fuel and purchased electricity	$19,716	15.6	$10,164	7.0	$(15,511)	9.9
Purchased natural gas	7,294	22.8	(387)	(1.0)	979	2.5
Other expenses of operation	1,275	1.8	2,898	4.1	4,852	6.6
Maintenance	(691)	(3.1)	5,005	23.4	2,138	8.1
NMP-2 operation and maintenance	3,393	52.2	5,243	53.1	(3,581)	(23.7)
Depreciation and amortization	3,406	10.7	790	2.2	1,096	3.0
Taxes, other than income tax	3,287	6.9	5,994	11.7	3,320	5.8
Federal income tax	(2,015)	(9.2)	2,628	13.3	157	0.7
Total	$35,665	10.0	$32,335	8.2	$ (6,550)	(1.5)

The most significant elements of cost are fuel and purchased electricity in the Electric Department and purchased natural gas in the Gas Department. Approximately 36% in 1989 and 1990, and 33% in 1991 of every revenue dollar billed in the Electric Department was expended for the combined cost of fuel used in electric generation and purchased electricity. The corresponding figures in the Gas Department for the cost of purchased gas are 59%, 56% and 56%, respectively.

In 1989, the combined cost of fuel used in electric generation and purchased electricity increased $20 million (15.6%), resulting from increased sales of electricity both within the Company's service territory and to other utilities, and higher fuel prices. In 1990, the combined cost of fuel used in electric generation and purchased electricity increased $10 million (7%) resulting from increased sales of electricity within the Company's service territory and higher fuel prices. In 1991, the combined cost of fuel used in electric generation and purchased electricity decreased $16 million (9.9%), resulting primarily from lower fuel prices.

The following table shows the average fuel cost per Kwh. for the Company's three major generating plants during the last five years:

	Average Cost (¢/Kwh.)		
	Danskammer Plant	Roseton Plant	Nine Mile 2 Plant
1987	2.42	2.91	—
1988	2.21	2.27	1.28
1989	2.27	2.56	1.17
1990	2.36	2.94	1.21
1991	2.25	2.43	.64*

* The 1991 decrease in the average cost per Kwh. for the Nine Mile 2 Plant is primarily a result of the 1991 revaluation of the Plant's remaining MBTUs in the initial load, as well as lower costs associated with the Plant's first reload which occurred in January of 1991.

In an effort to keep the cost of electricity at the lowest reasonable level, the Company purchases energy from other member companies of the New York Power Pool whenever such energy can be purchased at a unit cost lower than the incremental cost of generating the energy in the Company's plants.

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

Year	Amount of Gas Purchased – Mcf.	$/Mcf.
1987	9,420,874	3.04
1988	11,004,936	3.00
1989	12,402,848	3.22
1990	11,813,255	3.37
1991	11,640,289	3.50

The lower volumes of gas purchased during 1987 resulted from lower sales of interruptible gas.

The $1.3 million (2%) increase for 1989 in other expenses of operation was primarily due to increased charge-offs for uncollectibles, higher employee wages and related fringe benefits, increased cost of the Company's end use efficiency program, higher legal costs and increased costs associated with environmental regulatory compliance. The $2.9 million (4%) increase in other expenses of operation in 1990 is primarily due to higher employee wages and related fringe benefits, increased research and development expenses, increased charge-offs for uncollectibles and an increase in the cost for asbestos abatement. The $4.9 million (7%) increase in other expenses of operation in 1991 is primarily due to higher employee wages and related fringe benefits, an increase in major storm costs, an increase in gas department legal expenses and increased operating expenses related to the New York Power Pool.

Maintenance expenses for 1989 decreased $691,000 (3%) primarily due to a decrease in tree-trimming costs and the completion of the amortization of Sturgeon Pool Dam rehabilitation costs during 1988. Maintenance expenses increased $5.0 million (23%) in 1990 and $2.1 million (8%) in 1991 primarily due to increases in steam production expenses and tree-trimming costs. The increases in steam production

maintenance expense ($2.7 million for 1990 and $900,000 for 1991) are primarily due to increased costs for routine maintenance of the Danskammer Plant Generating Units and the costs for a major overhaul of Unit 1 at the Danskammer Plant which began in December of 1990. The 1991 increase is attributable also to a major overhaul of Unit 2 at the Roseton Generating Plant which began in October of 1991. The increased tree-trimming expenses ($1.3 million for both 1990 and 1991) resulted from the intensified program instituted by the Company in the spring of 1990 whereby the trimming cycle for all electric distribution lines was reduced from four years to three years.

The Nine Mile 2 Plant commenced commercial operation on April 5, 1988. Consequently, operating expenses, taxes and depreciation pertaining to operation subsequent to that date have been included in the Company's financial results for 1988 and all subsequent years. Many of the additional expenses were provided for through the rate-making process. However, as noted in the above discussion on Nuclear Operation, the operation and maintenance expenses for 1989 and 1990 exceeded the amounts provided for in rates by $2.4 million and $4.8 million, respectively. In 1991, however, NMP-2 operation and maintenance expenses were $492,000 less than those provided for in rates.

The Company's total provision for depreciation amounted to 3.28% in 1989, 3.24% in 1990 and 3.23% in 1991 of the original cost of average depreciable property. The ratio of the amount of accumulated depreciation to the cost of depreciable property at December 31 was 28.2% in 1989, 29.9% in 1990 and 30.9% in 1991.

State and local taxes levied on gross revenues increased $991,000 in 1989, $3.9 million in 1990 and $1.4 million in 1991. The 1990 increase was due primarily to the imposition of a 15% surcharge by the State of New York effective July 1, 1990, retroactive to January 1, 1990. In 1991, the revenue taxes were further impacted by an increase in the New York State Gross Receipt Tax Rate from 3.0% to 3.5%. Property taxes, including school taxes, increased $2.3 million, $1.5 million and $1.4 million in 1989, 1990 and 1991, respectively. Commercial operations of the Nine Mile 2 Plant accounted for $1.2 million, $391,000 and $396,000, respectively, of such increases. These two categories of taxes accounted for a substantial portion of the total increases in operating taxes.

See Note 3 of the Notes for a detailed analysis and reconciliation of the federal income tax.

OTHER INCOME AND INTEREST CHARGES

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

	1989	1990	1991
		(Thousands of Dollars)	
Nine Mile 2 Plant	$ 591	$ 910	$ 707
Iroquois Gas Pipeline interconnection	—	—	272
Other	301	770	1,231
Total	$ 892	$1,680	$2,210
AFDC rate	10.25%	10.25%	9.00%

See Note 1 of the Notes for additional information on this subject.

Total interest charges (excluding AFDC) increased $1.4 million (3%) in 1989, decreased $601,000 (1%) in 1990 and decreased $5.2 million (12%) in 1991. The following table sets forth some of the pertinent data on the Company's outstanding debt:

	1989	1990	1991
		(Thousands of Dollars)	
Long-term debt:			
New debt issued	$ —	$ —	$100,000
Debt retired	—	35,000	89,000
Outstanding at year-end:*			
Amount (including current portion)	449,208*	413,528*	423,785*
Effective rate	9.47%	8.91%	7.70%
Short-term debt:			
Average daily amount outstanding	$ 55	$ 2,048	$ 8,281
Weighted average interest rate	10.0%	8.98%	7.12%

* Including debt of subsidiaries of $5.786 million in 1989, $5.188 million in 1990 and $4.527 million in 1991.

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

Details of the 1990 and 1991 long-term debt redemptions and issuances are shown below.

Redemptions:

Series of First Mortgage Bonds	Principal Amount Redeemed	Applicable Redemption Price (% of Principal Amount)	Redemption Date	1991 Decrease in Interest Expense
13 % Series due 1992	$35,000,000	100.00%	Dec. 4, 1990	$4,221,000
14⅝% Series due 1994	$45,000,000	103.25%	June 12, 1991	3,656,000
10⅝% Series due 2005	$20,000,000	105.90%	July 1, 1991	1,063,000
10¾% Series due 2009	$20,000,000	106.40%	July 1, 1991	1,069,000
11 % Series due 1995	$ 4,000,000*	100.00%	July 2, 1991	219,000

Issuance and Sale:

Series of First Mortgage Bonds	Principal Amount	Proceeds to Company	Issuance and Sale Date	1991 Increase in Interest Expense
9¼% Series due 2021	$70,000,000	98.028%	May 14, 1991	$4,083,000
8¾% Series due 2001	$30,000,000	97.836%	May 14, 1991	1,655,000

* Sinking fund payment.

FINANCIAL INDICES

Selected financial indices for the last five years are set forth in the following table:

	1987*	1988	1989	1990	1991
Pretax coverage of total interest charges:					
Including AFDC	2.70x	2.58x	2.36x	2.46x	2.74x
Excluding AFDC	2.56x	2.53x	2.27x	2.39x	2.66x
Pretax coverage of total interest charges and preferred stock dividends	2.23x	2.14x	1.99x	2.06x	2.24x
Percent of construction expenditures financed from internal funds	53%	100%	100%	100%	88%
AFDC and Mirror CWIP as a percentage of income available for common stock	16%	5%	11%	9%	8%
Effective tax rate	42%	33%	33%	33%	33%

* For comparative purposes the effect of the Nine Mile 2 Plant disallowance under SFAS 90 has been excluded.

COMMON STOCK DIVIDENDS AND PRICE RANGES

Dividends have been paid by the Company and its principal predecessors for 88 years and the common stock of the Company has been listed on the New York Stock Exchange since 1945. The price ranges and the dividends paid for each quarterly period during the Company's last two fiscal years are indicated on page 1 of this Report.

On June 22, 1990, the Company increased the quarterly dividend to $.46 per share. The Company further increased the dividend on June 28, 1991 to $.48 per share. The Company believes the present quarterly dividend rate of $.48 per share is sustainable, barring unforeseen circumstances. In all events, the Board of Directors will continue to consider the declaration of dividends based on all the facts and circumstances known at the time of such consideration.

The number of registered holders of common stock as of December 31, 1991 was 27,503. Of these, 27,116 were accounts in the names of individuals with total holdings of 6,451,283 shares, or an average of 238 shares per account. The 387 other accounts, in the names of institutional or other nonindividual holders, for the most part hold shares for the benefit of individuals.

The Company's 4.85% Promissory Notes due December 1, 1995 contain limitations upon the right of the Company to declare or pay any dividend or make any other distribution on (other than dividends or distributions payable in common stock), or acquire, for a consideration, any shares of its common stock unless the aggregate of all such dividends, distributions and considerations since December 31, 1964 does not exceed an amount determined by a formula. At December 31, 1991, the amount of retained earnings available for dividends on the Company's common stock under the provisions of said 4.85% Promissory Notes was $39,680,000.

