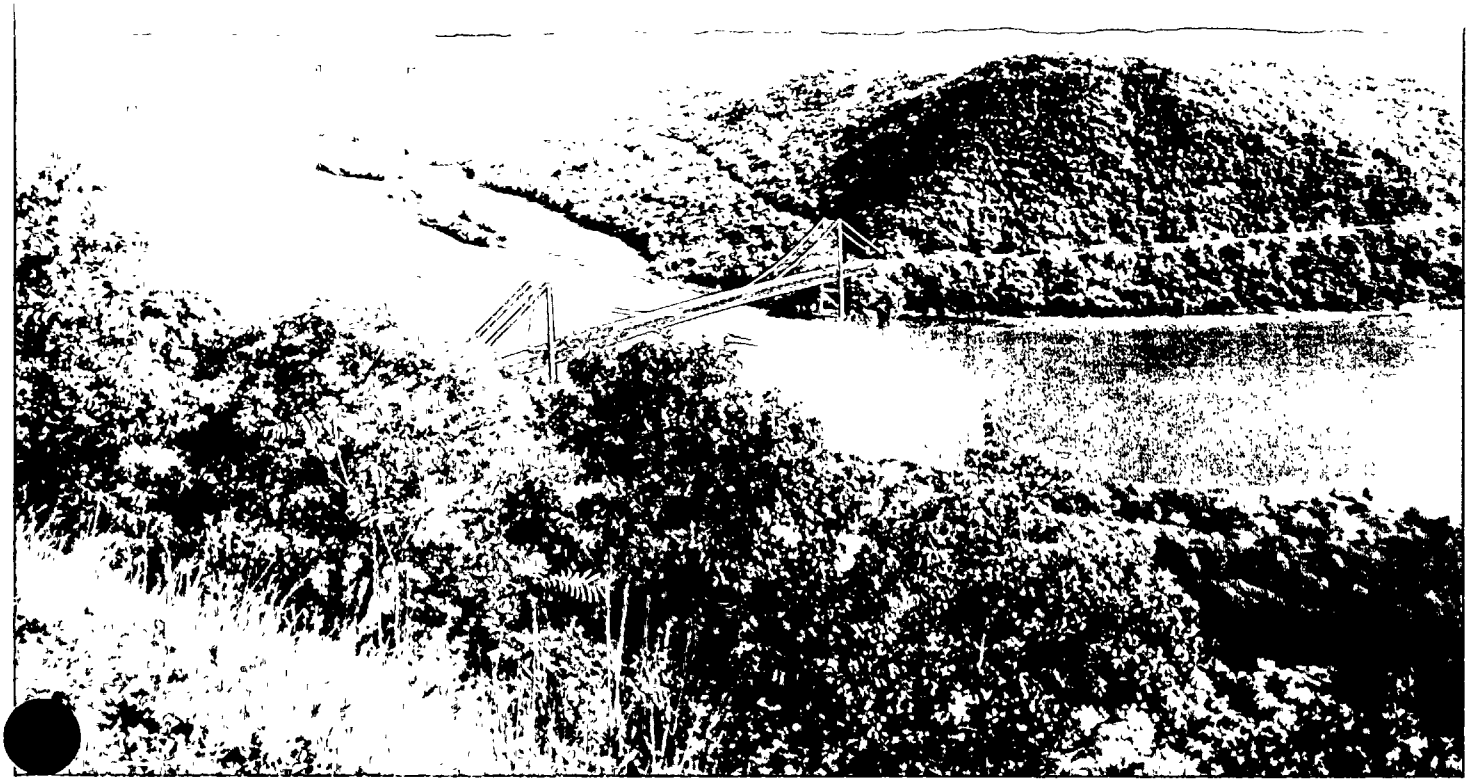

A History Of Environmental Stewardship

Central Hudson

1992 Annual Report

Helping to Restore the Hudson's Marshlands

The Museum of the Hudson Highlands is conducting a research project to determine the potential for restoring the Hudson River's marshes and wetlands. The study is meaningful because the plant and aquatic life in the marshlands play a significant role in water quality and the river's food chain. The marshes also provide habitats for waterfowl. In the cover photograph — taken from the Appalachian Trail — Manitou marsh is the beige-colored area to the left of Bear Mountain bridge on the far shoreline. Located a few miles south of the U. S. Military Academy at West Point, Manitou marsh is one of four sites on the Hudson River which are being studied. Experience gained at Cornwall Bay, another site shown below, has been invaluable in determining which plant species and planting techniques yield the best survival rates, and which are most effective in deterring Canada geese, which like to eat the plant roots. Early indications are that fringe wetlands can be re-established where conditions similar to Cornwall Bay exist elsewhere along the river. This is good news not only for the Hudson but also for the Atlantic Coast fishery, which depends in large part on a healthy and productive Hudson River. Central Hudson is the principal sponsor of the marshland st

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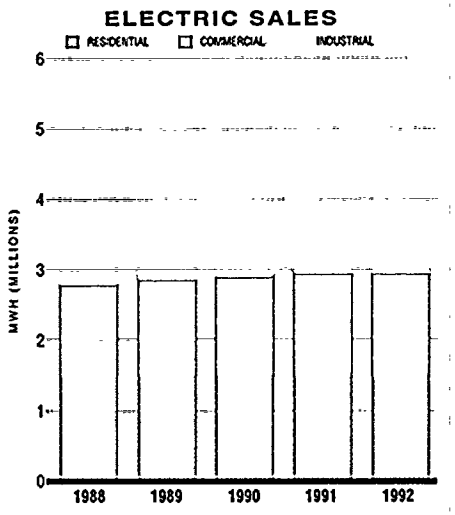
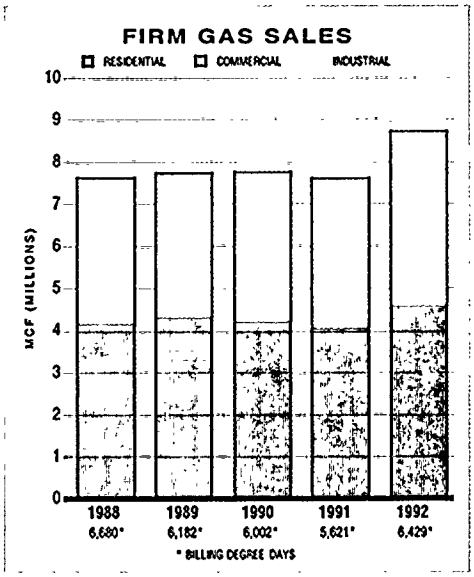
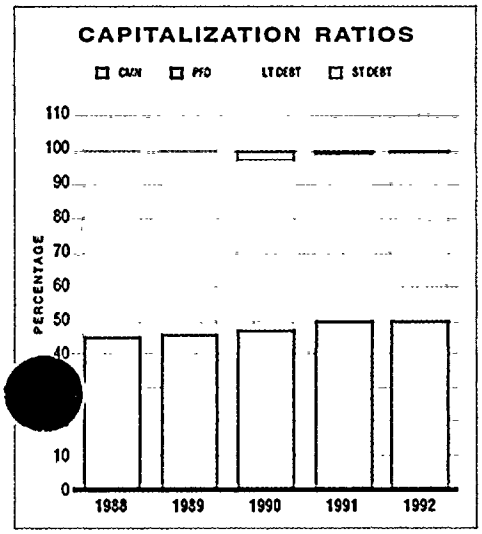
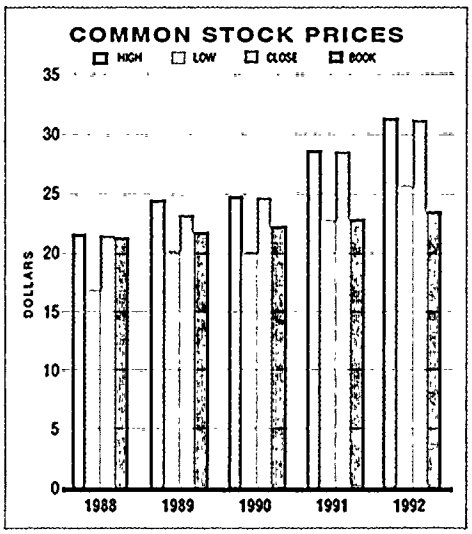


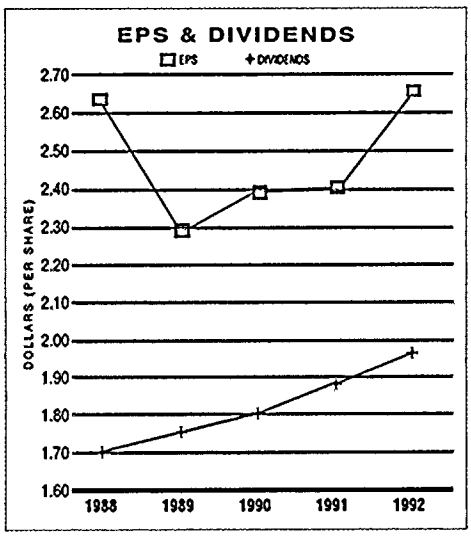
Financial Highlights

	1992	1991	Change
Operating Revenues	$523,557,000	$494,736,000	6 %
Net Income	$47,688,000	$42,941,000	11 %
Earnings Per Share	$2.65	$2.40	10 %
Average Shares Outstanding	15,901,000	15,530,000	2 %
Declared Dividends Per Share	$1.98	$1.90	4 %
Total Assets	$1,167,124,000	$1,141,128,000	2 %
Electric Sales— Own Territory (kwh.)	4,840,244,000	4,941,302,000	(2)%
Natural Gas Firm Sales (thousands of cubic feet)	9,379,000	8,429,000	11 %
Electric Customers— Own Territory (average)	256,503	253,960	1 %
Firm Gas Customers (average)	58,038	57,200	1 %







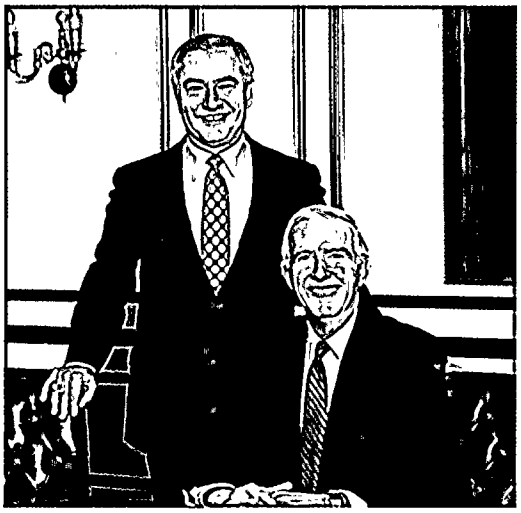


Chairman's Report

Despite the economy, unfavorable weather and a changing business environment, my message is encouraging: for our shareholders, Central Hudson had a solid year financially; for our customers, we continue to meet their needs in creative ways.

Looking to the future, I am confident that we will build on our accomplishments, largely because our employees have a strong commitment to meeting a number of important financial and operating goals. I am proud of Central Hudson's 1,385 employees who, I am certain, will continue to perform in the best interests of shareholders and customers alike.

Earnings per share increased 10.4 percent, from $2.40 in 1991 to $2.65 in 1992. A one-time inclusion of Nine Mile 2 net litigation proceeds added $.10 to earnings per share. Dividends paid to shareholders increased 4.3 percent, from $1.88 to $1.96 for the same period of time. I am particularly pleased to report that during the last three years, the average annual increase in the dividend has been 3.7 percent. As a result of a number of refinancings during 1992, we further reduced the effective interest rate on debt from 7.70 percent at the end of 1991 to 7.05 percent at the end of 1992. This will result in additional savings for our customers of $3.7 million annually in interest expense. And since March 1991, all four rating agencies have upgraded their credit ratings on our First Mortgage Bonds. The most recent upgrading was to an "A" rating; the other ratings are "A-."



Paul J. Ganci, President and Chief Operating Officer *John E. Mack, Chairman and Chief Executive Officer*

Construction of a natural gas pipeline interconnection and the conversion of our Roseton plant to burn natural gas as well as oil were the principal capital projects completed during 1992.

When this construction project was completed last spring, it represented another milestone in our decade-long program to diversify our fuel mix and reduce our dependence on oil as a fuel to generate electricity. By burning natural gas in our Roseton plant, we were able to reduce fuel costs by approximately $1,500,000 during 1992. That was a significant savings for our customers. By the end of the year, oil represented only 28 percent of our fuel mix, down from 95 percent at the beginning of the 1980s.

As a result of our fuel diversification program, we are able to take advantage of price and supply options for five different fuels and provide our customers with more competitively-priced energy.

Reducing interest expense and the cost of fuel are just two examples of how we are controlling costs and working toward becoming the energy supplier of competitive choice in the Mid-Hudson Valley. In this report, we describe how we have made quality and value a major part of providing electric and gas service, and how we are making decisions which focus on the needs of our customers. We also describe how we are expanding our natural gas business as part of our dynamic business plan, and how we are preparing for increased competition as a result of the trend toward the deregulation of the electric and gas utility industries.