Report of Independent Accountants

Price Waterhouse

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

In our opinion, the accompanying consolidated balance sheet and the related consolidated statements of income, of retained earnings and of cash flows present fairly, in all material respects, the financial position of Central Hudson Gas & Electric Corporation and its subsidiaries at December 31, 1991 and 1990, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1991, in conformity with generally accepted accounting principles. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these financial statements in accordance with generally accepted auditing standards which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

Price Waterhouse

New York, New York
January 31, 1992

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

(Thousands of Dollars)

	Year ended December 31,		
	1991	1990	1989
Balance at beginning of year	$40,611	$32,324	$24,730
Net Income	42,941	41,035	39,117
	83,552	73,359	63,847
Dividends declared:			
On cumulative preferred stock	5,659	5,681	5,698
On common stock ($1.90 per share 1991; $1.82 per share 1990; $1.76 per share 1989)	29,800	27,067	25,825
	35,459	32,748	31,523
Balance at end of year	$48,093 *	$40,611	$32,324

* Pursuant to the terms of the 4.85% promissory notes, due 1995, $39,680 is available for payment of dividends on common stock.

The Notes to Consolidated Financial Statements are an integral part hereof.

CONSOLIDATED BALANCE SHEET
(Thousands of Dollars)

ASSETS

	1991	1990
Utility Plant		
Electric	$1,028,394	$ 996,477
Gas	101,212	95,711
Common	65,586	60,453
Nuclear fuel	24,638	21,260
	1,219,830	1,173,901
Less: Accumulated depreciation	371,184	344,672
Nuclear fuel amortization	15,533	12,350
	833,113	816,879
Construction work in progress	52,284	38,224
	885,397	855,103
Other Property and Investments	7,869	5,253
Current Assets		
Cash	2,980	6,442
Temporary cash investments	2,934	2,032
Special deposits	261	150
Accounts receivable from customers – net (Note 8)	41,215	41,804
Accrued unbilled utility revenues (Notes 1 and 8)	12,989	8,721
Other receivables	4,318	6,936
Materials and supplies, at average cost:		
Fuel	23,044	27,616
Construction and operating	14,398	12,966
Prepaid taxes and other prepayments	10,602	9,764
	112,741	116,431
Deferred Charges		
Deferred finance charges – Nine Mile 2 Plant (Note 1)	74,475	74,870
Deferred Roseton litigation settlement (Note 1)	1,843	2,764
Unamortized debt expense	11,914	8,114
Deferred vacation (Note 9)	3,185	3,052
Deferred Nine Mile 2 Plant litigation costs (Note 2)	4,072	3,417
Deferred energy efficiency costs (Note 1)	12,419	2,713
Other	27,213	21,813
	135,121	116,743
	$1,141,128	$1,093,530

The Notes to Consolidated Financial Statements are an integral part hereof.

DECEMBER 31, 1991 AND 1990

LIABILITIES

	1991	1990
Capitalization		
Common Stock Equity		
Common stock, $5 par value (Note 5)	$ 78,838	$ 74,755
Paid-in capital (Note 5)	239,200	223,957
Retained earnings	48,093	40,611
Capital stock expense	(5,928)	(5,736)
	360,203	333,587
Cumulative Preferred Stock (Note 5)		
Without sinking fund	61,030	61,030
With sinking fund	20,000	20,000
	81,030	81,030
Long-term Debt (Note 6)	416,030	407,638
	857,263	822,255
Current Liabilities		
Current maturities of long-term debt	5,789	5,724
Notes payable	19,000	28,000
Accounts payable	34,611	34,602
Accrued taxes	2,371	6,347
Accrued interest	7,265	7,607
Accrued vacation (Note 9)	3,378	3,245
Customer deposits	3,069	3,378
Dividends declared	8,976	8,319
Accrued pension costs (Note 7)	5,521	3,089
Other	7,338	7,064
	97,318	107,375
Deferred Credits and Other Liabilities		
Deferred finance charges – Nine Mile 2 Plant (Note 1)	59,795	60,095
Deferred Nine Mile 2 Plant litigation proceeds (Note 2)	9,198	4,230
Operating reserves	2,242	1,390
Other	10,886	7,060
	82,121	72,775
Accumulated Deferred Income Tax (Note 3)	104,426	91,125
Commitments and Contingencies (Notes 2 and 9)	—	—
	$1,141,128	$1,093,530

The Notes to Consolidated Financial Statements are an integral part hereof.

CONSOLIDATED STATEMENT OF INCOME

(Thousands of Dollars)

	Year ended December 31, 1991	1990	1989
Operating Revenues			
Electric	$404,775	$410,100	$379,376
Gas	70,615	69,749	66,767
Total – own territory	475,390	479,849	446,143
Revenues from electric sales to other utilities	19,346	23,759	23,859
	494,736	503,608	470,002
Operating Expenses			
Operation:			
Fuel used in electric generation	121,587	132,598	130,078
Purchased electricity	18,901	23,401	15,757
Purchased natural gas	39,867	38,888	39,275
Other expenses of operation	86,984	84,715	77,994
Maintenance	31,504	30,364	23,939
Depreciation and amortization (Note 1)	37,230	36,134	35,344
Taxes, other than income tax	60,554	57,234	51,240
Federal income tax (Note 3)	10,514	15,110	10,253
Deferred income tax (Note 3)	12,099	7,346	9,575
	419,240	425,790	393,455
Operating Income	75,496	77,818	76,547
Other Income and Deductions			
Allowance for equity funds used during construction (Note 1)	921	785	463
Federal income tax (Note 3)	2,454	4,198	3,646
Deferred income tax (Note 3)	(1,202)	(2,116)	(2,736)
Other – net	854	1,505	3,419
	3,027	4,372	4,792
Income before Interest Charges	78,523	82,190	81,339
Interest Charges			
Interest on mortgage bonds	25,236	29,726	30,055
Interest on other long-term debt	7,482	9,276	10,187
Other interest	2,569	1,951	1,350
Allowance for borrowed funds used during construction (Note 1)	(1,289)	(895)	(429)
Amortization of premium and expense on debt	1,584	1,097	1,059
	35,582	41,155	42,222
Net Income	42,941	41,035	39,117
Dividends on Preferred Stock	5,659	5,681	5,698
Income Available for Common Stock	$ 37,282	$ 35,354	$ 33,419
Common Stock			
Average Shares Outstanding (000's)	15,530	14,850	14,657
Earnings per Share – On Average Shares Outstanding	$2.40	$2.38	$2.28

The Notes to Consolidated Financial Statements are an integral part hereof.

CONSOLIDATED STATEMENT OF CASH FLOWS

(Thousands of Dollars)

	Year ended December 31, 1991	1990	1989
Operating Activities			
Net Income	$ 42,941	$ 41,035	$ 39,117
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation, amortization and nuclear fuel	41,367	41,105	40,306
Deferred income taxes, net	13,301	9,462	12,310
Plant Disallowance applied to Accrued Nine Mile 2 Plant Completion Costs	—	4,672	—
Allowance for equity funds used during construction	(921)	(785)	(463)
Nine Mile 2 Plant deferred finance charges, net	95	(2,668)	(2,420)
Deferred electric revenues	—	—	(551)
Provisions for uncollectibles	3,536	3,358	2,533
Other – net	(3,861)	(3,237)	1,274
Changes in current assets & liabilities, net:			
Accrued Nine Mile 2 Plant completion costs	—	(5,554)	201
Accounts receivable and unbilled utility revenues	(4,597)	(9,463)	(27,280)
Materials and supplies	3,140	(11,409)	(2,618)
Special deposits, prepaid taxes and other prepayments	(949)	474	(418)
Accounts payable	9	8,985	1,891
Accrued taxes and interest	(4,318)	1,197	1,223
Accrued pension costs	2,432	3,089	—
Other current liabilities	98	1,689	(576)
Net cash provided by operating activities	92,273	81,950	64,529
Investing Activities			
Additions to Plant	(70,907)	(50,822)	(42,086)
Allowance for equity funds used during construction	921	785	463
Net cash expenditures	(69,986)	(50,037)	(41,623)
Investment activity of subsidiaries	(1,751)	(18)	(2,016)
Plant retirements, costs of removal and other	(753)	(2,254)	(369)
Nine Mile 2 Plant decommissioning trust fund	(868)	(880)	—
Net cash used in investing activities	(73,358)	(53,189)	(44,008)
Financing Activities			
Proceeds from issuance of:			
Long-term debt	101,131	1,017	499
Common stock	19,326	4,650	3,961
Short-term debt, net	(9,000)	28,000	—
Cash provided by external sources	111,457	33,667	4,460
Retirement and redemption of long-term debt	(90,874)	(36,697)	(1,636)
Dividends paid on preferred and common stock	(34,801)	(32,314)	(31,487)
Issuance and redemption costs	(7,257)	(60)	(1,315)
Net cash used in financing activities	(21,475)	(35,404)	(29,978)
Net Change in Cash and Cash Equivalents	(2,560)	(6,643)	(9,457)
Cash and Cash Equivalents at Beginning of Year	8,474	15,117	24,574
Cash and Cash Equivalents at End of Year	$ 5,914	$ 8,474	$ 15,117
Supplemental Disclosure of Cash Flow Information			
Interest paid	$ 34,499	$ 41,077	$ 42,263
Federal income taxes paid	10,500	13,566	10,158

The Notes to Consolidated Financial Statements are an integral part hereof.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General: The Company is subject to regulation by the Public Service Commission of the State of New York (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 rate-making practices of the regulatory authorities having jurisdiction.

For purposes of the Consolidated Statement of Cash Flows, the Company considers short-term investments with a maturity of three months or less to be cash equivalents.

Principles of Consolidation: The consolidated financial statements include the accounts of the Company and its subsidiaries. All intercompany balances and transactions have been eliminated.

The Company's subsidiaries are wholly owned landholding, gas exploration, cogeneration and energy management companies. Due to immateriality, the net income of the Company's subsidiaries is reflected in the Consolidated Statement of Income as other nonoperating income – net.

Summarized financial data for the Company's subsidiaries, included in the consolidated financial statements, is as follows:

	1991	1990	1989
	(Thousands of Dollars)		
Total Assets (year-end)	$14,378	$10,731	$10,838
Net Assets (year-end)	6,140	4,945	3,965
Revenues	5,758	3,879	3,336
Net Income	195	479	357

Utility Plant: The costs of additions to utility plant and replacements of retirement units of property are capitalized at original cost. The costs of Unit No. 2 of the Nine Mile Point Nuclear Station (Nine Mile 2 Plant) are capitalized at original cost, less the amount of the disallowed investment (See Note 2). Costs include labor, materials and supplies, indirect charges for such items as transportation, certain taxes, pension and other employee benefits and an allowance for the cost of funds used during construction. Replacement of minor items of property is included in maintenance expenses.