The theme of this year's annual report is "A History of Environmental Stewardship."

It has been the privilege of Central Hudson and its predecessor companies to provide gas and electric service to the communities in the Mid-Hudson Valley since before the turn of the century.

Preserving Our Environmental Heritage

As a regional energy company, Central Hudson has many public service responsibilities, one of which is to participate in the preservation of the region's magnificent environmental heritage.

We believe few organizations in the Valley can match Central Hudson's history of caring for and nurturing the region's air, water and land resources.

Over the decades, many decisions have been made which protected the region's natural environment. In the early 1900s, for example, Central Hudson made a decision to use an underwater cable to cross the scenic Hudson River rather than building an unsightly overhead line.

In more recent times, Central Hudson made 670 acres on Breakneck Mountain available for inclusion in what became a state park in the ruggedly-beautiful Hudson Highlands. Central Hudson also provided New York State with 700 acres of ecologically-important Hudson River property in northern Dutchess County for a wildlife conservation zone.

Clean natural gas is being used as a fuel in two school buses as part of a Central Hudson research program to demonstrate the environmental and economic advantages of natural gas vehicle technology.

Looking at the past year, our natural gas pipeline interconnection crossed more than 20 federally-designated wetlands, several streams and the Hudson River. The project was designed and carried out in cooperation with a number of regulatory and governmental organizations. To cross the Hudson, we chose to bore below the bed of the river rather than simply laying the line in a trench, which would have disturbed aquatic life. Completion of this project has enabled us to further improve air quality by using clean natural gas as an additional fuel to generate electricity at our Roseton plant.

All of us at Central Hudson are proud of our company's environmental accomplishments, both past and present. The photographs in this year's annual report help illustrate our awareness of our responsibility to be a partner in the preservation and enhancement of the region's environmental heritage.

Very truly yours,

John E Mack III

Chairman of the Board
and Chief Executive Officer

If a business is responsive to the needs of its customers, it will have an opportunity to be successful

"Keeping The Customer In Focus" is a phrase which was introduced during 1992 to symbolize Central Hudson's program to improve quality by pursuing excellence, creating customer satisfaction and improving productivity.

The phrase, which has become part of our logotype, is being used in all of our print, radio and television advertising, and on all Central Hudson publications.

The objective is to make all of our customers aware that our employees are dedicated to providing quality electric and gas service. To this end, all employees participated in "Quality Initiative" workshops which emphasized the importance of strengthening various customer relationships. The focus is on making decisions which are in the best interest of customers.

Being responsive to the special needs of our customers also has a high priority at Central Hudson.

As an example, voltage sags — which occur during faults on electric systems — are a common problem affecting the quality of electric service to industrial customers.

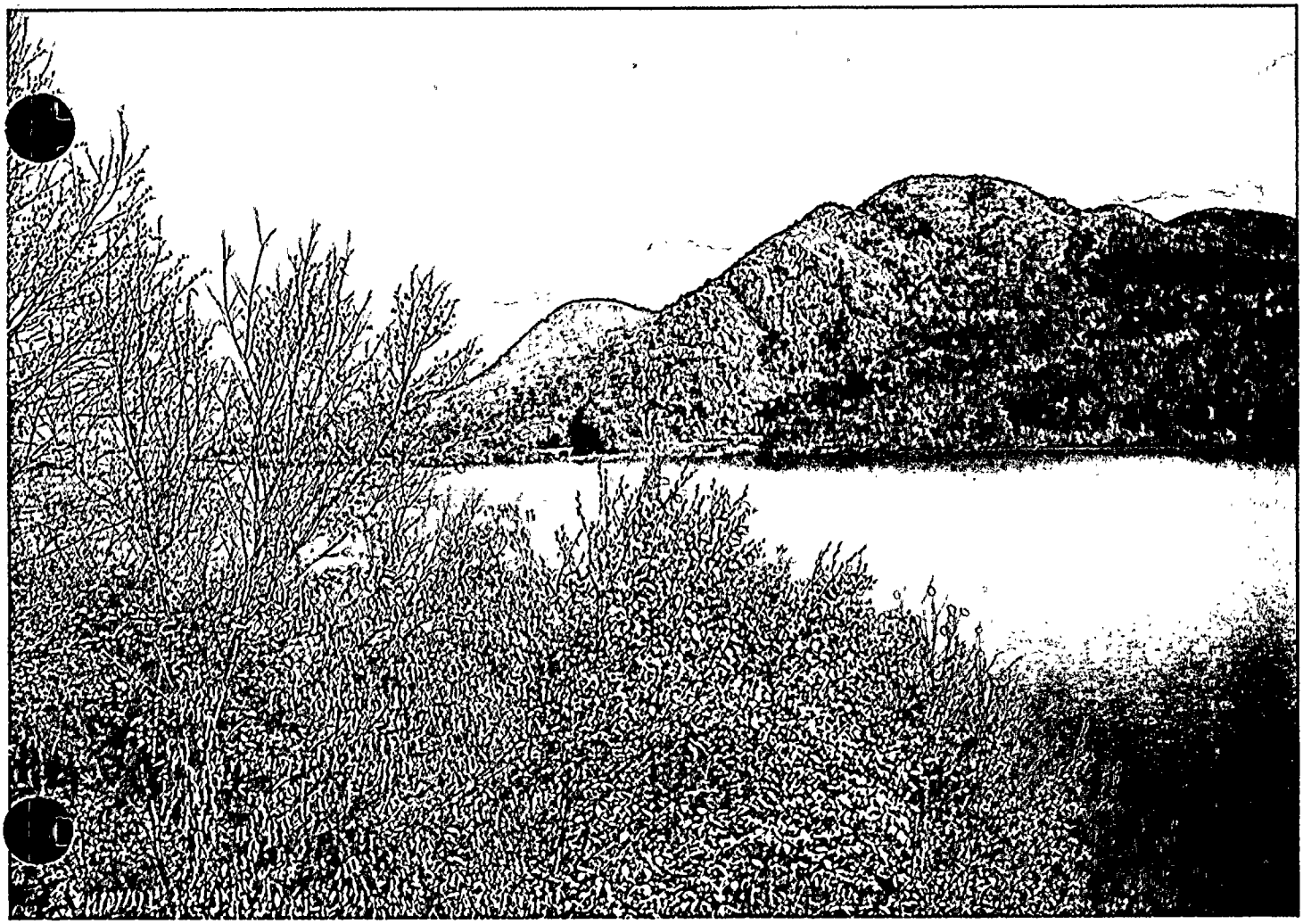
While there is no loss of power during a sag, or dip, the change can be enough to be detected by sensitive equipment, such as that used by International Business Machines, Inc. at one of its facilities in Dutchess County.

A sag of only a tenth of a second can be enough to cause the equipment to shut down, which creates a tremendous impact on IBM's operations. However, through a joint effort involving Central Hudson, IBM and Superconductivity, Inc., state-of-the-art technology is being tested at the IBM site to protect sensitive equipment from the effects of voltage sags.

The technology is known as a Superconducting Magnetic Energy Storage Device (SSD), for which Central Hudson has invested $250,000 for its development by Superconductivity, Inc. The SSD unit at the IBM site is the first of its kind to be designed, built and tested.

To date, the results have been impressive. The SSD unit has operated on many occasions, and in each instance the equipment being protected by the SSD rode through the sags and experienced no down time or lost work hours, compared to equipment not protected by the SSD.

Being responsive to the needs of customers also resulted in the relocation of our Customer Relations office to Fishkill and the redesign of our Customer Relations office in Poughkeepsie. The latter site features a drive-through payment window for the convenience of customers. In addition, the hours that Customer Relations Representatives are available throughout our System by telephone have been extended to assist customers after normal business hours.



Barren of trees, the face of Breakneck Mountain is a prominent geological feature of the Hudson Highlands, which many believe is the most scenic part of the Hudson River Valley. Today, Breakneck is part of the Hudson Highlands State Park, largely because of 670 acres which Central Hudson sold at cost to the Jackson Hole Preserve, a major environmental organization. Jackson Hole, in turn, gave the property to New York State for incorporation into a new state park. At the time of the park's dedication, the Central Hudson parcel, including Breakneck, was described as "the key to the park plan." Central Hudson's interest in keeping Breakneck in its natural state, coupled with the efforts of many people in the public and private sectors, made it possible for business and government to become partners in preserving an important part of the region's scenic and environmental heritage.

Investing in new facilities shows our confidence in the future growth of the Mid-Hudson Valley

As noted in the Chairman's Report, the two major projects which were completed during 1992 were the natural gas pipeline interconnection and the conversion of the Roseton plant to burn natural gas as well as oil to generate electricity.

In combination, these two projects have major significance for our customers: by burning clean natural gas at Roseton, we have been able to improve air quality and substantially reduce the cost of fuel.

While we have always operated our generating plants in compliance with air quality standards, the use of natural gas makes a further contribution to a cleaner environment.

It also is noteworthy that the pipeline construction project was completed on schedule and under budget.

By making our generating plants as efficient as possible, they burn less fuel and have less of an impact on the environment. As a result of a number of performance improvements and the training of plant operators, our fossil generating plants now rank second in New York State in efficiency.

The construction of a major substation in southern Dutchess County during 1992 is another example of bringing together the necessary resources to manage, design, license and construct a complex project on schedule and within budget. The new substation strengthens our electric system and will help meet the electric requirements of existing and future customers.

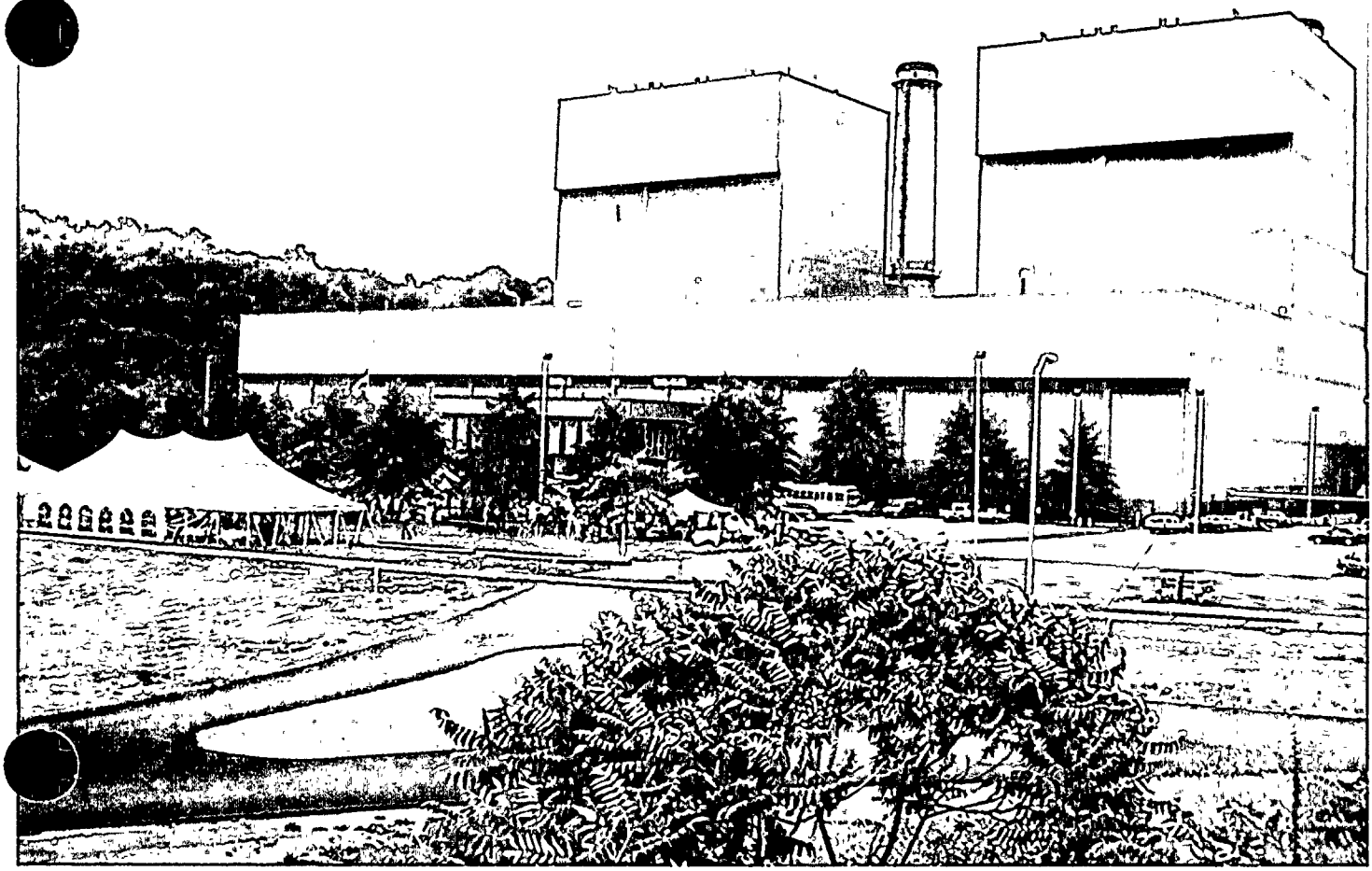
The construction of substations in southern Ulster County and near the Stewart International Airport in Orange County during 1993 and 1994 will help meet future growth in those parts of our service area.