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

The Company has a 9% or 97.2 MW interest in the 1,080 MW Nine Mile 2 Plant and a 35% or 420 MW interest in the 1,200 MW Roseton Steam Electric Generating Plant (Roseton Plant). See Note 9 for further discussion.

The Company's shares of the investment in the Nine Mile 2 Plant and the Roseton Plant, as included in its Consolidated Balance Sheet at December 31, 1991 and 1990, were:

	1991	1990
	(Thousands of Dollars)	
Nine Mile 2 Plant		
Plant in service	$301,794	$299,180
Construction work in progress	5,453	7,225
Accumulated depreciation	(27,255)	(20,529)
Roseton Plant		
Plant in service	$121,107	$118,061
Construction work in progress	1,383	1,226
Accumulated depreciation	(59,493)	(57,432)

Allowance for Funds used During Construction: The Company includes in plant costs an allowance for funds used during construction (AFDC) approximately equivalent to the cost of funds used to finance construction expenditures. The concurrent credit for the amount so capitalized is reported in the Consolidated Statement of Income as follows: the portion applicable to borrowed funds is reported as a reduction of interest charges while the portion applicable to other funds (the equity component) is reported as other income. The amount shown on the Consolidated Statement of Cash Flows for investing activities "Net cash expenditures" excludes the equity portion of the AFDC, a noncash item.

During the construction of the Nine Mile 2 Plant, the PSC authorized the inclusion in rate base of increasing amounts of the Company's investment in that Plant. The Company did not accrue AFDC on any of the Nine Mile 2 Plant construction work in progress (CWIP) which was included in rate base and for which a cash return was being allowed; however, the PSC ordered, effective January 1, 1983, that amounts be accumulated in deferred debit and credit accounts equal to the amount of AFDC which was not being accrued on the CWIP included in rate base (Mirror CWIP). The balance in the deferred credit account is available to reduce future revenue requirements over a period substantially shorter than the life of the Nine Mile 2 Plant, while the balance in the deferred debit account is being recovered through amortization over the life of that Plant. The net effect of this procedure is that at the end of the amortization period for the deferred credit, the accounting and rate-making treatment will be the same as if the Nine Mile 2 Plant CWIP had not been included in rate base during the construction period.

Depreciation and Amortization: For financial statement purposes, the Company's depreciation provisions are computed on the straight-line method using rates based on studies of the estimated useful lives and estimated net salvage of properties. The provision for depreciation of transportation equipment is charged indirectly to various asset and expense accounts.

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

Amortization of Nuclear Fuel: The cost of the Nine Mile 2 Plant nuclear fuel assemblies and components is amortized to operating expenses based on the quantity of heat produced for the generation of electric energy. Niagara Mohawk Power Corporation (Niagara Mohawk), on behalf of the Nine Mile 2 Plant cotenants, has entered into an agreement with the U.S. Department of Energy for the ultimate disposal and storage of spent nuclear fuel. The cotenants are assessed a fee for such disposal based upon the kilowatt-hours actually generated by the Nine Mile 2 Plant. These costs are charged to operating expense and recovered from customers through base rates or through the electric fuel cost adjustment clause described below. The Company cannot now determine whether such arrangements with the U.S. Department of Energy will ultimately provide for the satisfactory permanent disposal of such waste products.

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

Revenues are recognized on the basis of cycle billings rendered monthly or bimonthly. Estimated revenues are accrued for those customers billed bimonthly whose meters are not read in the current month. Moreover, as a result of a gas rate Order of the PSC issued in July 1991, an additional amount of unbilled revenues for gas customers is recorded in a deferred credit account. This additional amount of unbilled revenue is available to reduce future revenue requirements. In such Order, the PSC authorized $1.2 million of this additional revenue to be amortized over a 36-month period. During the six-month period July through December 1991, the Company recognized $197,000 of such revenue.

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

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

Pursuant to a 1985 Order of the PSC, the Company's electric fuel cost adjustment clause provides for a partial sharing of variations in fuel costs from the levels of fuel costs projected in rate proceedings. The Company bears 20% of the first $10 million of variation and 10% of the second $10 million of variation. The partial sharing applies to variations in actual fuel costs either above or below the projected levels; accordingly, the Company's maximum annual exposure, or benefit, is $3 million, before taxes.

As a result of the adoption of the partial sharing electric fuel adjustment clause, the PSC adopted a symmetrical sharing arrangement for net revenues from sales to other utilities. Shortfalls below the imputed amount, as well as amounts above the imputed amount, will be shared 80% by the customers and 20% by the Company.

Deferred Gas Costs: In accordance with requirements of the PSC applicable to all New York State regulated gas utilities, the Company defers each month any difference between the amount of gas costs incurred which is recoverable through the gas fuel cost adjustment clause (GAC) and GAC revenues. The net deferral remaining at August 31 of each year is amortized over a subsequent twelve-month period for both billing and accounting purposes. See Note 9 – Commitments and Contingencies – "Take-or-Pay Gas Costs" as to deferral of certain contract take-or-pay costs charged by pipeline suppliers of gas.

Deferred Electric Revenues: On occasion, revenues which are billed over a twelve-month rate year are designed to cover specific expenses which are projected to be incurred during the latter part of the rate year. Although there will be a matching of revenues and costs in the rate year there can be a mismatching of revenues and costs within calendar years. If the amount of the projected mismatch is material, the Company may petition the PSC to defer any revenues collected prior to the time the associated expenses are incurred and to restore such deferred revenues at the time the expenses are incurred. Such deferred accounting provides a better matching of revenues and costs during calendar years.

Energy Efficiency Programs: The PSC has required utilities to adopt comprehensive long-range planning which includes an energy conservation component (Energy Efficiency Program). In response to the PSC's directives, the Company's 1991 and 1992 Energy Efficiency Program was filed with and substantially approved by the PSC. The Energy Efficiency Program is intended to achieve an overall reduction in the Company's summer peak load demand of 8%.

For both rate-making and accounting purposes, the Energy Efficiency Program costs are deferred and amortized over five years.

Roseton Plant Litigation Settlement: During 1983, the Company and the two other co-owners of the Roseton Plant

reached a settlement to recover damages for alleged negligence in the design and construction of the Roseton Plant by certain contractors which resulted in a boiler implosion. The $1.8 million amount recorded at December 31, 1991 in deferred charges represents the Company's 35% interest in the remaining balance of the $26.3 million settlement to be received over a ten-year period that commenced in 1984.

NOTE 2 – NINE MILE 2 PLANT

General: The Nine Mile 2 Plant is located in Oswego County, New York, and is operated by Niagara Mohawk. The Nine Mile 2 Plant is owned as tenants in common by the Company (9% interest), Niagara Mohawk (41% interest), New York State Electric & Gas Corporation (18% interest), Long Island Lighting Company (18% interest) and Rochester Gas and Electric Corporation (14% interest). The output of the Nine Mile 2 Plant which has a rated net capability of 1,080 MW is shared, and the operating expenses of the Plant are allocated to the cotenants, in the same proportions as the cotenants' respective ownership interests. The Company's share of direct operating expense for the Nine Mile 2 Plant is included in the appropriate expense classification in the accompanying Consolidated Statement of Income.

An Interim Operating Agreement for the operation of the Plant was entered into by the cotenants in August 1989 and was approved by the PSC in September 1990. Under that Agreement, Niagara Mohawk continues as operator of the Nine Mile 2 Plant but all five owners share certain policy, budget and managerial oversight functions. The Interim Operating Agreement expires on February 22, 1992. It is expected that the Interim Operating Agreement will be extended by the cotenants in its current form prior to such expiration date.

Cost Settlements: In September 1986, the PSC approved a settlement (1986 Settlement) arising out of a PSC proceeding to determine the amount of expenditures incurred in the construction of the Nine Mile 2 Plant which should not be allowed to be recovered through rates. In 1987, the Company wrote off $169.3 million, on an after-tax basis, as a result of the 1986 Settlement, which amount was based on an estimate of the Company's share of the disallowance. Subsequently, issues arose regarding the 1986 Settlement.

By order issued and effective March 1991, the PSC approved a further settlement agreement (1990 Settlement Agreement) relating to the Nine Mile 2 Plant. The 1990 Settlement Agreement brings to a close all outstanding issues related to the cost of construction of the Nine Mile 2 Plant, its operation through January 19, 1990 and the 1986 Settlement. The 1990 Settlement Agreement does not require any adjustment to the amount of the disallowed investment written off by the Company in 1987. The 1990 Settlement Agreement also provides for the treatment and handling of future Nine Mile 2 Plant operation and maintenance expenses.

Plant Dispute and Litigation Settlements: The cotenants entered into settlement agreements with the following parties, on the dates indicated, regarding disputes and litigations that arose in connection with the construction of the Nine Mile 2 Plant: (i) the General Electric Company, dated January 26, 1989; (ii) Gulf + Western, Inc., Crosby Valve & Gage Company and Wickes Manufacturing Company, dated May 11, 1990; and (iii) Stone & Webster Engineering Corporation, dated March 7, 1991. Each agreement provides for settlement, mutual releases and confidential treatment of the agreement. The Company regards each of the agreements as a favorable settlement.

Pursuant to the 1990 Settlement Agreement, all proceeds from the settlement with the General Electric Company in excess of legal costs incurred in connection with such settlement were to be shared equally between the Company's shareholders and ratepayers. The full amount of the shareholders' portion was included as a credit in computing the Company's share of the disallowance resulting from the 1990 Settlement Agreement and, accordingly, has already been accounted for.

The 1990 Settlement Agreement also provides that all proceeds from the settlements of the Gulf + Western, Inc., Crosby Valve & Gage Company and Wickes Manufacturing Company case, the Stone & Webster Engineering Corporation case and from the pending litigation referred to in the next subsection (Pending Plant Litigation) in excess of the combined litigation costs of such settlements and pending litigation will be shared equally between the Company's shareholders and ratepayers. If, however, the combined costs of the litigation associated with such settlements and the pending plant litigation exceed the combined proceeds recovered from such settlements and such pending litigation, the excess costs will be borne solely by shareholders. At December 31, 1991, the gross proceeds from such settlements were recorded as a deferred credit and the costs of such pending litigation were recorded as a deferred debit. The net proceeds at December 31, 1991 were $5.126 million.

Pending Plant Litigation: Action is pending with regard to a complaint filed by the cotenants in August 1988 against ITT Fluid Products Corporation and ITT Fluid Technology Corporation, successor companies to ITT Grinnell, which fabricated and erected piping for the Nine Mile 2 Plant. The Company cannot predict whether the action will be successful or the amount of damages, if any, which may be recovered.

Operational Matters:

NRC Monitoring: In December 1988, the Nuclear Regulatory Commission (NRC) categorized the Nine Mile 2 Plant as requiring close monitoring. The NRC's conclusion was based upon its assessment of the performance of the Nine Mile 2 Plant during its first year of operation. On June 20, 1991, Niagara Mohawk announced that the NRC had removed the Nine Mile 2 Plant from its list of plants that require close scrutiny. The NRC indicated that sufficient improvement had been made by Niagara Mohawk such that close monitoring was no longer necessary.

On June 14, 1991 the NRC released the report of the latest systematic assessment of licensee performance (SALP) review of the Nine Mile Point Nuclear Station (includes both Unit No. 1 and Unit No. 2) for the period March 1990 through March 1991. Of the seven functional areas reviewed, the three which were classified in the SALP report received in the spring of 1990 as category 3, the lowest ranking under SALP (representing acceptable, although minimally adequate, safety performance), were upgraded to category 2 (representing a satisfactory level of performance). The other four functional areas which were addressed in the 1990 SALP report remained unchanged at category 2 or better. The SALP report cited an overall improvement by Niagara Mohawk during the assessment period.

Low-Level Radioactive Waste: The Federal Low-Level Radioactive Waste Policy Act as amended in 1985 required states to join compacts or individually develop their own low-level radioactive waste burial site. In response to the federal law, New York State decided to develop its own site because of the large volume of low-level radioactive waste it generates.

New York State narrowed its selection to five potential low-level radioactive waste disposal sites in September 1989. On January 1, 1990, Governor Cuomo certified that all of New York State's low-level radioactive waste will be managed by January 1, 1993. This certification requires that all nuclear power plants in New York State store their low-level radioactive waste on site from January 1, 1993 until the end of 1995, by which time an interim storage facility is to be constructed at the site of the permanent low-level radioactive waste site. Recent problems with the Siting Commission in obtaining on-site precharacterization of the five sites, because of public opposition, could delay the site development activities and require additional on-site storage until 1998 at the earliest. A low-level radioactive waste management program and contingency plan are currently ongoing to provide assurance that the Nine Mile 2 Plant will be properly prepared to handle interim storage of low-level radioactive waste until 1998.

Other: The PSC can institute proceedings to review plant outages and has the authority to impose penalties associated with replacement power costs incurred during such outages to the extent that they are determined to have been imprudently prolonged.

The first refueling outage for the Nine Mile 2 Plant commenced on September 5, 1990. On January 30, 1991, the Nine Mile 2 Plant was returned to commercial operation. The next scheduled refueling outage for the Nine Mile 2 Plant is expected to begin on February 29, 1992.

During the first refueling outage, a nozzle-to-pipe weld was identified as having a possible defect. Niagara Mohawk had agreed with the NRC to perform a reinspection within five to nine months following that refueling outage. Niagara Mohawk has advised the Company that the reinspection was performed in 1991 and no corrective actions were required.

Nuclear Plant Decommissioning Costs: NRC regulations require the direct funding of eventual decommissioning costs of nuclear facilities. The Company, effective as of March 1, 1990, established a master trust in order to comply with these NRC requirements. Included in such trust is a fund qualified under the applicable provisions of the federal tax law (Qualified Fund) which, based on receipt of a favorable ruling from the Internal Revenue Service, dated July 19, 1990, will enable the Company to take advantage of certain federal income tax benefits available to such Qualified Funds.

Certain estimated decommissioning costs for the Nine Mile 2 Plant are currently being recovered in rates through an annual allowance and charged to operations through depreciation charges. The Company's 9% share of costs to decommission the Nine Mile 2 Plant, which is expected to begin in the year 2027, is estimated to be approximately $118.5 million ($21.7 million in 1991 dollars), based on an estimate included in the decommissioning plan filed with the NRC on July 18, 1990. The annual allowance for recovery during the period August 1, 1988 through May 31, 1990 was $324,000. Effective June 1, 1990, the PSC authorized recovery, on an annual basis, of $212,000 for internal decommissioning funding (i.e., funds held by the Company) and $787,000 for external decommissioning funding (i.e., funds held in trust). The external decommissioning trust fund at December 31, 1991 amounted to $1.748 million, which is reflected in the Company's Consolidated Balance Sheet in "Other Property and Investments."

The Company cannot now determine whether the decommissioning costs presently allowed in rates by the PSC, or the estimated costs contained in the plan filed with the NRC, will ultimately be adequate to decommission the Nine Mile 2 Plant in accordance with then existing law, regulation, technology and/or costs. The Company believes that decommissioning costs, if higher than currently estimated, will ultimately be recovered in the rate-making process, although no such assurance can be given.

NOTE 3 – FEDERAL INCOME TAX

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

Components of Federal Income Tax: The following is a summary of the components of federal income tax as reported in the Consolidated Statement of Income:

	1991	1990	1989
		(Thousands of Dollars)	
Charged to operating expense:			
Federal income tax	$10,514	$15,110	$10,253
Deferred income tax	12,099	7,346	9,575
Income tax charged to operating expense	22,613	22,456	19,828
Charged (credited) to other income and deductions:			
Federal income tax	(2,454)	(4,198)	(3,646)
Deferred income tax	1,202	2,116	2,736
Income tax charged (credited) to other income and deductions	(1,252)	(2,082)	(910)
Total federal income tax	$21,361	$20,374	$18,918

Reconciliation: The following is a reconciliation between the amount of federal income tax computed on net income before taxes at the statutory rate and the amount reported in the Consolidated Statement of Income:

Net income	$42,941	$41,035	$39,117
Federal income tax	8,060	10,912	6,607
Deferred income tax	13,301	9,462	12,311
Income before taxes	$64,302	$61,409	$58,035
Computed tax @ 34% statutory rate	$21,863	$20,879	$19,732
Increase (decrease) to computed tax due to:			
Tax depreciation	(12,171)	(11,704)	(13,337)
Cost of removal	(1,229)	(704)	(586)
Deferred electric fuel costs	1,221	(872)	(428)
Deferred energy efficiency costs	(2,789)	(779)	431
Pension expense	1,128	750	—
Alternative minimum tax	3,493	3,237	2,650
Unbilled revenues	(1,510)	1,376	1,458
Other	(1,946)	(1,271)	(3,313)
Federal income tax	8,060	10,912	6,607
Deferred income tax	13,301	9,462	12,311
Total federal income tax	$21,361	$20,374	$18,918
Effective tax rate	33%	33%	33%

Deferred Income Tax: The following is a summary of the components of deferred income tax:

Tax depreciation	$15,290	$14,725	$17,589
Investment tax credit	(1,381)	(1,382)	(1,200)
Deferred electric fuel costs	(1,221)	872	428
Deferred energy efficiency costs	2,789	779	(431)
Pension expense	(1,128)	(750)	—
Alternative minimum tax	(3,493)	(3,237)	(2,650)
Unbilled revenues	1,510	(1,376)	(1,637)
Other	935	(169)	212
Deferred income tax	$13,301	$ 9,462	$12,311

In December 1987, the Financial Accounting Standards Board (FASB) issued SFAS No. 96, "Accounting for Income Taxes" (SFAS 96). This Statement requires a company to adjust its deferred tax balances, adhering to enacted tax laws, to reflect an estimate of its future tax liability based on temporary differences between book and tax bases.

Based on the studies it has performed to date, the Company estimates that the cumulative net amount of income tax timing differences for which deferred income taxes have not been provided was approximately $118 million at December 31, 1991. Based upon the Company's present understanding of SFAS 96, such differences would have no immediate effect on its results of operation, but would result in recognition on the balance sheet of additional amounts of income taxes to be paid in the future. SFAS 96 must be adopted not later than the first quarter of 1993. The FASB intends to issue a Statement in 1992 which will supersede SFAS 96. The Company believes that the issuance of this Statement will have no material effect on the above estimate. The Company believes that the final Statement adopted will be considered in the rate-making process and will therefore not have a significant impact on the Company's results of operations.

NOTE 4 – SHORT-TERM BORROWING ARRANGEMENTS

The Company has in effect a revolving credit agreement with four commercial banks which allows it to borrow up to $50 million through December 14, 1997 (Agreement). The Agreement gives the Company the option of borrowing at either the prime/federal funds rate, or three other money market rates if such rates are lower. The Agreement also provides for the payment of an annual commitment fee of 1/16 of 1% per annum on the unborrowed amount and a facility fee of 1/8 of 1% per annum on the total amount of the facility. Compensating balances are not required under the Agreement. There were no outstanding loans under this Agreement at December 31, 1991 or 1990. In addition, the Company continues to maintain confirmed lines of credit totaling $2 million with three regional banks.

The amount of outstanding short-term debt at December 31, 1991 and 1990 was $19 million and $28 million, respectively, consisting of commercial paper. All commercial paper obligations are supported by credit agreements maintained with the banks.

NOTE 5 – CAPITALIZATION – CAPITAL STOCK

Common Stock, $5 par value; 30,000,000 shares authorized:
Paid-In Capital:

	Common Stock		Paid-In Capital ($000)
	Shares Outstanding	Amount ($000)	
January 1, 1989	14,563,381	$ 240,034	$ 50,067
Issued under dividend reinvestment plan	170,078	1,607	2,166
Issued under customer stock purchase plan	7,889	39	149
Transferred to paid-in capital	—	(167,973)	167,973
December 31, 1989	14,741,348	73,707	220,355
Issued under dividend reinvestment plan	179,323	897	3,067
Issued under customer stock purchase plan	30,285	151	535
December 31, 1990	14,950,956	74,755	223,957
Issued through public offering	600,000	3,000	10,788
Issued under dividend reinvestment plan	181,073	905	3,701
Issued under customer stock purchase plan	35,628	178	754
December 31, 1991	15,767,657	$ 78,838	$239,200

Cumulative Preferred Stock, $100 par value; 1,200,000 shares authorized:

	Series	Redemption Price Current	Redemption Price Through	Redemption Price Eventual Minimum	Shares Outstanding December 31, 1991 and 1990
Without Sinking Fund:					
	4 ½%	$107.00	—	$107.00	70,300
	4.75%	106.75	—	106.75	20,000
	4.35%	102.00	—	102.00	60,000
	4.96%	101.00	—	101.00	60,000
	7.72%	101.00	—	101.00	130,000
	7.44%	103.08	1/31/93	101.22	120,000
	8.40%	102.80	5/31/92	101.00	150,000
					610,300
With Sinking Fund:					
	A	103.00	3/31/93	100.00	200,000
Total					810,300

The cumulative preferred stock, without sinking fund, is redeemable only at the option of the Company and the sum payable per share is the then current redemption price plus accrued dividends thereon. In the event of involuntary liquidation, the redemption price is $100 per share plus accrued dividends.