We also are involved in a regulatory proceeding to rebuild several substations and reconstruct two transmission lines in Ulster County which were built decades ago and are nearing the end of their useful lives. This multi-year project will enhance reliability, provide more efficient operation and help meet the expected growth in the use of electricity.

Our new Computer Center — featuring one of IBM's most powerful mainframe computers — was opened during 1992 to meet Central Hudson's growing computer needs.

The IBM ES 9000 computer, which was designed and built in IBM's facilities located in our service area, will enable Central Hudson to accommodate an increasing amount of work and provide faster handling of customer transactions.

And at the end of the year, our new System Operations Center was opened, featuring state-of-the-art equipment to control and monitor our electric and gas systems.



A number of elected officials and community leaders gathered in front of the Roseton Electric Generating Plant last summer for the dedication of a new pipeline interconnection, which is enabling Central Hudson to improve air quality and reduce fuel costs by burning clean natural gas to generate electricity. The construction of the pipeline and the conversion of the Roseton plant to burn natural gas as well as oil marked another step in our fuel diversification program which has enabled Central Hudson to reduce its dependence upon oil from 95 percent a decade ago to 28 percent at the end of 1992. Phase I of the acid rain compliance section of the Federal Clean Air Act amendments of 1990 will have a substantial impact on a number of electric companies. The effect on Central Hudson, however, will be minimal because of an on-going program which already has reduced gaseous and particulate emissions at the Roseton and Danskammer plants.

We offer service, product and pricing options which fit the needs of our customers

Our customers not only want quality and value from Central Hudson, they want choices.

Our Marketing and Energy Efficiency Services programs identify the needs of customers with respect to service, products and prices, and then meet those needs, often with the assistance of research and development programs.

In cooperation with the Gas Research Institute, Central Hudson is participating in a pilot program to test one of the first natural gas heat pumps to be installed in the United States.

Among the advantages offered to customers are: lower operating costs than conventional heating and cooling units, quiet operation, more uniform temperature distribution and superior heating capacity during the winter, and up to 100 percent of domestic hot water needs during the summer.

Another option available to customers is the geothermal heat pump, which extracts heat from below the earth's surface to provide an efficient, pollution-free system for homes and businesses.

Voluntary time-of-use prices represent an opportunity for customers to control their energy costs by shifting electric usage to off-peak hours.

We also are promoting the New York State Energy-Star program which certifies that a new home is at least 25 percent more efficient than required by the New York State Energy Code, which is one of the most stringent in the nation.

Central Hudson is also exploring all opportunities to extend natural gas service into new areas in order to provide another energy option to residential, commercial and industrial customers.

Customer interest in energy efficiency enables us to replace less efficient energy sources with natural gas or electricity

We also are working closely with commercial and industrial customers to reduce their lighting costs. During 1992, we paid $5,400,000 in rebates to about 1,300 customers who installed more efficient lighting equipment.

Natural Gas Vehicle technology offers a potential market for a significant increase in our gas business. With the help of two school districts, we are collecting data to demonstrate the economic and environmental advantages of natural gas-fueled school buses. We also are testing about 25 Central Hudson vehicles which are fueled with compressed natural gas. We believe natural gas is the most attractive alternative fuel because of cleaner emissions, and lower fuel and maintenance costs.

As part of our economic development program, we have filed a new electric rate with the Public Service Commission which will provide an incentive for businesses to move into vacant facilities in our service area. This new economic development rate will provide a discount for electric service for a five-year period.

New York State is expected to adopt new regulations which will set strict standards for motor vehicle emissions. As a result, auto manufacturers will have to produce non-polluting vehicles, many of which will be electric or utilize natural gas as a fuel. In the years ahead, many of the vehicles sold in New York State will have to be ultra-low or zero emission vehicles. As part of its natural gas vehicle (NGV) program, Central Hudson has made two natural gas school buses available to two school districts to demonstrate the environmental and economic advantages of NGV technology. The buses, which use compressed natural gas, have cleaner emissions and lower fuel and maintenance costs than conventional buses. Shown above is one of the buses which is being used for the day-to-day transportation of students in the Arlington School District in Dutchess County.

We have been preparing for the deregulation of the electric and gas utility industries. We will be competitive.

The nature of the utility business has been changed by the Energy Policy Act of 1992 which was adopted after almost two years of debate in Congress.

This federal energy law promotes greater competition by facilitating the entry of Exempt Wholesale Generators (EWGs) into the areas of generating, selling and transmitting electricity.

The law allows EWGs to generate and sell power at wholesale rates in competition with investor-owned utility companies, such as Central Hudson. In addition, the law provides for EWGs to have access to the utility industry's electric transmission system under certain circumstances.

The federal statute represents a major step in the deregulation of the generation and transmission of electricity in this country.

Deregulation has become a reality on the gas side of our business too.

The Federal Energy Regulatory Commission issued an order last year which offers the opportunity for Central Hudson and other gas utilities to negotiate directly with gas producers for supplies of natural gas. Previously, we obtained natural gas from gas pipeline companies which transmitted the fuel to our service area.

The deregulation of the electric and gas industries will create new competitive pressures and many uncertainties. At Central Hudson, however, we have been anticipating and preparing for deregulation, principally by striving toward becoming the region's energy company of competitive choice.

We are moving toward that goal by controlling costs, operating safely and efficiently, providing service and products which add extra value, and by responding to the special needs of our customers.

With respect to lawmaking at the state level, a comprehensive energy law was enacted last year which brought about a change which electric companies have advocated for many years.

As part of the new State energy package, a law was repealed which required electric companies to pay a minimum of six cents per kilowatt hour to Independent Power Producers even if the actual cost of the electricity was less than six cents, and even if the utilities could generate the electricity at lower cost themselves.

State government finally recognized the inequity of the "six cent" law which required customers of the investor-owned utilities to provide tens of millions of dollars in subsidies to the Independent Power Producers.

As part of Central Hudson's Resource Recovery Program, employees of the Ulster Association for Retarded Citizens (UARC) sort, bale and ship recyclable paper and salvageable wire and electrical equipment at our General Storeroom located near New Paltz in Ulster County. During the last four years, the UARC employees have recycled 646 tons of cable and wire and 325 tons of paper. During 1992, Central Hudson received an "Employer of the Year" award from Mid-Hudson Projects With Industry, which is a cooperative program for the employment of persons with disabilities. Central Hudson's recycling program not only saves valuable landfill space, it is providing employment for about 30 people who, although functionally impaired, have the training and ability to make a significant contribution to the protection of the environment.

A refueling of the Nine Mile 2 Nuclear Plant was successfully completed in the spring and the plant has been operating satisfactorily since that time.

A shareholder proposition to have Central Hudson sell its nine percent share of the nuclear plant was overwhelmingly defeated by shareholders by a margin of nine to one at last year's Annual Meeting of Shareholders.

The net recovery by Central Hudson and the other Nine Mile 2 co-tenants from litigation involving the nuclear plant is approximately $126 million. Central Hudson's nine percent share of the proceeds amounted to approximately $11 million, and will be shared equally between our shareholders and our customers in accordance with the Nine Mile 2 settlement.

With respect to meeting future growth in the use of electricity, we have an option to purchase Niagara Mohawk Power Corporation's interest in the Roseton plant over a ten-year period starting in 1994, if approved by the Public Service Commission. In addition, we have analyzed more than 40 bids for both supply side and demand side capacity. However, all bids were rejected because of short-term uncertainties involving the economy and future electric growth. This matter will be reviewed again during 1993.

A management audit of Central Hudson was begun in the Spring of 1992 under the statutory requirement that all utilities in New York State be audited every five years.

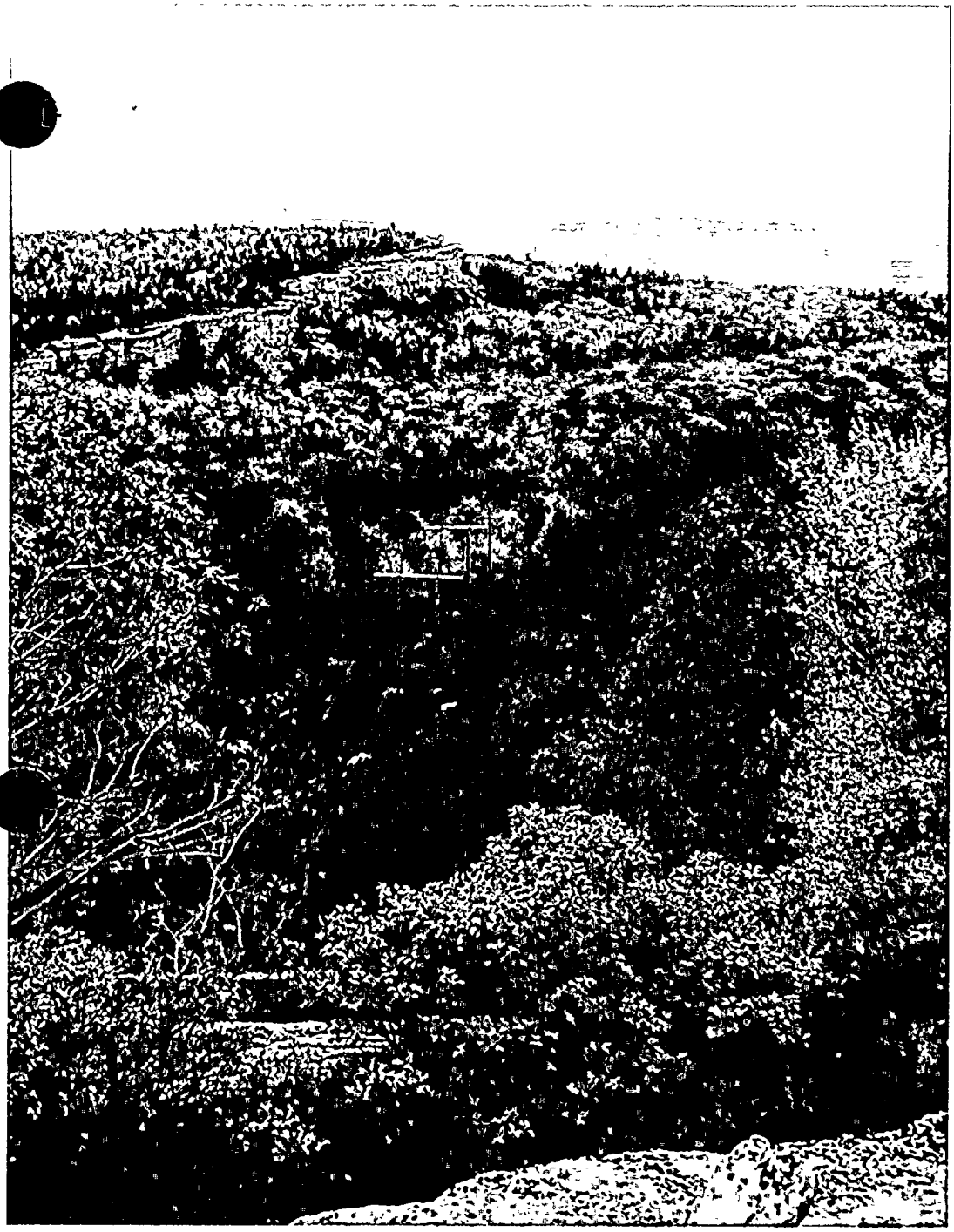
A consultant, selected by the Public Service Commission, reviewed certain programs in Human Resources, Construction Program Planning, Corporate Budgeting, Consumer Services Computerized Information Systems and Economic Development.

Near the end of 1992, we had an opportunity to comment on the consultant's findings and develop recommendations, which were based on interviews with 186 employees and a review of 253 "requests for documents." A final report will be submitted by the consultant to the Commission early in 1993.

Our duty is to plan and perform every job safely

By working more than one million hours without a lost-time accident over a period of fourteen years, Central Hudson employees in our Catskill Transmission and Distribution Division helped demonstrate that safety has the highest priority at Central Hudson. The record, which started in 1978, was set by 54 present and former employees.

"Our Duty Is To Plan And Perform Every Job Safely" is Central Hudson's safety creed and a daily reminder to our 1,385 employees that no job is done well unless it is done safely.