The cumulative preferred stock, with sinking fund, provides for the annual retirement of 8,000 shares, at $100 per share, plus accrued dividends, on each March 30, commencing March 30, 1993. The dividend to be paid will be adjusted each quarter and will be declared at a rate which is 1% per annum below the highest of three specific U.S. Treasury Rates. The rate will never be less than 6% or greater than 12.5% per annum. The adjusted rates applied for each quarter of 1991 ranged between 7.40% and 7.96%, compared with the range of 7.16% and 8.20% experienced during 1990 and 7.36% to 8.36% experienced during 1989.

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

NOTE 6 – CAPITALIZATION – LONG-TERM DEBT

Details of long-term debt are shown below:

Series	Maturity Date	December 31, 1991	December 31, 1990
		(Thousands of Dollars)	
First Mortgage Bonds (Net of Sinking Fund requirements):			
14 5/8%	June 12, 1994	$ —	$ 45,000
8 1/8%	September 1, 1994	50,000	50,000
11 %	July 2, 1995	12,000	16,000
7 1/8%	January 15, 1999	20,000	20,000
9 3/8%	June 1, 2000	25,000	25,000
8 3/4%	May 1, 2001	30,000	—
7 3/4%	February 1, 2002	20,000	20,000
9 1/4%	April 15, 2004	15,000	15,000
10 5/8%	November 1, 2005	—	20,000
6 1/4%	June 1, 2007	4,500	4,500
10 3/4%	September 15, 2009	—	20,000
9 1/4%	May 1, 2021	70,000	—
8.375%	December 1, 2028	16,700	16,700
		263,200	252,200
Promissory Notes issued in connection with the sale by the New York State Energy Research and Development Authority (NYSERDA) of tax-exempt pollution control revenue bonds:			
1984 Series A	October 1, 2014	16,700	16,700
1984 Series B	October 1, 2014	16,700	16,700
1985 Series A	November 1, 2020	36,250	36,250
1985 Series B	November 1, 2020	36,000	36,000
1987 Series A	June 1, 2027	33,700	33,700
1987 Series B	June 1, 2027	9,900	9,900
		149,250	149,250
Promissory Notes (net of sinking fund requirements):			
4.85%	December 1, 1995	2,726	2,808
Secured Notes Payable of Subsidiary		2,820	3,546
Unamortized Premium (Discount) on Debt – Net		(1,966)	(166)
	Total long-term debt	$416,030	$407,638

Reference is made to "Management's Discussion and Analysis of Financial Condition and Results of Operations" for information regarding the amounts of long-term debt maturing within the next five years.

On May 14, 1991, the Company issued and sold $70 million aggregate principal amount of First Mortgage Bonds, 9 1/4% Series due 2021, and $30 million aggregate principal amount of First Mortgage Bonds, 8 3/4% Series due 2001 (collectively, the Bonds). The net proceeds from the sale of the Bonds were applied toward the optional redemption of a total of $85 million principal amount of the Company's First Mortgage Bonds as follows:

Series of First Mortgage Bonds	Principal Amount Outstanding and Redeemed	Applicable Redemption Price (% of Principal Amount)	Redemption Date
14 5/8% Series due 1994	$45,000,000	103.25%	June 12, 1991
10 5/8% Series due 2005	$20,000,000	105.90%	July 1, 1991
10 3/4% Series due 2009	$20,000,000	106.40%	July 1, 1991

In addition, on July 2, 1991, a portion of such proceeds was applied to the mandatory sinking fund redemption of $4 million principal amount of First Mortgage Bonds, 11% Series due 1995. The balance of such net proceeds was temporarily invested in short-term instruments, or was deposited in the Company's bank account, pending expenditure for the Company's construction program and other corporate purposes.

The NYSERDA Pollution Control Revenue Bonds, Series A and B, issued in 1984, bore interest at 7 ½% per annum through September 30, 1989. Effective October 1, 1989, the Company exercised its one-time option to convert each series to a long-term rate fixed at 7.375%.

The NYSERDA Pollution Control Revenue Bonds, Series A and B, issued in 1985 and 1987 are variable rate obligations subject to weekly repricing and investor tender. The Company has the right, exercisable independently in respect of each series of the 1985 and 1987 NYSERDA Pollution Control Revenue Bonds, to convert the Bonds of each such series to a fixed rate for the remainder of their term.

The Company has irrevocable letters of credit which the Company anticipates being able to extend if the interest rate on the related series of NYSERDA Pollution Control Revenue Bonds is not converted to a fixed interest rate. Those letters of credit support certain payments required to be made on such Bonds.

In its rate orders, the PSC has provided for full recovery of the interest costs on the Company's 1985 and 1987 Series A and B Promissory Notes which were issued in connection with the sale of certain NYSERDA Pollution Control Revenue Bonds. Such Bonds bear interest at variable rates set weekly. Deferred accounting has been granted by the PSC for any variation (above or below) between actual interest rates and those interest rates allowed for rate-making purposes. Such deferred balances are to be disposed of in future rate cases.

Expenses incurred on debt issues and any discount or premium on debt are deferred and amortized over the lives of the related issues. Expenses incurred on debt redemptions prior to maturity have been deferred and are generally being amortized over the remaining lives of the related extinguished issues as directed by the PSC.

Secured notes payable of a subsidiary of the Company consist of term loans to finance the installation of energy conservation equipment at various host facilities, located primarily in the New England states. The majority of such loans accrue interest at the prime lending rate plus ¾ of 1% and interest and principal are amortized in equal installments over the term of each respective contract. Such loans are secured principally by certain power purchase agreements and project assets.

NOTE 7 – POSTEMPLOYMENT BENEFITS

Retirement Income Plan: The Company has a noncontributory retirement income plan (Plan) covering substantially all of its employees. The Plan provides pension benefits that are based on the employee's compensation and years of service. It has been the Company's practice to provide periodic updates to the benefit formula stated in the Plan.

The Company's funding policy is to make annual contributions equal to the amount of net periodic pension cost, but not in excess of the maximum allowable tax-deductible contribution nor less than the minimum requirement under the Employee Retirement Income Security Act of 1974.

Approximately 72% of the cost for the year 1991 and 73% for both years 1990 and 1989 were charged to expense. The allocation of pension costs between capital and expense follows the payroll distribution.

Net periodic pension cost for 1991 and 1990 includes the following components:

	1991	1990
	(Thousands of Dollars)	
Service cost – benefits earned during the period	$ 3,780	$ 4,205
Interest cost on projected benefit obligation	12,140	10,991
Actual return on Plan assets	(43,296)	2,454
Net amortization and deferral	29,808	(14,561)
Net periodic pension cost	$ 2,432	$ 3,089

The following table sets forth the Plan's funded status at September 30, 1991 and 1990:

	1991	1990
	(Thousands of Dollars)	
Actuarial present value of benefit obligations:		
Accumulated benefit obligation, including vested benefits of $127,016 and $125,118	$128,681	$ 127,407
Projected benefit obligation for service rendered to date	$160,536	$ 152,312
Plan assets at market value	198,719(a)	164,108
Excess of Plan assets over projected benefit obligation	38,183	11,796
Unrecognized net (gain)	(38,543)	(11,075)
Prior service cost not yet recognized in net periodic pension cost	1,352	3,338
Unrecognized net asset being amortized over 15 years	(6,513)	(7,148)
Pension liability recognized in the Balance Sheet (b)	$ (5,521)	$ (3,089)

(a) At the valuation date, approximately 98% of the Plan's assets were invested in equities and bonds. The remainder was invested primarily in convertible securities and real estate.

(b) The Plan is deemed to be fully funded for federal income tax purposes, therefore, the Company did not make any contributions to the Plan during 1991 or 1990.

The weighted average discount rate used in determining the actuarial present value of the projected benefit obligations under the Plan was 8% for 1991 and 1990. The rate of future compensation levels utilized was 6½% and 7½%, for 1991 and 1990, respectively. The expected long-term rate of return on Plan assets was 9½% for 1991 and 9% for 1990.

Other Postemployment Benefits: In addition to providing pension benefits, the Company provides certain health care and life insurance benefits for retired employees. Substantially all of the Company's employees may become eligible for these benefits if they reach retirement age while working for the Company. These and similar benefits for active employees are provided through insurance companies whose premiums are based on the benefits paid during the year. The cost of providing these benefits was $8.170 million for 1991, $6.512 million for 1990 and $5.747 million for 1989. The cost of providing retirees with these benefits is not separable from the cost of providing those benefits for the active employees.

In December 1990, the FASB issued SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other than Pensions" (SFAS 106), which must be adopted not later than the first quarter of 1993. This Statement requires that an employer's obligation for postretirement benefits expected to be provided to or for an employee be fully accrued by the date that the employee attains full eligibility for all benefits expected to be received by that employee, any beneficiaries and covered dependents, even if the employee is expected to render additional service beyond that date. Currently, the Company records the costs of providing such benefits when paid. The Company estimates unfunded accumulated postretirement benefit obligations other than pensions may range between $50 million and $70 million in the year of adoption depending primarily upon health care cost assumptions utilized in measuring the liability. The additional annual expense, using the same cost assumptions, may range from $8 million to $12 million. The range of health care cost trend utilized is an ultimate 5% to 7% rate. The assumed rates in the early years range from 14% to 16% and trend down to the ultimate rate over time. Recognition of net periodic postretirement benefit cost during the years that employees render necessary service will increase the annual expense from that currently recorded on a cash basis. The Company believes that the increased costs resulting from the adoption of SFAS 106 would be recovered through the normal regulatory process; however, the PSC has not yet issued an order regarding the proper accounting and rate-making treatment for such costs.

NOTE 8 – SALE OF RECEIVABLES AND RESERVE FOR UNCOLLECTIBLE ACCOUNTS

The Company has a program to sell on a daily basis, without recourse, its accounts receivable from retail customers. Such program provides the Company with the ability to receive cash immediately for such receivables and thereby reduce its working capital requirements. The amount of the outstanding receivables sold as of December 31, 1991, 1990 and 1989 were $3.2 million, $8.2 million and $11.8 million, respectively. The average daily amount of accounts receivable sold was $8.3 million in 1991, $5.1 million in 1990 and $11.9 million in 1989, and the weighted average discount rate was 6.68% for 1991, 8.09% for 1990 and 9.32% for 1989.

The costs associated with the sale of receivables are charged to operating expense and amounted to $600,000 in 1991, $400,000 in 1990 and $1.1 million in 1989.

The Company had an uncollectible reserve balance of $1.1 million at December 31, 1991 and $950,000 at December 31, 1990.