The rare geological beauty of the land in the Minnewaska State Park was framed by the autumn colors in the foreground and a snow squall in the distance. Visible in the foreground is an electric transmission line which crosses the Shawangunk Mountain ridge. Central Hudson is participating in a regulatory proceeding to obtain permission to rebuild several Ulster County substations [illegible]to reconstruct two transmission lines, including this one, [illegible]h were built in the 1930s. As part of the reconstruction, Central Hudson has agreed to modify its construction techniques in the Park, including adhering to a height limitation in sensitive areas in order to minimize any adverse visual effects on the landscape.

To help "focus" our attention on the needs of our residential customers, we conduct "How Did We Do?" surveys to obtain their opinions about our continuing performance. The surveys rate promptness, satisfaction, courtesy, professionalism, knowledge and responsiveness.

Among residential customers who responded, nine out of ten rated Central Hudson as good, very good or excellent. In those areas where performance needs to be strengthened, we try to modify our programs to meet the customers' expectations, or we create new programs whenever possible.

Our electric prices continue to be among the lowest in New York State

As one might expect, especially considering the economy, only 35 percent of our residential customers believe that electric prices are low or reasonable, according to an independent Customer Satisfaction Survey conducted on behalf of Central Hudson.

The fact is, however, that Central Hudson's residential prices continue to be below the State average and electric prices for our largest industrial and commercial customers are among the lowest in the State and region.

This favorable price comparison includes a price increase which became effective on April 15 of last year and increased electric revenues by $18.25 million. Central Hudson adjusts prices only when it is absolutely necessary, and we try to minimize the amount of the increases and to lengthen the interval of time between increases.

As an example, in November of last year, we filed for new electric and gas prices which would become effective near the end of 1993. The increases would be below the Consumer Price Index, and the time between price changes would be 18 months for electric and 28 months for natural gas.

Central Hudson's two subsidiaries expanded their involvement in energy efficiency and electric generation projects during the year.

Central Hudson Enterprises Corporation, which is a full-service energy company, completed two lighting retrofit projects and has several more in progress, completed a cogeneration project for a school in Syracuse, and is implementing 4.8 megawatts of energy savings under a contract with a utility company in New Jersey.

Central Hudson Cogeneration, Inc. (Cencogen) continues to invest in cogeneration, and in generating facilities which use renewable resources. Cencogen is a partner in five operating projects: two hydroelectric plants, two methane gas generation plants, and one cogeneration plant. Three other cogeneration plants are under construction.

With respect to management changes, William E. VanWagenen, Senior Vice President of Corporate Services and Governmental Affairs, retired after more than 38 years of service. Ronald P. Brand, Assistant Vice President-Engineering, was promoted to Vice President-Engineering and Environmental Affairs. Benon Budziak, Manager of Fossil Production, was promoted to Assistant Vice President-Production. Ellen Ahearn, Manager Internal Auditing, assumed the additional responsibility for the Secretary's Office as Assistant Secretary during the absence of Gladys L. Cooper, Corporate Secretary, who is on an educational leave-of-absence.

Board of Directors

Front row, from left: Marjorie S. Brown; Edward F. X. Gallagher; John E. Mack, III, Chairman and Chief Executive Officer; Howard C. St. John, Vice Chairman; and Edward P. Swyer.

Back row, from left: Jack Effron; Charles LaForge; Paul J. Ganci, President and Chief Operating Officer; Heinz K. Fridrich; Richard H. Eyman; and L. Wallace Cross.

Ernest R. Acker, 1896 – 1992

Former Chairman & Chief Executive Officer

Ernest R. Acker, a man who was an inspiration to generations of Central Hudson employees, died on June 26 at the age of 96.

Mr. Acker joined Central Hudson in 1919 and was elected a Director in 1926. During his 45-year career, he served 32 years as Central Hudson's principal officer, first as President and General Manager from 1932 to 1960, and thereafter as Chairman and Chief Executive Officer.

At the time of his retirement in 1964, the Board of Directors proclaimed: "...throughout his dedicated and distinguished career he has not only maintained the high principles established by his predecessors as a basis for the Corporation's development, but he has inspired his associates and set an example for them in the conduct and progress of the Corporation's affairs by his own integrity and through his own ideals and standards of public service..."

Among his many accomplishments in community service and in industry activities, Mr. Acker was the only person to serve as President of both the Edison Electric Institute and the American Gas Association.

Mr. Acker's passing is a loss to the entire Central Hudson family.

Corporate & Stock Information

Annual Meeting

The annual meeting of holders of common stock will be held on Tuesday, April 6, 1993 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 ten-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, N. Y. 12601; telephone (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 Ellen Ahearn, Assistant Secretary, 284 South Avenue, Poughkeepsie, N.Y., 12601; telephone (914) 486-5757. The copy provided will be without exhibits; these may be purchased for a specified fee.

Shareholder Information

First Chicago Trust Company of New York; telephone (800) 428-9578 between 9 a.m. and 5 p.m. weekdays.

Security Analysts and Institutional Investors

Steven V. Lant, Assistant Treasurer and Assistant Secretary; telephone (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 Janet M. Horvat, Director of Risk Management & Shareholder Relations, at (914) 486-5204 or First Chicago Trust Company of New York at (800) 428-9578.

Transfer Agent & Registrar, Common and Preferred Stock

First Chicago Trust Company of New York, 30 West Broadway, New York, N.Y. 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 First Chicago Trust Company of New York at (800) 428-9578.

General Counsel

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

Independent Accountants

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

Central Hudson

Keeping The Customer In Focus

Common Stock — Market Price and Dividends Paid Per Share

	1992			1991		
	High	Low	Dividend	High	Low	Dividend
1st Quarter	$ 28 ⅞	$25 ⅞	$ .48	$ 24 ⅞	$22 ⅝	$ .46
2nd Quarter	29 ½	26	.48	25 ⅜	23 ¾	.46
3rd Quarter	30 ¼	28 ¼	.50	27 ⅞	23 ¾	.48
4th Quarter	31 ¼	28 ⅞	.50	29	26 ¾	.48

FINANCIAL SECTION

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FINANCIAL HIGHLIGHTS

Earnings Per Share: (Page 23)

Earnings per share of common stock were $2.65 in 1992, an increase of 25 cents, or 10% from 1991.

Dividends Per Share: (Page 30)

The quarterly dividend rate was increased to $.50 per share, effective August 1, 1992. This represented an increase of 4.2% over the previous quarterly rate of $.48 per share. Dividends paid to shareholders in 1992 were $1.96 per share as compared to $1.88 per share in 1991. No portion of the 1992 dividend constitutes a return of capital.

Nine Mile 2 Plant: (Note 2)

With the conclusion of the litigation regarding the construction of the Nine Mile 2 Plant, 1992 results reflect the one-time inclusion of $2.3 million in other income, representing 50% of the excess of litigation proceeds over litigation costs. The remaining 50% of the net proceeds will be refunded to Central Hudson's customers.

Economy:

The Company continued to recognize the effects of a slowing national and regional economy in 1992. Although the sales of electricity within Central Hudson's service territory decreased slightly in 1992, firm sales of natural gas, normalized for weather, grew for the seventh consecutive year.

Electric Sales: (Page 25)

Sales of electricity within the Company's service territory decreased 2% in 1992. Sales of electricity to residential customers remained stable in 1992 reflecting a 1% increase in the number of customers and a 1% decrease in usage per customer. Sales to commercial customers remained stable in 1992 as a result of the net effect of a 2% increase in the number of customers and a 2% decrease in usage per customer. Electric sales to industrial customers decreased 6% due primarily to the slow down in the economy.

Gas Sales: (Page 25)

Firm sales of natural gas increased 11% in 1992 resulting primarily from colder weather. Sales of gas to residential customers increased 14% due to the combined effect of a 13% increase in usage per customer and a 1% increase in the number of customers. Sales to commercial customers increased 14% resulting from the combined effect of an 11% increase in usage per customer and a 3% increase in the number of customers. Usage per customer for both residential and commercial categories was favorably impacted by a 14% increase in heating degree days in 1992. Firm gas sales to industrial customers decreased 19% resulting primarily from the shift of a large container manufacturing company to interruptible and transportation gas service.

Rate Proceedings – Electric: (Page 21)

On April 9, 1992, the Public Service Commission of the State of New York (PSC) issued its Opinion and Order authorizing the Company to increase its rates and charges for electric service, effective April 15, 1992, to receive additional revenues of $18.251 million annually, an increase of approximately 4.6%. This increase was based upon an authorized rate of return on common equity of 11.45%, an overall rate of return of 9.08% and a targeted cash coverage of total interest charges of 3.03 times.

On November 12, 1992, the Company filed a request with the PSC to increase its base rates for electric service to produce additional annual net revenues of $15.728 million based on projected operations during the rate year November 1, 1993 – October 31, 1994 (Rate Year). In developing the request to increase its base rates for electric service the Company made substantial use of proposed rate moderators. The total effect of rate moderators is $10.153 million which amount has the effect of reducing the base rate revenue requirements in the Rate Year from $25.881 million to $15.728 million, or 3.79%. In its filing, the Company requested an 11.75% return on common equity and a 9.15% return on total invested capital.

Rate Proceeding – Gas: (Page 22)

On November 12, 1992, the Company filed a request with the PSC to increase its base rates for firm natural gas service to produce additional annual net revenues of $1.838 million based on projected operations during the rate year November 1, 1993 – October 31, 1994. This represents an overall increase in firm gas revenues of 2.52%. In its filing, the Company requested an 11.75% return on common equity and a 9.15% return on total invested capital.

Common Stock: (Note 5)

Issuances under the Dividend Reinvestment Plan and Customer Stock Purchase Plan increased the number of common shares outstanding to 16,028,569. At December 31, 1992, a share of common stock was selling at $31.00 while the book value per share was $23.60. At December 31, 1992, 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 1992 amounted to $4.21 (15%) per share, consisting of $2.25 of market appreciation and $1.96 of cash dividends.

1992 Financing Program: (Notes 5 & 6)

In 1992 the Company redeemed three series of First Mortgage Bonds, totalling $56 million. The funds to redeem these bonds were obtained from the sale of $56 million of Medium Term Notes, in several tranches. In addition, Medium Term Notes in the amount of $20 million were sold and 260,912 shares of common stock were issued under the Company's Automatic Dividend Reinvestment and Customer Stock Purchase Plans realizing net proceeds of $7.5 million, to fund the 1992 construction program and reduce outstanding short-term debt.

1993 Financing Program: (Page 21)

In 1993, the Company intends to obtain external funding related to its construction program and working capital requirements by issuing additional shares of common stock under its Automatic Dividend Reinvestment and Customer Stock Purchase Plans and by issuing 700,000 shares of common stock to the public in March 1993.

Taxes: (Page 27)

In 1992, the Company incurred $91.5 million for operating taxes levied by federal, state and local governments.

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

(Thousands of Dollars)

	1992	1991	1990	1989	1988
Operating Revenues					
Electric	$ 427,436	$ 424,121	$ 433,859	$ 403,235	$ 379,249
Gas	96,121	70,615	69,749	66,767	59,136
Total	523,557	494,736	503,608	470,002	438,385
Operating Expenses					
Operations	283,787	267,339	279,602	263,104	232,243
Maintenance	34,226	31,504	30,364	23,939	23,813
Depreciation and amortization	39,596	37,230	36,134	35,344	31,938
Operating taxes	66,339	60,554	57,234	51,240	47,953
Federal and deferred income tax	25,111	22,613	22,456	19,828	21,843
Total	449,059	419,240	425,790	393,455	357,790
Operating Income	74,498	75,496	77,818	76,547	80,595
Other Income and Deductions					
Allowance for equity funds used during construction	596	921	785	463	403
Federal and deferred income tax	748	1,252	2,082	910	703
Other – net	4,427	854	1,505	3,419	2,739
Total	5,771	3,027	4,372	4,792	3,845
Income before Interest Charges	80,269	78,523	82,190	81,339	84,440
Interest Charges	32,581	35,582	41,155	42,222	40,636
Net Income	47,688	42,941	41,035	39,117	43,804
Dividends on Preferred Stock	5,544	5,659	5,681	5,698	5,753
Income Available for Common Stock	42,144	37,282	35,354	33,419	38,051
Dividends Declared on Common Stock	31,545	29,800	27,067	25,825	24,851
Amount Retained in the Business	10,599	7,482	8,287	7,594	13,200
Retained Earnings – beginning of year	48,093	40,611	32,324	24,730	11,530
Retained Earnings – end of year	$ 58,692	$ 48,093	$ 40,611	$ 32,324	$ 24,730
Common Stock					
Average shares outstanding (000's)	15,901	15,530	14,850	14,657	14,473
Earnings per share – on average shares outstanding	$2.65	$2.40	$2.38	$2.28	$2.63
Dividends declared per share	$1.98	$1.90	$1.82	$1.76	$1.715
Book value per share (at year-end)	$23.60	$22.84	$22.31	$21.76	$21.24
Total Assets	$1,167,124	$1,141,128	$1,093,530	$1,073,695	$1,046,290
Long-term Debt	441,096	416,030	407,638	447,440	448,605
Cumulative Preferred Stock	81,030	81,030	81,030	81,030	81,030
Common Equity	378,214	360,203	333,587	320,709	309,269

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

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 $61.1 million in 1992, a decrease of $8.9 million from the $70.0 million expended in 1991. As shown in the table below, cash construction expenditures for 1993 are estimated to be $70.6 million, an increase of $9.5 million over 1992 expenditures. Internal sources funded 100% of the 1992 cash construction expenditures and are presently estimated to fund approximately 94% of the forecasted expenditures for 1993.

Estimates of construction expenditures, internal funds, mandatory redemption of long-term securities, and working capital requirements for the five-year period 1993-1997 are set forth by year in the following table:

	1993	1994	1995	1996	1997	Total 1993-1997
			(Thousands of Dollars)			
Construction Expenditures *:						
Electric	$ 45,400	$ 46,700	$ 40,100	$ 40,600	$ 43,100	$215,900
Gas	10,000	8,100	7,600	7,700	7,900	41,300
Common	12,200	13,400	12,900	14,400	15,500	68,400
Roseton buy-back**	—	7,300	7,100	7,000	6,800	28,20[illegible]
Nuclear fuel	3,000	4,600	300	2,500	—	10,[illegible]
Total	70,600	80,100	68,000	72,200	73,300	364,[illegible]
Internal Funds Available:						
Depreciation accruals	40,700	43,500	45,400	47,200	48,800	225,600
Deferred income tax – net	16,800	12,100	13,100	13,300	2,800	58,100
Other	9,000	7,600	7,100	8,500	8,400	40,600
Total	66,500	63,200	65,600	69,000	60,000	324,300
Excess of Construction Expenditures over Internal Funds	4,100	16,900	2,400	3,200	13,300	39,900
Mandatory Redemption of Long-term Securities:						
Long-term debt	100	50,100	2,600	—	100	52,900
Preferred stock	800	800	800	800	800	4,000
Total	900	50,900	3,400	800	900	56,900
Working Capital Requirements	10,000	8,500	9,600	10,600	15,000	53,700
Total Cash Requirements	$ 15,000	$ 76,300	$ 15,400	$ 14,600	$ 29,200	$150,500

* Excluding the equity portion of Allowance for Funds used During Construction (AFDC), a noncash item.
** 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 rate for the Nine Mile 2 Plant (as described in Note 2 of the Notes to Consolidated Financial Statements [Notes]), is based on the remaining life method. The assumed amortization rate for the Danskammer Plant coal reconversion investment is 5%. The deferred income tax projections are based on current federal income tax law.

Included in the construction expenditures are expenditures which may be required to comply with the Clean Air Act Amendments of 1990. However, the Company cannot currently predict with certainty 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 89% of the Company's cash construction expenditures for the five-year period 1993-1997. During this same five-year period, total external financing requirements are projected to amount to $150.5 million, of which $56.9 million is related to the redemption of long-term securities.

CAPITAL STRUCTURE

Prior to 1987, the Company's policy with regard to capital structure was to maintain its common equity ratio in the 40%-50% 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 45.8% at December 31, 1986 to 35.4% at December 31, 1987.

During the years 1988 to 1990, the Company gradually rebuilt its common equity ratio through retained earnings and the issuance of common stock under its Automatic Dividend Reinvestment and Customer Stock Purchase Plans. In March 1991, it accelerated that rebuilding process through the public sale of 600,000 additional shares of common stock, the proceeds of which were used to refinance a portion of high coupon debt that had been called for redemption.

	Year-end Capital Structure		
	1990	1991	1992
Long-term debt	48.2%	47.8%	48.3%
Short-term debt	3.3	2.2	1.6
Preferred stock	9.5	9.2	8.8
Common equity	39.0	40.8	41.3
	100.0%	100.0%	100.0%

The Company plans to continue this rebuilding process by selling additional shares of common stock through a public offering in March 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 credit rating upgrades in 1991 and 1992 by Moody's Investor Service, Duff & Phelps Inc., and Standard & Poor's Corporation to the "A–" level and by Fitch Investors Service to the "A" level, and moved the Company closer to its longer-term goal of attaining an "A" credit rating.

1993 FINANCING PROGRAM

In 1992 the Company redeemed three series of First Mortgage Bonds, totalling $56 million. The funds to redeem these bonds were obtained from the sale of an aggregate of $56 million of Medium Term Notes, issued in several tranches. In addition, Medium Term Notes in the amount of $20 million were sold, and 260,912 shares of common stock were issued under the Company's Automatic Dividend Reinvestment and Customer Stock Purchase Plans realizing net proceeds of $7.5 million, to fund the 1992 construction program and reduce outstanding short-term debt.

In 1993, the Company intends to fund its external funding requirements related to its construction program and working capital requirements by issuing additional shares of common stock under its Automatic Dividend Reinvestment and Customer Stock Purchase Plans and by issuing 700,000 shares of common stock to the public in March 1993. Any cash requirements in 1993 not met through the sale of common stock will be met through short-term borrowings, issuances of Medium Term Notes, 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 totalling $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 PROCEEDINGS – ELECTRIC

Concluded: On May 17, 1991, the Company filed a request with the Public Service Commission of the State of New York (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 were not adequately provided for in present rates and would 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 April 9, 1992, 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 rates and charges for electric service, effective April 15, 1992, to receive additional revenues of $18.251 million annually, an increase of approximately 4.6%. This increase was based upon an authorized rate of return on common equity of 11.45%, an overall rate of return of 9.08% and a targeted cash coverage of total interest charges of 3.03 times. In the Order, the PSC also authorized the utilization of $11.5 million of Mirror CWIP, as discussed in Note 1 of the Notes.

Pending: On November 12, 1992, the Company filed a request with the PSC to increase its base rates for electric service to produce additional annual net revenues of $15.728 million based on projected operations during the rate year comprised of the period November 1, 1993 – October 31, 1994 (Rate Year). The Company has proposed that such base rate increase be partially offset by a credit related to 50% of the net proceeds received from litigation relating to the construction of the Nine Mile 2 Plant. The effect of such credit is estimated to be $3.475 million and would be refunded through the Company's electric fuel cost adjustment clause for a period of twelve months beginning in the first month of the Rate Year. Giving effect to such credit, the overall increase in electric revenues is 2.95% for the Rate Year.

In developing the request to increase its base rates for electric service the Company made substantial use of proposed rate moderators. The total effect of rate moderators is $10.153 million which amount has the effect of reducing the base rate revenue requirements in the Rate Year from $25.881 million to $15.728 million. The proposed rate moderators include $391,000 resulting from the amortization over three years of an overcollection of interest on variable rate debt, $2.234 million resulting from an amortization over three years of funds withdrawn from the Company's Retirement Income Plan pursuant to the Closing Agreement with the Internal Revenue Service under its Actuarial Resolutions Program (as described in Note 9 of the Notes), and $7.528 million, which is the effect on revenue requirements of an increase in the amortization of Mirror CWIP from its current level of $3.0 million to $8.0 million. In addition, the Company proposed to use an additional $6.172 million of Mirror CWIP to write-off projected net deferred debit balances at November 1, 1993, the start of the Rate Year.

The higher electric rates have been requested to cover costs associated with recognizing postretirement benefits other than pensions under Statement of Financial Accounting Standards No. 106, "Employers' Accounting for Postretirement Benefits Other than Pensions" ([SFAS 106] as described in Note 7 of the Notes) issued by the Financial Accounting Standards Board (FASB), new electric distribution facilities, increased operational expenses and higher taxes projected for the Rate Year that are not adequately provided for in present rates and to offset an anticipated reduction in revenue from sales.

In its filing, the Company requested an 11.75% return on common equity and a 9.15% return on total invested capital. It is not expected that any change in electric rates resulting from this filing will become effective before October 1, 1993.

Based on the Company's proposed allocation between customer classes, the proposed increase in base rates would range between 1.9% and 4.8% for various customer classes, and between 1.3% and 4.3% after giving effect to the credit which the Company has proposed be applied through the electric fuel cost adjustment clause in the first Rate Year.

The Company can make no prediction as to what action the PSC will take on its request, including the amount of any electric rate increase which may be authorized by the PSC.

RATE PROCEEDING – GAS

On November 12, 1992, the Company filed a request with the PSC to increase its base rates for firm natural gas service to produce additional annual net revenues of $1.838 million based on projected operations during the rate year comprised of the period November 1, 1993 – October 31, 1994 (Rate Year). This represents an overall increase in firm gas revenues of 2.52%.

The higher rates have been requested to cover costs associated with new gas distribution facilities, recognition of postretirement benefits other than pensions under SFAS 106, increased operational expenses and higher taxes projected for the Rate Year that are not adequately provided for in present rates and will not be offset by increased revenue from sales. The increase in revenues of $1.838 million reflects the proposed amortization over a five-year period of previously retained profits from sales of gas to interruptible customers, the effect on revenue requirements of such amortization in the Rate Year being $886,000.

In its filing, the Company requested an 11.75% return on common equity and a 9.15% return on total invested capital. It is not expected that any new gas rates resulting from this filing will become effective before October 1, 1993.

Based on the Company's proposed allocation between firm customer classes, the proposed increase would be approximately 3.6% for residential customers and 1.3% for commercial/industrial customers.

The Company can make no prediction as to what action the PSC will take on its request, including the amount of any gas rate increase which may be authorized by the PSC.

OTHER DEVELOPMENTS

Electric Sales to IBM: The Company's largest customer is International Business Machines Corporation (IBM), which accounted for approximately 18% of the Company's total electric revenues for the year ended December 31, 1992. Published reports indicate that IBM reduced its labor force by about 40,000 worldwide in 1992 and intends further to reduce its labor force by about 25,000 worldwide in 1993. The reports

also indicate that up to 3,500 IBM employees in the Company's service territory may be part of these labor force reductions. [illegible] reductions would bring the total number employed by [illegible] in the Company's service territory to about 18,500, as compared to the peak level of IBM employment in excess of 30,000 in 1985. Electric sales to IBM declined by about 7% in 1992. The Company cannot assess at this time the effect, if any, of such IBM employment reductions on the Company's future results of operations.

New Accounting Standards: In December 1990, the FASB issued SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other than Pensions" (SFAS 106), which the Company will adopt in the first quarter of 1993. As discussed in Note 7 of the Notes, the Company believes that the increased costs resulting from the adoption of SFAS 106 will be recovered through the normal regulatory process.

In February 1992, the FASB issued SFAS No. 109, "Accounting for Income Taxes" (SFAS 109), which the Company will adopt in the first quarter of 1993. As discussed in Note 3 of the Notes, the Company believes this new accounting standard will not have a material impact on the Company's results of operations.

Environmental Issues: On an ongoing basis, the Company assesses environmental issues which could impact the Company and its ratepayers. Note 9 of the Notes discusses current environmental issues affecting the Company, including the Clean Air Act Amendments of 1990 which require control [illegible]missions from fossil-fueled electric generating units.

RESULTS OF OPERATIONS

The following discussion and analysis includes an explanation of significant changes in revenues and expenses during the years 1990, 1991 and 1992. Additional information relating to changes between these years is provided in the Notes on pages 36 through 52 of this Report.

EARNINGS

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

	1990	1991	1992
Average shares outstanding (000's)	14,850	15,530	15,901
Earnings per share	$ 2.38	$ 2.40	$ 2.65
[illegible]crease over prior year	4%	1%	10%
[illegible]rn earned on common [illegible]quity per books*	10.8%	10.6%	11.4%

* Return on equity for regulatory purposes differs.

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 $4.8 million in 1990, actual costs for 1991 were $520,000 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.

The 25-cent per share increase in the 1992 earnings resulted primarily from increased firm gas sales, increased electric base rates which became effective April 15, 1992, and increased firm gas base rates which became effective July 8, 1991. In addition, lower interest charges resulting from the refinancing of high interest rate debt in 1992 and an increase in the amortization to income of Mirror CWIP as a rate moderator favorably impacted earnings in 1992. The one-time inclusion in income of 50% of the Nine Mile 2 Plant net litigation proceeds of $2.3 million, as more fully discussed in Note 2 of the Notes, accounted for 10 cents of the increase in the 1992 per share earnings.

These favorable variations were partially offset, however, by increased maintenance on the Company's fossil-fueled electric generating plant, increased payroll costs, an increase in operating reserve provisions, and higher depreciation expense.