NOTE 9 – COMMITMENTS AND CONTINGENCIES

Roseton Plant: The Company currently has a 35% undivided interest in the ownership and output of the 1,200 MW Roseton Plant. The Company is acting as agent for the cotenant owners with respect to operation of the Roseton Plant. Generally, the owners share the costs and expenses of the operation of the Roseton Plant in accordance with their respective ownership interests. The Company's share of direct operating expense for the Roseton Plant is included in the appropriate expense classification in the accompanying Consolidated Statement of Income.

The Company has the option to purchase the interests of Niagara Mohawk (25%) and of Consolidated Edison Company of New York, Inc. (40%) in the Roseton Plant in December 2004. Exercise of such option is subject to the approval of the PSC.

The Company's option to purchase the 25% interest of Niagara Mohawk in the Roseton Plant in December 2004 is subject to several qualifications. In order to make provision for anticipated requirements for additional generating capacity commencing in the mid-1990s, the Company and Niagara Mohawk have entered into an agreement (Amendment) revising the option which the Company has to buy Niagara Mohawk's interest in the Roseton Plant. Pursuant to the Amendment, Niagara Mohawk will sell to the Company a 2.5% interest in the Roseton Plant on December 31, 1994 and on each succeeding December 31, through and including December 31, 2003, which will be all of Niagara Mohawk's interest in the Roseton Plant. In exchange, Niagara Mohawk will have the option to repurchase from the Company up to a 25% interest in the Roseton Plant in December 2004. The prices for the purchases will be based on the depreciated book cost of the Roseton Plant assuming straight-line amortization to provide for a fully amortized facility as of December 31, 2009. Pursuant to the Amendment, the Company also was granted the option to repurchase Niagara Mohawk's interest in that Plant when that Plant reaches the end of its physical life. The Amendment is subject to the approval of the PSC.

By joint petition filed with the PSC on February 29, 1988, the Company and Niagara Mohawk requested the PSC to approve the transfers of interests in the Roseton Plant contemplated by the Amendment. On July 19, 1988, the PSC issued an order establishing a proceeding to consider such joint petition. Among the issues identified by the PSC for consideration in such proceeding are (i) the relationship to such transfers of the process for bidding for additional capacity, set forth in a June 1988 PSC order applicable to the major New York State electric utilities, (ii) the potential for demand side management as an alternative to the transfers contemplated by the Amendment and (iii) certain technical, accounting and forecasting issues regarding the information and studies submitted by the Company and Niagara Mohawk in support of the joint petition.

In May 1989, the Company and the PSC Staff reached a Stipulation Agreement indicating that, giving consideration to expected demand side management activities, the proposed transfers of interest in the Roseton Plant were one alternative which would meet the Company's future needs for power. The Company has issued a Request for Proposals (RFP) for alternative power supply arrangements approximating the capacity reflected in the proposed transfers of interest in the Roseton Plant, so as to test the reasonableness of such proposed transfers from Niagara Mohawk. The Company is currently reviewing the bids received in response to the RFP and cannot yet determine how such bids compare to the proposed transfers of interest. The Company cannot predict what action the PSC may ultimately take in connection with the joint petition for the approval of such transfers.

Construction Program: Reference is made to "Management's Discussion and Analysis of Financial Condition and Results of Operations" for information regarding the Company's construction program for the five-year period 1992-1996.

Nuclear Liability and Insurance: The Price-Anderson Act is a federal law which limits the public liability which can be imposed in respect of a nuclear incident at a licensed nuclear electric generating facility. Such Act also provides for assessment of owners of all licensed nuclear units in the United States for losses in excess of certain limits due to a nuclear incident at any such licensed unit. Under the provisions of the Price-Anderson Act, the Company's potential assessment (based on its 9% ownership interest in the Nine Mile 2 Plant and assuming that the other Nine Mile 2 Plant cotenants were to contribute their proportionate shares of the potential assessments) would be $5.67 million (subject to adjustment for inflation) and the Company could be assessed $283,500 (subject to adjustment for inflation) in respect to an additional surcharge, but would be limited to a maximum assessment of $900,000 in any year with respect to any nuclear incident. The public liability insurance coverage of $200 million required under the Price-Anderson Act for the Nine Mile 2 Plant is provided through Niagara Mohawk.

The Company also carries insurance to cover the additional costs of replacement power (under a Business Interruption and/or Extra Expense Insurance Policy) incurred by the Company in the event of a prolonged accidental outage of the Nine Mile 2 Plant. This insurance arrangement provides for payments of up to $463,000 per week if the Nine Mile 2 Plant experiences a continuous accidental outage which extends beyond 21 weeks. Such payments will continue for 52 weeks after expiration of the 21-week deductible period, and thereafter the insurer shall pay 67% of the weekly indemnity for a second 52-week period and 33% for a third 52-week period. Subject to certain limitations, the Company may request prepayment, in a lump sum amount, of the insurance payments which would otherwise be paid to it in respect of said third 52-week period, calculated on a net present value basis.

The Company is insured as to its respective interest in the Nine Mile 2 Plant under property damage insurance provided through Niagara Mohawk. The insurance coverage provides $500 million of primary property damage coverage for Units 1 and 2 of the Nine Mile Plant and $1.825 billion of excess property damage coverage for the Nine Mile 2 Plant. Such insurance covers decontamination costs, debris removal and repair and/or replacement of property.

The Company intends to maintain, or cause to be maintained, insurance against nuclear risks at the Nine Mile 2 Plant, provided such coverage can be obtained at an acceptable cost.

Natural Gas Supply: The Company has three long-term contracts for the supply of natural gas each of which is terminable by either party thereto upon twelve-month's prior written notice. One such supply contract provides for (i) firm transportation services, which will allow the Company to purchase gas directly from a third-party supplier at a cost lower than pipeline gas even during winter months when interruptible transportation is curtailed, and (ii) the ability to inject third-party gas into storage which should result in an overall lower cost of gas supply. The Company's aggregate gas storage capability is 34,608 mcf. per day. The Company also has a contract for the supply of vaporized liquefied natural gas which will remain in effect through September 30, 1992 and will continue from year to year thereafter unless terminated by either party upon six-month's prior written notice. Generally, all such contracts and associated tariffs are approved by the FERC.

The Company has entered into agreements to obtain an additional peak period gas supply of 19,600 mcf. per day from Canadian sources to be phased in through November 1992. The Company has also entered into a memorandum of understanding providing for obtaining up to 100,000 mcf. of gas per day for use as boiler fuel at the Roseton Plant during off-peak periods, subject to completion of the facilities necessary to supply such gas to, and enable such gas to be burned at, the Roseton Plant. It is anticipated that all such facilities will be completed by the end of the second quarter of 1992.

The 19,600 mcf. per day of new gas and the Roseton Plant boiler fuel gas will be supplied from sources in Canada through a major new pipeline project being constructed by Iroquois Gas Transmission System (IGTS). It is anticipated that the IGTS

pipeline will be fully operational by the end of the first quarter of 1992.

On July 31, 1991 the FERC issued a notice of proposed rulemaking (NOPR) which, if implemented, will have a significant impact on the relationship between the Company and its traditional pipeline gas suppliers. The notice of proposed rulemaking has been called the Mega-NOPR because of its broad effect on the natural gas industry.

Under the Mega-NOPR, pipeline gas suppliers would be required to unbundle natural gas sales service from transportation and storage service and adopt market-based pricing for gas. The demand component associated with gas sales and transportation rates would be changed from a modified fixed variable rate to a straight fixed variable rate. In theory, this would result in higher demand costs and lower gas commodity costs. The FERC, following a comment period, plans to issue a final rulemaking in 1992 and require the pipeline gas suppliers to file implementing tariffs by January 1993. All of the Company's pipeline gas suppliers have filed rate applications with the FERC to implement the Mega-NOPR. Major issues in these filings are transition costs for implementing the new services, comparability of service and a change from modified fixed variable to straight fixed variable rates. While the intent of the Mega-NOPR is to make supplies of natural gas more competitive, the effect on costs of natural gas to the Company is not predictable at this time.

Take-or-Pay Gas Costs: Many interstate gas pipeline companies entered into contracts with gas producers which required the pipeline companies to pay for a minimum amount of gas whether or not the gas is actually taken from the producer (take-or-pay costs). Pursuant to the FERC authorization, the Company's gas suppliers have included certain amounts of their take-or-pay costs in the rates charged to the Company.

The PSC in October 1988 commenced a proceeding to determine, among other things, the recoverability and allocation in gas rates of New York State distribution companies of contract take-or-pay costs charged them by pipeline suppliers. In connection with such proceeding, the PSC has issued several orders which have directed among other things that 65% of take-or-pay costs being incurred by the Company may be recovered through current rates, subject to refund. Charges not subject to such conditional recovery are deferred with interest for subsequent consideration by the PSC. The amounts of these deferred charges at December 31, 1991 and 1990 were $1.711 million and $1.105 million, respectively.

In comments filed with the PSC, the Company has contended that there is no basis on which the responsibility for its pipeline suppliers' take-or-pay liability can be attributed to it. In addition, it is the Company's position that the PSC lacks any authority to deny it recovery of costs included in the FERC approved gas rates and would intend to oppose any attempt by the PSC to require it to absorb any take-or-pay or contract reformation costs which are included in its pipeline suppliers' FERC approved rates.

The Company is unable at this time to estimate the amount of take-or-pay costs which may ultimately be included in its pipeline suppliers' charges to it or to predict what action the PSC might take to require the Company to absorb any portion of such costs. The final amount of such costs will depend on the FERC proceedings, the PSC proceeding and certain court litigation, the outcome of which the Company is not able to predict. Depending on the outcome of such proceedings and litigation, the final amount of such take-or-pay costs could be up to $5 million, which would have a material adverse effect on the Company's future earnings if the PSC were to require the Company to absorb a substantial portion thereof.

Clean Air Act Amendments: The Clean Air Act Amendments of 1990 (Amendments) were signed into law on November 15, 1990. The Amendments add several new programs which address attainment and maintenance of national ambient air quality standards. This includes control of emissions from fossil-fueled electric power plants that affect "acid rain."

The "acid rain" emissions reduction requirements do not affect the Company's generating plants until January 1, 2000; however, the Company must comply with the monitoring provisions program as of January 1, 1995 and install continuous emission monitors.

The Company is unable to predict the effect (including cost) of this legislation since details of the Amendments are yet to be established by regulation. Regulations implementing this legislation will be issued over a period of years. However, the amendments could require the Company to expend considerable funds in altering its power plant operations.

Gas Remediation: In 1986, the New York State Department of Environmental Conservation (DEC) added to the New York State Registry of Inactive Hazardous Waste Disposal Sites six locations at which gas manufacturing plants owned or operated by the Company or by predecessors to the Company were once located. The Company completed studies of these sites and two additional sites to determine whether they contain any hazardous wastes which could pose a threat to the environment or public health and, if such wastes are located at such sites, to determine the remedial actions which may be appropriate. All eight sites were studied using the phase I guidelines of the DEC and four such sites were studied using the more extensive phase II guidelines of the DEC. As a result of these studies, the Company concluded that no remedial actions were required at any or all of these sites. In November 1991, the DEC advised the Company that four of the six sites had been deleted from the Registry. The DEC also indicated that such deletion of the sites was subject to reconsideration in the future. If remedial actions were ultimately required at these sites by the DEC, the cost thereof could have a material adverse effect on the financial condition of the Company if the Company could not recover a substantial portion thereof through rates.

Accrued Employees' Vacation Pay: The Company's employees begin accruing vacation in July of each year for use in the following year; the monthly accrual of days is based on the number of years of service for each employee. However, for rate-making purposes, vacation pay is recognized as an allowable expense only when paid. The Company accrued $3.4 million and $3.2 million as of December 31, 1991 and 1990, respectively, as a current liability for an estimate of earned vacation pay and consistent with this rate-making treatment recorded a deferred charge representing the future recoverability of this cost.

Rental Expenses and Lease Commitments: The Company has lease commitments expiring at various dates, principally for real property and data processing equipment. None of these leases involves any major facilities or any material non-cancelable rental commitments. Although certain items meet the criteria for recording as capital leases, such recognition would have no significant effect on the financial statements. Therefore, all items are treated as operating leases for rate-making and accounting purposes.

Asbestos Litigation: The Company, along with many other parties, has been joined as a defendant or third-party defendant in 256 asbestos lawsuits commenced in New York State and federal courts. The plaintiffs in these lawsuits seek millions of dollars in compensatory and punitive damages from all defendants. The cases were brought by or on behalf of individuals who have allegedly suffered injury from exposure to asbestos, including exposure which allegedly occurred at Company facilities.

The Company has given notice of the cases to its insurance carriers, but such carriers have neither denied nor conceded coverage of these claims.

Ninety-two (92) of the cases have been dismissed with respect to the Company, and the Company has agreed to settle 101 of the cases for amounts which are not material in relation to the consolidated financial statements. Consequently, on December 31, 1991, the Company was a defendant or third-party defendant in 63 asbestos cases. Subsequent to December 31, 1991, the Company, along with many other parties, has been joined as a defendant or third-party defendant in 20 additional asbestos lawsuits. Although the Company is presently unable to assess the validity of the remaining 83 asbestos lawsuits, based on information known to the Company at this time, including its experience in settling asbestos cases and in obtaining dismissals of asbestos cases, the Company believes that the costs to be incurred in connection with the remaining 83 lawsuits will not have a material adverse effect on the Company's financial position.

Environmental Litigation: The Company is a party to a number of administrative proceedings involving potential impact on the environment. Such proceedings arise out of, without limitation, the operation and maintenance of facilities for the generation, transmission and distribution of electricity and natural gas. Such proceedings are not, in the aggregate, material to the business or financial condition of the Company.

IRS Challenge to Pension Plan Interest Rate Assumption: The IRS Examining Agent has challenged the deductibility of an aggregate of $7.5 million of contributions made to the Retirement Income Plan during the years 1986 through and including 1989. The IRS Examining Agent claims that the assumptions used by the Company in determining projected investment returns were too low which, in turn, resulted in contributions to the Plan in excess of those permitted by federal tax law. No formal notice of assessment has been issued; however, the Company is currently contesting the IRS Examining Agent's position by a request for technical advice from the National Office of the IRS. If the National Office of the IRS were to rule favorably with respect to the Company's position, this matter would be resolved without any payments by the Company. The Company may also be able to settle under the IRS's Actuarial Resolutions Program (Program). Under that Program, the Company would be liable for approximately $2.8 million of taxes, plus interest, but penalties would be waived; and the Company could withdraw the $7.5 million of challenged contributions from the Plan. If the Program is not applicable to the Plan, or the ruling on the Company's request for technical advice is unfavorable, additional taxes of approximately $2.8 million would be payable by the Company together with interest and penalties which could be significant. The Company cannot predict the outcome of the matter; however, the Company believes that the PSC would allow recovery of a portion of such amount through rates.

NOTE 10 – DEPARTMENTAL INFORMATION

The Company is engaged in the electric and natural gas utility businesses and serves the mid-Hudson River Valley region of New York State. Total revenues and operating income before income taxes (expressed as percentages), derived from electric and gas operations for each of the last three years, were as follows:

	Percent of Total Revenues		Percent of Operating Income before Income Taxes	
	Electric	Gas	Electric	Gas
1991	86%	14%	93%	7%
1990	86%	14%	91%	9%
1989	86%	14%	94%	6%

For the year ended December 31, 1991, the Company served an average of 253,960 electric and 57,246 gas customers. Of the Company's total electric revenues during that period, approximately 37% was derived from residential customers, 28% from commercial customers, 25% from industrial customers, and 10% from other utilities and miscellaneous sources. Of the Company's total gas revenues during that period, approximately 45% was derived from residential customers, 31% from commercial customers, 6% from industrial customers, 12% from interruptible customers and 6% from miscellaneous sources.

The Company's largest customer is International Business Machines Corporation (IBM), which accounted for approximately 18% of the Company's total electric revenues and approximately 7% of its total gas revenues for the year ended December 31, 1991.

Certain additional 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.

	Electric			Gas		
	1991	1990	1989	1991	1990	1989
	(Thousands of Dollars)					
Operating Revenues	$424,121	$433,859	$403,235	$70,615	$69,749	$66,767
Operating Expenses:						
Fuel and purchased electricity	140,488	155,999	145,835	—	—	—
Purchased natural gas	—	—	—	39,867	38,888	39,275
Depreciation and amortization	34,563	33,399	32,835	2,667	2,735	2,509
Other, excluding income tax	157,883	152,790	133,826	21,159	19,523	19,347
Total	332,934	342,188	312,496	63,693	61,146	61,131
Operating Income before Income Tax	91,187	91,671	90,739	6,922	8,603	5,636
Federal Income Tax, including deferred income tax – net	20,886	20,464	18,826	1,727	1,992	1,002
Operating Income	$ 70,301	$ 71,207	$ 71,913	$ 5,195	$ 6,611	$ 4,634
Construction Expenditures	$ 52,819	$ 42,515	$ 33,443	$18,088	$ 8,306	$ 8,644
Identifiable Assets at December 31*						
Net utility plant	$761,984	$750,102	$759,652	$71,129	$66,777	$61,159
Construction work in progress	36,408	33,458	22,147	15,876	4,766	4,847
Total Utility Plant	798,392	783,560	781,799	87,005	71,543	66,006
Materials and supplies	30,992	35,004	22,890	6,450	5,578	6,283
Total	$829,384	$818,564	$804,689	$93,455	$77,121	$72,289

* Identifiable assets not included herein are considered to be corporate assets and have not been allocated between the electric and gas segments.

NOTE 11 – SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)

Selected financial data for each quarterly period within 1990 and 1991 are presented below:

	Operating Revenues	Operating Income	Income Available for Common Stock	Earnings Per Average Share of Common Stock Outstanding
		(Thousands of Dollars)		(Dollars)
Quarter Ended:				
March 31, 1990	$144,194	$24,499	$13,998	$ .95
June 30, 1990	113,813	16,999	6,478	.44
September 30, 1990	118,202	21,125	10,455	.70
December 31, 1990	127,397	15,194	4,423	.30
March 31, 1991	145,340	23,428	13,876	.92
June 30, 1991	116,061	18,334	8,625	.55
September 30, 1991	114,583	19,064	9,414	.60
December 31, 1991	118,751	14,669	5,368	.34

DIRECTORS

MARJORIE S. BROWN
Millbrook, NY
Homemaker, active in civic and philanthropic work, former executive in retailing and promotional organizations; Chairwoman of the Committee on Compensation and Succession; member of the Executive and Retirement Committees
*1979

L. WALLACE CROSS
Poughkeepsie, NY
Former Executive Vice President and Chief Financial Officer of the Corporation; retired; member of Audit and Finance Committees
*1990

JACK EFFRON
Poughkeepsie, NY
President, EFCO Products, Inc.; member of the Committee on Compensation and Succession and the Retirement Committee
*1987

RICHARD H. EYMAN
Norwalk, CT
Senior Vice President, Brouillard Communications, Division of J. Walter Thompson Company (retired January 1, 1992); Chairman of the Committee on Audit; member of the Executive Committee and the Committee on Compensation and Succession
*1984

HEINZ K. FRIDRICH
Ridgefield, CT
IBM Vice President–Manufacturing, International Business Machines Corp.; member of the Committee on Audit
*1988

EDWARD F. X. GALLAGHER
Newburgh, NY
President and Owner, Gallagher Transportation Services; member of the Retirement Committee
*1984

PAUL J. GANCI
Poughkeepsie, NY
President and Chief Operating Officer; member of the Executive Committee and the Committees on Finance and on Compensation and Succession
*1989

CHARLES LaFORGE
Rhinebeck, NY
President of Wayfarer Inns and Owner of Beekman Arms; member of the Committee on Finance
*1987

JOHN E. MACK III
Poughkeepsie, NY
Chairman of the Board and Chief Executive Officer; Chairman of the Executive and Retirement Committees and member of the Committees on Finance and on Compensation and Succession
*1981

HOWARD C. ST. JOHN
Glenford, NY
Chairman of the Board and Chief Executive Officer, Ulster Savings Bank; Lawyer, Howard C. St. John & Associates; Vice Chairman of the Board; Chairman of the Committee on Finance; member of the Executive Committee and the Committee on Audit
*1984

EDWARD P. SWYER
Albany, NY
Managing Partner, WTZA-TV Associates; President, L.A. Swyer Realty and Management, Inc.; President, Stuyvesant Plaza, Inc.; member of the Committee on Compensation and Succession and the Retirement Committee
*1990

*Year joined the board

OFFICERS OF THE BOARD

JOHN E. MACK III
Chairman of the Board and Chief Executive Officer; Chairman of the Executive and Retirement Committees

HOWARD C. ST. JOHN
Vice Chairman of the Board and Chairman of the Committee on Finance

MARJORIE S. BROWN
Chairwoman of the Committee on Compensation and Succession

RICHARD H. EYMAN
Chairman of the Committee on Audit

OFFICERS

JOHN E. MACK III
Chairman of the Board
and Chief Executive Officer

PAUL J. GANCI
President and Chief Operating Officer

WILLIAM E. VANWAGENEN
Senior Vice President – Corporate Services and Governmental Affairs

JOHN F. DRAIN
Vice President – Controller and Treasurer

JOSEPH J. DeVIRGILIO, JR.
Vice President – Human Resources
and Administration

CARL E. MEYER
Vice President – Engineering
and Production

ALLAN R. PAGE
Vice President – Customer Services

GLADYS L. COOPER
Secretary

RONALD P. BRAND
Assistant Vice President – Engineering

HERBERT M. ROUND
Assistant Vice President – Nuclear Operations
and Energy Control

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

CHARLES H. DENNY, JR.
Assistant Treasurer and Assistant Secretary

STEVEN V. LANT
Assistant Treasurer and Assistant Secretary

GENERAL COUNSEL
Gould & Wilkie
One Wall Street
New York, NY 10005

INDEPENDENT ACCOUNTANTS
Price Waterhouse
153 East 53rd Street
New York, NY 10022

Design: Chet Karpinski
Primary photos: Augusts Upitis
Pg. 4 photo: Culinary Institute of America
Pg. 13 inset photos: Museum of the Hudson Highlands

Central Hudson

OUR CORPORATE MISSION AND COMMITMENT TO OUR CUSTOMERS, INVESTORS, EMPLOYEES AND THE COMMUNITY.