OPERATING REVENUES

Total operating revenues increased $33.6 million (7%) in 1990, decreased $8.9 million (2%) in 1991, and increased $28.8 million (6%) in 1992. As shown in the table below, 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 base rates. The 19[illegible] increase in revenues was due to increased sales of natural g[illegible] higher electric and gas base rates, and higher gas costs includ[illegible] in revenues partially offset by decreased revenues from sales of electricity to other utilities. Details of the revenue changes are as follows:

	Increase or (Decrease) from Prior Year					
	1990		1991		1992	
	Electric	Gas	Electric	Gas	Electric	Gas
	(Thousands of Dollars)					
Customer sales	$13,071	$ 2,530	$ 2,503	$ (2,812)	$ (1,515)	$16,957
Sales to other utilities	(100)	—	(4,413)	—	(5,353)	—
Increases in base rates	7,356	—	5,811	1,157	11,455	3,618
Fuel cost changes reflected in base rates	—	—	—	2,499	—	6,850
Fuel cost adjustment	8,691	(547)	(11,123)	(2,015)	(2,774)	(2,518)
Deferred revenues	1,235	133	(2,927)	2,293	770	(2,255)
Miscellaneous	371	866	411	(256)	732	2,854
Total	$30,624	$ 2,982	$ (9,738)	$ 866	$ 3,315	$25,506

The Company's electric fuel cost adjustment clause provides for a partial sharing of fuel cost variations, pursuant to an incentive/penalty formula. The PSC requires a sharing between the customers and the Company of variations in actual fuel costs from the forecasted amounts which have been approved by the PSC for a specific twelve-month period whereby the Company bears 20% of the first $10 million of variation and 10% of the second $10 million of variation. 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 following table sets forth the variation in actual electric fuel costs from the targeted amounts approved by the PSC; the amount charged or credited to retail customers through the electric fuel cost adjustment clause; and the amount retained by the Company and recognized in the results of operations:

	1990	1991	1992
	(Thousands of Dollars)		
Variation in actual electric fuel costs from targeted amounts	$(9,916)	$ 852	$(1,067)
Customer (charge) credit	(7,933)	682	(854)
Income (expense) recognized by the Company	$(1,983)	$ 170	$ (213)

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 the results of operations:

	1990	1991	1992
	(Thousands of Dollars)		
Variation in actual net revenue from imputed amounts	$ 2,337	$ (785)	$(3,118)
Customer (charge) credit	1,870	(628)	(2,494)
Income (expense) recognized by the Company	$ 467	$ (157)	$ (624)

SALES

Kwh. sales of electricity within the Company's service tory increased 3.4% in 1990 and .7% in 1991, but decreased 2.0% in 1992. The decline in the growth rate from 1990 to 1991 and the decrease in sales in 1992 primarily reflects the effect of a slow down in the region's economy. Firm sales of natural gas, excluding sales to the Company's electric department, increased .7% in 1990, decreased 2.3% in 1991 and increased 11.3% in 1992. The 1991 decrease resulted 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. The increase in 1992 is due primarily to the much colder weather experienced this year. Heating degree days increased 14% in 1992. Changes in sales by major customer classification are set forth below (parentheses denote decrease):

	Electric %		
	1990	1991	1992
Residential	1	—	—
Commercial	2	1	—
Industrial	7	1	(6)

	Gas %		
	1990	1991	1992
Residential	(1)	(4)	14
mmercial	1	2	14
ustrial	12	(10)	(19)

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 %		
	1990	1991	1992
Growth in number of customers	1	1	1
Change in average usage per customer	(1)	—	(1)

The usage per customer remained stable in 1991 as warmer weather experienced during the winter heating season was offset by the hotter weather experienced during the summer air conditioning months. In 1992, usage per customer decreased due to cooler weather experienced during the summer air conditioning months. Residential cooling degree days decreased 77% in 1992.

Commercial electric sales: The commercial sales increase of 2% in 1990 was due primarily to a 3% growth in the number ustomers. Commercial sales increased 1% in 1991 due marily to the net effect of a 2% growth in the number of customers and a 1% decrease in usage per customer. In 1992, commercial sales remained stable as a result of the net effect of a 2% increase in the number of customers and a 2% decrease in usage per customer.

Industrial electric sales: The increase in industrial electric sales of 7% in 1990 and 1% in 1991 was due primarily to increased usage by existing customers. In 1992, industrial electric sales decreased 6% due to decreased usage by existing customers, including IBM.

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 %		
	1990	1991	1992
Growth in number of customers	2	1	1
Change in average usage per customer	(5)	(5)	13
Change in heating degree days:			
Bimonthly billing cycle	(3)	(6)	14
Calendar year	(15)	3	14

	Commercial Sales %		
	1990	1991	1992
Growth in number of customers	6	5	3
Change in average usage per customer	(4)	(3)	11
Change in heating degree days:			
Bimonthly billing cycle	(3)	(6)	14
Calendar year	(15)	3	14

Firm gas sales to industrial customers increased 12% in 1990 due primarily to an increase in usage by existing customers. Firm gas sales to industrial customers decreased 10% in 1991 and 19% in 1992 primarily from decreased sales to existing customers and the shift of a container manufacturing company located within the Company's service territory to interruptible and transportation gas service.

Gas sales – interruptible: Interruptible gas sales increased 14% in 1990, decreased 20% in 1991 and increased 192% in 1992. The 1990 increase resulted primarily from the change 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. Net revenues from transportation service are approximately equal to those net

revenues from the customers who shifted from interruptible service. The 1992 increase was due primarily to the sale of natural gas to the Roseton Electric Generating Station (Roseton Plant) for use as a boiler fuel as well as the shift of several customers to interruptible sales service from interruptible transportation service.

NUCLEAR OPERATIONS

During 1990 the Company's per share earnings were reduced by 21 cents because the cost of operating the Nine Mile 2 Plant (Plant) exceeded the amounts provided for in the rate-making process. During 1991 and 1992, 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.

Through 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 and 1992 the amounts provided for in rates exceeded the Plant's operating and maintenance expenses by $520,000 and $19,000, respectively. Additional operating experience, improvements made in budgeting and forecasting processes, and efforts to control cost and staffing levels have all contributed to the reduction in operating costs.

The Company has continued to participate actively on the management, operations and accounting committees for the Plant and also the finance committee dealing with regulatory and budgeting issues in an effort 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					
	1990		1991		1992	
	Amount	%	Amount	%	Amount	%
			(Thousands of Dollars)			
Operating Expenses:						
Fuel and purchased electricity	$ 10,164	7.0	$(15,511)	(9.9)	$ (7,683)	(5.5)
Purchased natural gas	(387)	(1.0)	979	2.5	15,199	38.1
Other expenses of operation	2,898	4.1	4,852	6.6	6,347	8.1
Maintenance	5,005	23.4	2,138	8.1	2,916	10.2
Nine Mile 2 Plant operation and maintenance	5,243	53.1	(3,581)	(23.7)	2,391	20.8
Depreciation and amortization	790	2.2	1,096	3.0	2,366	6.4
Taxes, other than income tax	5,994	11.7	3,320	5.8	5,785	9.6
Federal income tax	2,628	13.3	157	0.7	2,498	11.0
Total	$ 32,335	8.2	$ (6,550)	(1.5)	$ 29,819	7.1

The most significant elements of cost are fuel and purchased electricity in the Company's electric department and purchased natural gas in the Company's gas department. Approximately 36% in 1990, 33% in 1991 and 31% in 1992 of every revenue dollar billed in the Company's electric department was expended for the combined cost of fuel used in electric generation and purchased electricity. The corresponding figures in the Company's gas department for the cost of purchased gas are 56%, 56% and 57%, respectively. As discussed in Note 9 of the Notes, contracts that the Company has in place for a majority of its gas supply will expire in 1993.

In 1990, the combined cost of fuel used in electric generation and purchased electricity increased $10.2 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 $15.5 million (9.9%), resulting primarily from lower fuel prices. In 1992, the combined cost of fuel used in electric generation and purchased electricity decreased $7.7 million (5.5%) resulting primarily from decreased sales of electricity.

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

	Average Cost (¢/Kwh.)		
	Danskammer Plant	Roseton Plant	Nine Mile 2 Plant
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*
1992	2.01	2.64	.60

* 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 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 boiler fuel at the Danskammer Plant and the Company's e of gas burned as a boiler fuel at the Roseton Plant, and the st per Mcf. during the last five years are set forth in the following table:

Year	Amount of Gas Purchased – Mcf.	$/Mcf.*
1988	11,004,936	3.00
1989	12,402,848	3.22
1990	11,813,255	3.37
1991	11,640,289	3.50
1992	16,831,406	3.59

The large increase in gas purchased in 1992 is due primarily to the increased sales of natural gas to residential and commercial customers and the sale of natural gas to the other cotenants of the Roseton Plant for use as a boiler fuel beginning in February 1992.

The $2.9 million (4%) increase in other expenses of operation in 1990 is due primarily 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 due primarily to higher employee wages and related fringe benefits, increase in major storm costs, an increase in gas department l expenses and increased operating expenses related to the w York Power Pool. The $6.3 million (8%) increase in other expenses of operation in 1992 is due primarily to higher employee wages, increased costs associated with the Company's energy efficiency programs, increased electric and gas facilities charges, and an increase in the reserve provisions for injuries and damages and uncollectible customer accounts.

Maintenance expenses increased $5.0 million (23%) in 1990 and $2.1 million (8%) in 1991 due primarily 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 due primarily 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 1990. The 1991 increase is attributable also to a major overhaul of Unit 2 at the Roseton Generating Plant which began in October 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. Maintenance expenses increased $2.9 million (10%) in 1992 due primarily to increased costs for a major overhaul of Unit 2 at the Danskammer Plant which began in January 1992. Increased maintenance costs related to Unit 4 at the Danskammer Plant in 1992 were offset by a reduction in maintenance costs related to Unit 1 at the Danskammer Plant.

The Nine Mile 2 Plant commenced commercial operation on April 5, 1988. Subsequent to that date, the Company's portion of operating expenses, taxes and depreciation pertaining to operation have been included in the Company's financial results. As noted in the above discussion on nuclear operation of the Nine Mile 2 Plant, the operation and maintenance expenses for 1990 exceeded the amounts provided for in rates by $4.8 million. In 1991 and 1992, however, the amounts provided for in rates exceeded operation and maintenance expenses for the Nine Mile 2 Plant by $520,000 and $19,000, respectively.

The Company's total provision for depreciation amounted to 3.24% in 1990, 3.23% in 1991 and 3.29% in 1992 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 29.9% in 1990, 30.9% in 1991, and 31.4% in 1992.

State and local taxes levied on gross revenues increased $3.9 million in 1990, $1.4 million in 1991 and $4.9 million in 1992. 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%. In 1992, the revenue taxes increase was due to the increase in the New York State Gross Receipt Tax Rate as well as the increase in revenues in 1992.

Property taxes, including school taxes, increased $1.5 million, $1.4 million and $405,000 in 1990, 1991 and 1992, respectively. Commercial operations of the Nine Mile 2 Plant accounted for $391,000, $396,000, and $259,000, 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:

	1990	1991	1992
		(Thousands of Dollars)	
Nine Mile 2 Plant	$ 910	$ 707	$ 597
Iroquois Gas Pipeline interconnection	—	272	201
Other	770	1,231	749
Total	$1,680	$2,210	$1,547
AFDC rate	10.25%	9.00%	6.75%

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

Total interest charges (excluding AFDC) decreased $601,000 (1%) in 1990, $5.2 million (12%) in 1991 and $3.3 million (9%) in 1992. The following table sets forth some of the pertinent data on the Company's outstanding debt:

	1990	1991	1992
		(Thousands of Dollars)	
Long-term debt:			
New debt issued	$ —	$100,000	$ 76,000
Debt retired	35,000	89,000	56,000
Outstanding at year-end:*			
Amount (including current portion)	413,528*	423,785*	443,618*
Effective rate	8.91%	7.70%	7.05%
Short-term debt:			
Average daily amount outstanding	$ 2,048	$ 8,281	$ 12,984
Weighted average interest rate	8.98%	7.12%	4.48%

* Including debt of subsidiaries of $5.188 million in 1990, $4.527 million in 1991, and $4.442 million in 1992.

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

In an effort to reduce its cost of debt, the Company refinanced a large portion of its high interest rate debt with much lower interest rate debt during the period of December 1990 to August 1992. Details of the 1990 – 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
13 % Series due 1992	$35,000,000	100.00%	Dec. 4, 1990
14¾% Series due 1994	$45,000,000	103.25%	June 12, 1991
10¾% Series due 2005	$20,000,000	105.90%	July 1, 1991
10¼% Series due 2009	$20,000,000	106.40%	July 1, 1991
11 % Series due 1995	$ 4,000,000*	100.00%	July 2, 1991

Issuance and Sale:

Series of First Mortgage Bonds	Principal Amount	Proceeds to Company	Issuance and Sale Date
9¼% Series due 2021	$70,000,000	98.028%	May 14, 1991
8¾% Series due 2001	$30,000,000	97.836%	May 14, 1991

* Sinking fund payment.