CENTRAL HUDSON GAS & ELECTRIC CORPORATION

A PRIVATE UTILITY IN THE PUBLIC SERVICE

CORPORATE MISSION

As a private utility in the public service, our mission is to provide safe, reliable electric and gas service at a reasonable cost to our customers and in doing so satisfy the needs of our investors, employees and community.

CUSTOMER

COMMITMENT

Satisfy our customers' needs for safe, reliable electric and gas service at the lowest reasonable price.

HOW:

(1) Improve responsiveness to customer needs in a timely, professional and courteous manner.

(2) Maintain reliability of electric and gas service.

(3) Offer goods and services at competitive prices.

(4) Identify and provide for the future needs of our customers.

INVESTOR

COMMITMENT

Provide a competitive return to our investors.

HOW:

(1) Strive to equal or exceed the return on equity authorized by the PSC.

(2) Maintain financial stability and improve credit worthiness.

(3) Continue to pursue the profitable expansion of our gas and electric business.

(4) Identify, evaluate and develop when appropriate, other related business opportunities that offer higher rates of return.

EMPLOYEE

COMMITMENT

Provide a safe working environment that will attract, retain and motivate employees to achieve the highest level of performance.

HOW:

(1) Increase employee awareness to reduce employee related accidents and encourage and promote employee health and safety.

(2) Maintain fair and equitable employee compensation, productive working conditions and opportunities.

(3) Continue to provide for effective employee development.

(4) Through strengthened leadership, gain greater employee commitment to achieve the highest level of effectiveness.

COMMUNITY

COMMITMENT

Provide corporate resources to enhance the quality of life in our region and in the communities we serve.

HOW:

(1) In a cost-effective manner, continue to reduce the environmental impact of our operations.

(2) Increase Central Hudson's role in the community through greater involvement in community activities.

(3) Increase community awareness of the value of Central Hudson as a private utility, providing quality products and services to its customers.

(4) Continue to promote the aesthetic, historical, cultural and recreational resources of our region.

General Office: 284 South Avenue
Poughkeepsie, NY 12601-4879
Telephone (914) 452-2000

PROFILE

New York State Electric & Gas Corporation (NYSEG) is an investor-owned utility that traces its roots to the Ithaca Gas Light Company which began operations in 1852. Today our 4,842 employees serve 777,000 electric customers and 219,000 natural gas customers in suburban and rural upstate New York. High-tech firms, light industry, agriculture, colleges and universities and recreational facilities support the area's economy. We are composed of five energy-related business units:

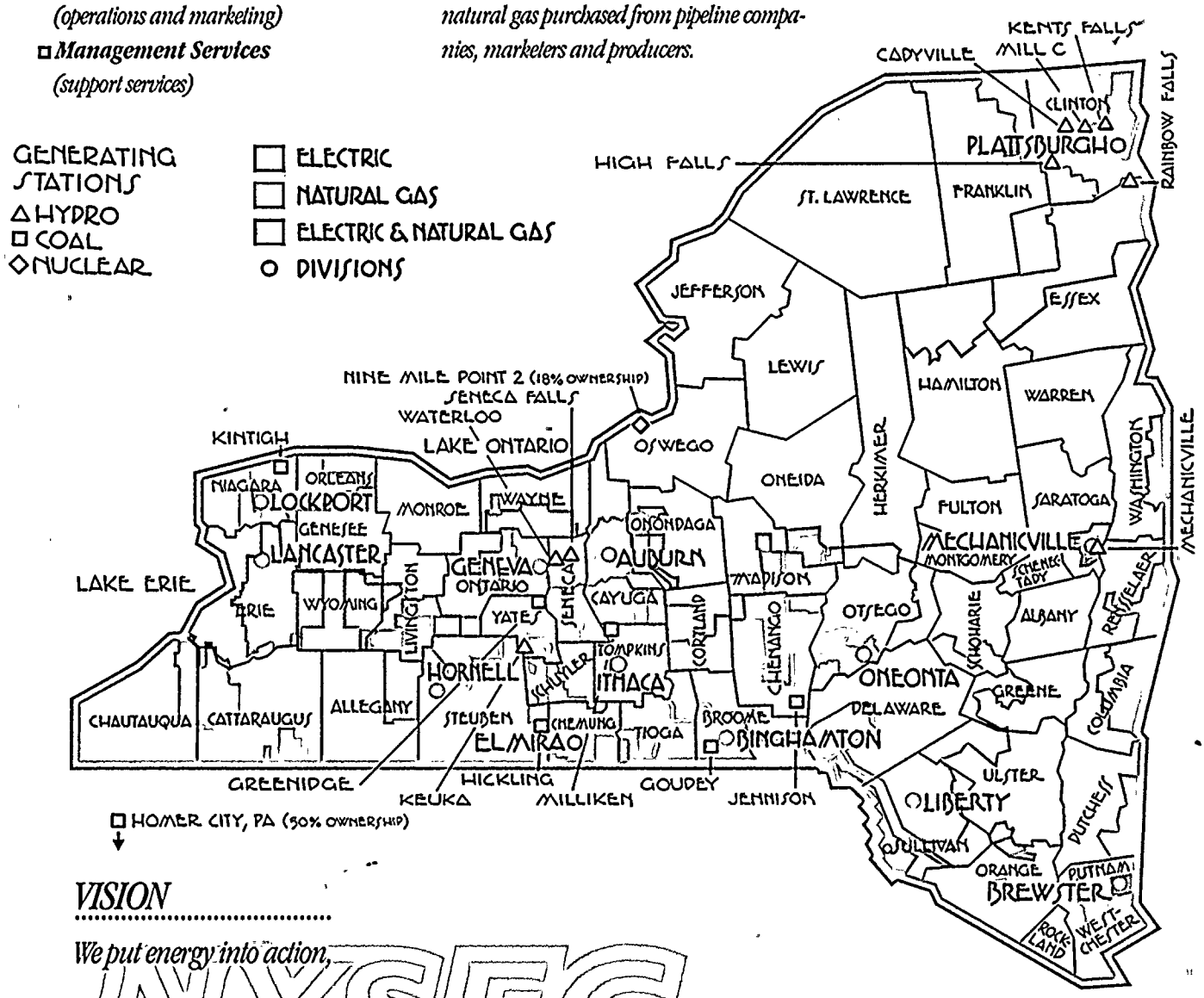
- ***Electric*** *(operations and marketing)*
- ***Natural Gas*** *(operations and marketing)*
- ***Management Services*** *(support services)*
- ***Strategic Management*** *(planning, economic and organizational development)*
- ***Strategic Growth*** *(planned diversified subsidiaries)*

Our total operating revenues in 1991 were over $1.5 billion and total assets were $4.9 billion making us the second largest utility in upstate New York. We generated over 17 billion kilowatt-hours of electricity in 1991 at seven coal-fired generating stations, several small hydroelectric stations and one nuclear station. We also distributed 42 million dekatherms of natural gas purchased from pipeline companies, marketers and producers.

MISSION

NYSEG's diversified business units are committed to:

- *providing quality services and products at competitive prices*
- *pursuing opportunities in existing and emerging markets*
- *offering our employees opportunities for personal and professional growth*
- *earning an attractive return for our shareholders*
- *protecting our environment*
- *supporting the needs and visions of our communities*



VISION

We put energy into action,

providing ever better quality and value to those we serve.

We seek to set the standard for excellence, leadership and integrity in the utility industry.

NYSEG

LETTER TO STOCKHOLDERS

To my fellow stockholders:

Despite continued progress toward achieving our long-term objective of becoming a leading utility, 1991 earnings slipped to $2.36 per share from $2.48 per share in 1990.

The decline was expected as a result of the lower allowed return on equity granted to us in our last rate case. Unusually warm winter and spring weather and the weak economy also depressed retail sales and earnings.

However, incentives we earned for conducting efficient demand management programs, which help our customers conserve energy, mitigated the decline in earnings. *A discussion of energy conservation programs and incentives begins on page 8.* While some factors that affect earnings are beyond our control, we know that our positive internal actions can have an even greater impact. In 1992 and beyond, we will continue to concentrate on improving earnings growth.

There is additional significant news from 1991:

- We completed the purchase of Columbia Gas of New York, Inc. for approximately $58 million and efficiently integrated 69,000 new natural gas customers into the NYSEG system. This represented an increase of more than 46 percent in the number of NYSEG natural gas customers.

- The federal Department of Energy selected for funding an innovative sulfur dioxide removal system at Milliken Station.

- Nine Mile Point 2 Station (NMP2) had its best year since commercial operation began in April 1988. It was removed from the Nuclear Regulatory Commission's (NRC) list of stations that require close monitoring. It also received improved rankings from the NRC's Systematic Assessment of Licensee Performance (SALP) review which indicated significant improvements over the past year. NMP2 was also available to generate electricity approximately 70 percent of the time.

- We continue to have the lowest customer complaint rate in the state and the efficiency of our generating stations ranks sixth in the nation.

- We received high marks from the Public Service Commission (PSC) for our efficiency in restoring power following a severe March ice storm that left approximately 55,000 customers without electricity. Power was also restored quickly and efficiently following a December ice storm that left 23,500 customers without electricity.

- In August we filed for a 10.8 percent increase in electric rates and a 13.4 percent increase in natural gas rates. In January 1992, the PSC staff recommended that NYSEG be given 4.6 percent and 4.4 percent increases, respectively. We revised our filing in February 1992 to an 8.3 percent increase in electric rates and a 6.9 percent increase in natural gas rates. Discussions on the rate increase request continue and a decision from the PSC is expected in July. We are unable to predict the outcome of this proceeding.

Something very exciting is also happening to our organization; it is changing dramatically. To appreciate that change, which will make us one of the leading utilities by 2000, you have to understand the people who are NYSEG. It has never been more true nor more apparent that people are our greatest