Details of the 1992 long-term debt redemptions and issuances are shown below.

emptions:

Series of First Mortgage Bonds	Principal Amount Redeemed	Applicable Redemption Price (% of Principal Amount)	Redemption Date
11 % Series due 1995	$ 4,000,000*	100.000%	July 2, 1992
11 % Series due 1995	$12,000,000	102.445%	July 2, 1992
9¾% Series due 2000	$25,000,000	102.390%	August 1, 1992
9¾% Series due 2004	$15,000,000	104.080%	August 1, 1992

Issuance and Sale (under the Company's Medium Term Note Program):

Tranches of Medium Term Notes	Principal Amount	Proceeds to Company	Issuance and Sale Date
7.70% due 2000**	$25,000,000	99.400%	June 11, 1992
7.97% due 2003**	$ 8,000,000	99.375%	June 11, 1992
7.97% due 2003**	$ 8,000,000	99.375%	June 11, 1992
7.85% due 2004***	$15,000,000	99.375%	July 2, 1992
8.12% due 2022**	$10,000,000	99.250%	August 31, 1992
8.14% due 2022**	$10,000,000	99.250%	August 31, 1992

* Sinking fund payment.
** First Mortgage Bonds.
*** Promissory Note.

Under the Company's Medium Term Note Program, the Company has authorization from the PSC to issue up to $100 million in edium Term Notes through December 31, 1994, of which the Company has issued and sold $76 million through December 31, 1992 as detailed above.

FINANCIAL INDICES

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

	1988	1989	1990	1991	1992
Pretax coverage of total interest charges:					
Including AFDC	2.58x	2.36x	2.46x	2.74x	3.15x
Excluding AFDC	2.53x	2.27x	2.39x	2.66x	3.03x
Pretax coverage of total interest charges and preferred stock dividends	2.14x	1.99x	2.06x	2.24x	2.54x
Percent of construction expenditures financed from internal funds	100%	100%	100%	88%	100%
AFDC and Mirror CWIP as a percentage of income available for common stock	5%	11%	9%	8%	10%
Effective tax rate	33%	33%	33%	33%	34%

COMMON STOCK DIVIDENDS AND PRICE RANGES

The Company and its principal predecessors have paid dividends on its common stock in each year commencing 1903, 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 16 of this Report.

On June 22, 1990, the Company increased the quarterly dividend to $.46 per share. On June 28, 1991 the quarterly dividend rate was increased to $.48 per share and on June 26, 1992 the Company further increased the quarterly dividend to $.50 per share. While the Board of Directors of the Company intends to continue the practice of paying dividends quarterly, the amounts and dates of such dividends as may be declared will be based on all the facts and circumstances known at the time of consideration of such declaration.

The number of registered holders of common stock as of December 31, 1992 was 27,209. Of these, 26,855 were accounts in the names of individuals with total holdings of 6,582,419 shares or an average of 245 shares per account. The 354 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, 1992, the amount of retained earnings available for dividends on the Company's common stock under the provisions of said 4.85% Promissory Notes was $50,278,000.

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, 1992 and 1991, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1992, 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 29, 1993

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

(Thousands of Dollars)

	Year ended December 31,		
	1992	1991	1990
Balance at beginning of year	$48,093	$40,611	$32,324
Net Income	47,688	42,941	41,035
	95,781	83,552	73,359
Dividends declared:			
On cumulative preferred stock	5,544	5,659	5,681
On common stock ($1.98 per share 1992; $1.90 per share 1991; $1.82 per share 1990)	31,545	29,800	27,067
	37,089	35,459	32,748
Balance at end of year	$58,692 *	$48,093	$40,611

* Pursuant to the terms of the 4.85% promissory notes, due 1995, $50,278 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

	1992	1991
Utility Plant		
Electric	$1,060,528	$1,028,394
Gas	121,021	101,212
Common	77,870	65,586
Nuclear fuel	25,989	24,638
	1,285,408	1,219,830
Less: Accumulated depreciation	397,893	371,184
Nuclear fuel amortization	17,872	15,533
	869,643	833,113
Construction work in progress	34,930	52,284
	904,573	885,397
Other Property and Investments	9,078	7,869
Current Assets		
Cash	6,787	2,980
Temporary cash investments	4,471	2,934
Special deposits	1,209	261
Accounts receivable from customers – net (Note 8)	46,603	41,215
Accrued unbilled utility revenues (Notes 1 and 8)	15,485	12,989
Other receivables	3,280	4,318
Materials and supplies, at average cost:		
Fuel	23,791	23,044
Construction and operating	14,249	14,398
Prepaid taxes and other prepayments	10,603	10,602
	126,478	112,741
Deferred Charges		
Deferred finance charges – Nine Mile 2 Plant (Note 1)	48,208	60,166
Deferred finance charges approved for amortization (Note 1)	25,631	14,309
Deferred Roseton litigation settlement (Note 1)	921	1,843
Unamortized debt expense	13,524	11,914
Deferred vacation (Note 9)	3,441	3,185
Deferred Nine Mile 2 Plant litigation costs (Note 2)	—	4,072
Deferred energy efficiency costs (Note 1)	9,220	12,419
Other	26,050	27,213
	126,995	135,121
	$1,167,124	$1,141,128

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

DECEMBER 31, 1992 AND 1991

LIABILITIES

	1992	1991
Capitalization		
Common Stock Equity		
Common stock, $5 par value (Note 5)	$ 80,143	$ 78,838
Paid-in capital (Note 5)	245,349	239,200
Retained earnings	58,692	48,093
Capital stock expense	(5,970)	(5,928)
	378,214	360,203
Cumulative Preferred Stock (Note 5)		
Without sinking fund	61,030	61,030
With sinking fund	19,200	20,000
	80,230	81,030
Long-term Debt (Note 6)	441,096	416,030
	899,540	857,263
Current Liabilities		
Current maturities of long-term debt and preferred stock	2,243	5,789
Notes payable	15,000	19,000
Accounts payable	27,886	34,611
Accrued taxes	3,949	2,371
Accrued interest	7,222	7,265
Accrued vacation (Note 9)	3,634	3,378
Customer deposits	3,191	3,069
Dividends declared	9,374	8,976
Other	5,172	7,338
	77,671	91,797
Deferred Credits and Other Liabilities		
Deferred finance charges – Nine Mile 2 Plant (Note 1)	48,208	60,166
Deferred finance charges approved for amortization (Note 1)	1,000	(371)
Deferred Nine Mile 2 Plant litigation proceeds (Note 2)	2,911	10,412
Accrued pension costs (Note 7)	14,295	5,521
Operating reserves	1,818	2,242
Other	9,116	9,672
	77,348	87,642
Accumulated Deferred Income Tax (Note 3)	112,565	104,426
Commitments and Contingencies (Notes 2 and 9)	—	—
	$1,167,124	$1,141,128

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

CONSOLIDATED STATEMENT OF INCOME

(Thousands of Dollars)

	Year ended December 31, 1992	1991	1990
Operating Revenues			
Electric	$413,443	$404,775	$410,100
Gas	96,121	70,615	69,749
Total – own territory	509,564	475,390	479,849
Revenues from electric sales to other utilities	13,993	19,346	23,759
	523,557	494,736	503,608
Operating Expenses			
Operation:			
Fuel used in electric generation	106,970	121,587	132,598
Purchased electricity	25,835	18,901	23,401
Purchased natural gas	55,066	39,867	38,888
Other expenses of operation	95,916	86,984	84,715
Maintenance	34,226	31,504	30,364
Depreciation and amortization (Note 1)	39,596	37,230	36,134
Taxes, other than income tax	66,339	60,554	57,234
Federal income tax (Note 3)	5,467	10,514	15,110
Deferred income tax (Note 3)	19,644	12,099	7,346
	449,059	419,240	425,790
Operating Income	74,498	75,496	77,818
Other Income and Deductions			
Allowance for equity funds used during construction (Note 1)	596	921	785
Federal income tax (Note 3)	(7,789)	2,454	4,198
Deferred income tax (Note 3)	8,537	(1,202)	(2,116)
Other – net	4,427	854	1,505
	5,771	3,027	4,372
Income before Interest Charges	80,269	78,523	82,190
Interest Charges			
Interest on mortgage bonds	23,207	25,236	29,726
Interest on other long-term debt	6,286	7,482	9,276
Other interest	1,954	2,569	1,951
Allowance for borrowed funds used during construction (Note 1)	(951)	(1,289)	(895)
Amortization of premium and expense on debt	2,085	1,584	1,097
	32,581	35,582	41,155
Net Income	47,688	42,941	41,035
Dividends on Preferred Stock	5,544	5,659	5,681
Income Available for Common Stock	$ 42,144	$ 37,282	$ 35,354
Common Stock:			
Average shares outstanding (000's)	15,901	15,530	14,850
Earnings per share – on average shares outstanding	$2.65	$2.40	$2.38

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

CONSOLIDATED STATEMENT OF CASH FLOWS

(Thousands of Dollars)

	Year ended December 31, 1992	1991	1990
Operating Activities			
Net Income	$ 47,688	$ 42,941	$ 41,035
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation, amortization and nuclear fuel amortization	42,999	41,367	41,105
Deferred income taxes, net	11,107	13,301	9,462
Plant disallowance applied to accrued Nine Mile 2 Plant completion costs	—	—	4,672
Allowance for equity funds used during construction	(596)	(921)	(785)
Nine Mile 2 Plant deferred finance charges, net	(9,951)	95	(2,668)
Provisions for uncollectibles	3,824	3,536	3,358
Accrued pension costs	8,774	2,432	3,089
Nine Mile 2 Plant net litigation proceeds	(2,328)	—	—
Other – net	2,009	(3,861)	(3,237)
Changes in current assets & liabilities, net:			
Accrued Nine Mile 2 Plant completion costs	—	—	(5,554)
Accounts receivable and unbilled utility revenues	(10,670)	(4,597)	(9,463)
Materials and supplies	(598)	3,140	(11,409)
Special deposits, prepaid taxes and other prepayments	(949)	(949)	474
Accounts payable	(6,725)	9	8,985
Accrued taxes and interest	1,535	(4,318)	1,197
Other current liabilities	(1,788)	98	1,689
Net cash provided by operating activities	84,331	92,273	81,950
Investing Activities			
Additions to Plant	(61,721)	(70,907)	(50,822)
Allowance for equity funds used during construction	596	921	785
Net cash expenditures	(61,125)	(69,986)	(50,037)
Investment activity of subsidiaries	(204)	(1,751)	(18)
Plant retirements, costs of removal and other	(467)	(753)	(2,254)
Nine Mile 2 Plant decommissioning trust fund	(917)	(868)	(880)
Net cash used in investing activities	(62,713)	(73,358)	(53,189)
Financing Activities			
Proceeds from issuance of:			
Long-term debt	77,630	101,131	1,017
Common stock	7,453	19,326	4,650
Net borrowings (repayments) of short-term debt	(4,000)	(9,000)	28,000
Retirement and redemption of long-term debt	(57,797)	(90,874)	(36,697)
Dividends paid on preferred and common stock	(36,691)	(34,801)	(32,314)
Issuance and redemption costs	(2,869)	(7,257)	(60)
Net cash used in financing activities	(16,274)	(21,475)	(35,404)
Net Change in Cash and Cash Equivalents	5,344	(2,560)	(6,643)
Cash and Cash Equivalents at Beginning of Year	5,914	8,474	15,117
Cash and Cash Equivalents at End of Year	$ 11,258	$ 5,914	$ 8,474
Supplemental Disclosure of Cash Flow Information			
Interest paid (net of amounts capitalized)	$ 30,413	$ 34,499	$ 41,077
Federal income taxes paid	11,298	10,500	13,566

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 temporary cash investments with an original maturity of three months or less to be cash equivalents.

Certain amounts from prior years have been reclassified on the consolidated financial statements to conform with the 1992 presentation.

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 land-holding, 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:

	1992	1991	1990
	(Thousands of Dollars)		
Total Assets (year-end)	$17,651	$14,378	$10,731
Net Assets (year-end)	9,274	6,140	4,945
Revenues	4,753	5,758	3,879
Net Income	634	195	479

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, 1992 and 1991, were:

	1992	1991
	(Thousands of Dollars)	
Nine Mile 2 Plant		
Plant in service	$301,722	$301,794
Construction work in progress	6,299	5,453
Accumulated depreciation	(33,272)	(27,255)
Roseton Plant		
Plant in service	$124,085	$121,107
Construction work in progress	373	1,383
Accumulated depreciation	(62,340)	(59,493)

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, a noncash item) is reported as other income. The amount shown on the Consolidated Statement of Cash Flows for investing activities "Net cash expenditures" excludes the equity component of the AFDC.

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 by amortizing portions of the deferred credit to other income or by the elimination through writing off other deferred balances as directed by the PSC. Based on the history of cost escalation in the electric utility industry and the history of the Company's rate increases, the Company expects such application of the deferred credit will occur over a period substantially shorter than the life of the Nine Mile 2 Plant. When amounts of such deferred credit are applied in order to reduce revenue requirements, amortization is started for a corresponding amount of the deferred debit, which amortization continues on a level basis over the remaining life of the Nine Mile 2 Plant resulting in recovery of such corresponding amount through rates. Deferred debit and deferred credit amounts approved for

amortization are identified on the balance sheet as "Deferred finance charges approved for amortization." Deferred debit and deferred credit amounts not yet approved for amortization are identified on the balance sheet as "Deferred finance charges – Nine Mile 2 Plant." Both the deferred debit and the deferred credit are expected to be exhausted by the end of the useful life of the Nine Mile 2 Plant either through the amortization or write-off procedures described above or through the write-off of the remaining debit and credit as directed by the PSC. 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.

Pursuant to the PSC Order and Opinion issued April 9, 1992 regarding the Company's electric rate case, the Company was authorized to write-off $8.5 million of the deferred credit against other deferred balances and to amortize $3.0 million to other income over 12 months beginning in May 1992. In 1992, the Company amortized a total of $2.1 million of the deferred credit.

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, with the exception of the Nine Mile 2 Plant which is depreciated by a remaining life amortization method. The Company estimates the useful life of the Nine Mile 2 Plant will end in the year 2026. 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 sold which are 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 1992 and the six-month period July through December 1991, the Company amortized $394,000 and $197,000, respectively, 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.

Reference is made to "Management's Discussion and Analysis of Financial Condition and Results of Operations" for results of both sharing arrangements mentioned above.

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 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 demand side management and energy conservation (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 Company filed its 1993 and 1994 Energy Efficiency Program with the PSC in June 1992. The 1993 Energy Efficiency Program was substantially approved by the PSC, however, the Company expects that the PSC will require the Company to refile its 1994 Energy Efficiency Program targeting greater levels of energy savings. The Energy Efficiency Program costs are deferred and amortized over five years.

In addition to the deferral of Energy Efficiency Program costs, the Company defers for future recovery lost revenues and an equity incentive allowance for achieving energy efficiency goals.

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 $921,000 recorded at December 31, 1992 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 classifications 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 continued as operator of the Nine Mile 2 Plant, but all five cotenant owners shared certain policy, budget and managerial oversight functions. The Interim Operating Agreement expired on December 31, 1992 and was replaced by an Operating Agreement, effective January 1, 1993, entered into by such owners, which is substantially the same as the Interim Operating Agreement. The fixed term of such Operating Agreement is two years from its effective date and unless terminated on the expiration of such two-year period, continues subject to termination on six months notice. The cotenant owners will petition the PSC for approval of the Operating Agreement.

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.

In March 1991, the PSC approved a settlement agreement, dated June 6, 1990 (1990 Settlement Agreement), which was reached among the cotenants of the Nine Mile 2 Plant, the Staff of the PSC, the New York State Consumer Protection Board, the Attorney General of the State of New York and other interested parties. The 1990 Settlement Agreement brought 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 open issues related to the 1986 Settlement. The 1990 Settlement Agreement contemplated subsequent negotiations among the interested parties dealing with operation and maintenance

(O&M) expenses and rate issues for the Nine Mile 2 Plant for [illegible]r time periods. Supplemental settlements of Nine Mile 2 [illegible]lant-rate issues (Supplements #1 and #2) were subsequently reached among the interested parties and filed with the PSC.

Supplement #1: On March 25, 1992, the PSC issued its formal, written Opinion and Order approving Supplement #1. Supplement #1 contains agreed-upon Nine Mile 2 Plant O&M expense amounts for the 19 months from June 1991 through December 1992. Pursuant to Supplement #1, the Company was allowed to recover the Nine Mile 2 Plant O&M expense amounts through rates. In 1992, the Company recorded $13.9 million of O&M expenses.

Supplement #1 also provides that, commencing with the calendar year 1993, O&M expenses for all cotenants will be included in rates in accordance with a "common" rate year mechanism set forth in Supplement #1. Deferral mechanisms are provided in Supplement #1 to allow the Nine Mile 2 Plant common rate year determinations to be implemented in the rates of each Nine Mile 2 Plant cotenant.

Supplement #2: Supplement #2, which the PSC voted to approve on January 27, 1993, provides for agreed-upon Nine Mile 2 Plant O&M expense amounts of $20.6 million for calendar year 1993.

Plant Litigation and Settlements: The cotenants entered [illegible]o settlement agreements with the following parties, on the [illegible]es 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.

In addition to the disputes and litigations listed above, a complaint was 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 (ITT Litigation). On July 30, 1992, a jury found in favor of defendants in the ITT Litigation, resulting in no recovery for the Nine Mile 2 Plant cotenants.

Pursuant to the 1990 Settlement Agreement, all proceeds from the settlements and ITT Litigation referred to above in excess of the combined litigation costs of such settlements and the ITT Litigation are to be shared equally between the Company's shareholders and ratepayers. The full amount of the shareholders' portion of the net proceeds from the settlement with the General Electric Company was included as a credit in [illegible]mputing the Company's share of the disallowance resulting [illegible]m the 1990 Settlement Agreement. In 1992, the Company recognized $2.328 million in other income representing the shareholders' 50% share of the net proceeds from such settlements and the ITT Litigation, excluding the settlement with the General Electric Company. The remaining net proceeds from all settlements and the ITT Litigation, or $2.911 million, is recorded as a deferred credit at December 31, 1992 and, in accordance with the 1990 Settlement Agreement, are to be refunded by the Company to its ratepayers. The Company has proposed including this refund as a partial offset to a requested electric rate increase, as discussed in "Management's Discussion and Analysis of Financial Condition and Results of Operations" under the caption "Rate Proceeding – Electric Pending."

Operational Matters:

NRC Monitoring: On August 25, 1992, the Nuclear Regulatory Commission (NRC) released a preliminary report of the latest systematic assessment of licensee performance (SALP) review of the Nine Mile Point Nuclear Station (including both Unit No. 1 and Unit No. 2, Unit No. 2 being the "Nine Mile 2 Plant") for the period April 1991 through May 23, 1992. Such SALP report indicates that the NRC grades nuclear performance as superior in two and good in five of the seven functional areas reviewed. The grades in such preliminary report were consistent with the grades received in the previous SALP report which covered the period March 1990 through March 1991, which reported two functional areas as category 1 (representing superior performance) and five functional areas as category 2 (representing a good level of performance).

The Institute of Nuclear Power Operations (INPO), an industry sponsored oversight group, conducted evaluations of the Nine Mile 2 Plant during December 1991 and January 1992. The INPO report discussing the results of such evaluation was received by Niagara Mohawk during the second quarter of 1992. Niagara Mohawk informed the Company that the INPO report concluded that while performance improvement must continue, overall performance of the Nine Mile 2 Plant has improved since the last evaluation and such Plant's overall performance is generally in keeping with the high standards required in the nuclear power industry. This conclusion constitutes an improvement in INPO's rating of the Nine Mile 2 Plant. INPO evaluations are conducted at twelve (12) to eighteen (18) month intervals.

Low-Level Radioactive Waste: The Federal Low-Level Radioactive Waste Policy Act (Act), as amended in 1985, requires states to join compacts or individually develop their own low-level radioactive waste burial site.

On January 1, 1990, the Governor of the State of New York certified a plan that requires all nuclear power plants in New York State to 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. Niagara Mohawk has informed the Company that a low-level radioactive waste

management program and contingency plan has been developed and provides assurance that the Nine Mile 2 Plant is properly prepared to handle interim storage of low-level radioactive waste until 1998.

Refueling Outage: A scheduled refueling outage for the Nine Mile 2 Plant commenced on March 4, 1992 and was expected to continue until June 16, 1992. Such refueling was completed on July 4, 1992 and full plant output was achieved on July 8, 1992. During such outage, required corrective and preventative maintenance tasks, required inspections, and several modifications to improve plant performance were successfully completed. The outage was extended beyond that which was originally scheduled due to corrective action required as a result of such inspections, including discovery of cracks in two of the main turbine wheels which had the potential to affect operation of such Plant. These wheels were removed and appropriate modifications made to assure the continued reliability of such Plant's main turbine. Such modifications resulted in a decrease in the rating of the Nine Mile 2 Plant from 1,080 MW to 1,047 MW. The next scheduled refueling outage for the Nine Mile 2 Plant is expected to begin in September 1993.

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 (IRS) 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 are 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 ($22.8 million in 1992 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). Total recoveries authorized by the PSC for the internal decommissioning fund from August 1, 1988 through December 31, 1992 amounted to $757,000. The external decommissioning trust fund at December 31, 1992 amounted to $2.665 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.

Decontamination and Decommissioning Fund: The Energy Policy Act of 1992, signed into law in October 1992, established a Uranium Enrichment Decontamination and Decommissioning Fund (Fund) for the decommissioning of the Department of Energy's enrichment facilities. Special annual assessments to utilities with nuclear power plants, which will begin in 1993 and continue for 15 years, and government appropriations will be deposited into the Fund. The Energy Policy Act of 1992 also provides that such assessments shall be considered a cost of fuel and shall be recoverable in rates.

Niagara Mohawk has informed the Company that the Company's share of the annual assessment related to the Nine Mile 2 Plant will be approximately $45,000. The Company believes that the PSC will allow recovery of such assessed amounts through rates. Therefore, costs incurred related to such decontamination and decommissioning are not expected to have a material adverse effect on the Company's results of operations.

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. The Company estimates that the cumulative net amount of income tax timing differences for which deferred taxes have not been provided was approximately $99 million at December 31, 1992.

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:

	1992	1991	1990
		(Thousands of Dollars)	
Charged to operating expense:			
Federal income tax	$ 5,467	$ 10,514	$ 15,110
Deferred income tax	19,644	12,099	7,346
Income tax charged to operating expense	25,111	22,613	22,456
Charged (credited) to other income and deductions:			
Federal income tax	7,789	(2,454)	(4,198)
Deferred income tax	(8,537)	1,202	2,116
Income tax charged (credited) to other income and deductions	(748)	(1,252)	(2,082)
Total federal income tax	$ 24,363	$ 21,361	$ 20,374

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

Net income	$ 47,688	$ 42,941	$ 41,035
Federal income tax	13,256	8,060	10,912
Deferred income tax	11,107	13,301	9,462
Income before taxes	$ 72,051	$ 64,302	$ 61,409
Computed tax @ 34% statutory rate	$ 24,497	$ 21,863	$ 20,879
Increase (decrease) to computed tax due to:			
Tax depreciation	(11,833)	(12,171)	(11,704)
Cost of removal	(1,040)	(1,229)	(704)
Deferred electric fuel costs	562	1,221	(872)
Deferred gas costs	(1,315)	58	147
Deferred energy efficiency costs	(2,386)	(2,789)	(779)
Pension expense	3,257	1,128	750
Alternative minimum tax	1,971	3,493	3,237
Unbilled revenues	752	(1,510)	1,376
Other	(1,209)	(2,004)	(1,418)
Federal income tax	13,256	8,060	10,912
Deferred income tax	11,107	13,301	9,462
Total federal income tax	$ 24,363	$ 21,361	$ 20,374
Effective tax rate	34%	33%	33%

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

Tax depreciation	$ 14,605	$ 15,290	$ 14,725
Investment tax credit	(1,396)	(1,381)	(1,382)
Deferred electric fuel costs	(562)	(1,221)	872
Deferred gas costs	1,315	(58)	(147)
Deferred energy efficiency costs	2,386	2,789	779
Pension expense	(3,257)	(1,128)	(750)
Alternative minimum tax	(1,971)	(3,493)	(3,237)
Unbilled revenues	(752)	1,510	(1,376)
Other	739	993	(22)
Deferred income tax	$ 11,107	$ 13,301	$ 9,462

In February 1992, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes" (SFAS 109). SFAS 109, which supersedes SFAS 96, will be adopted by the Company in the first quarter of 1993 and, as discussed below, is not expected to have a material adverse effect on the Company's results of operations.

SFAS 109 requires the use of the liability method, whereby deferred tax liabilities or assets would be recognized for the temporary book/tax basis differences. The statement also requires that deferred tax liabilities or assets be adjusted to reflect enacted changes in tax law or tax rates. Also, SFAS 109 provides that regulated enterprises recognize a regulatory asset representing the probable future recovery of previously flowed-through tax benefits to ratepayers.

On January 15, 1993, the PSC issued a Statement of Interim Policy on Accounting and Rate-making Procedures to Implement SFAS 109. This Statement of Interim Policy adopts, on an interim and revenue-neutral basis, SFAS 109 for regulatory purposes until the PSC issues a final Policy Statement, expected some time in 1993, and affirms the continued recovery from ratepayers of previously flowed-through tax benefits.

Upon adoption of SFAS 109, the Company expects that its total assets and liabilities will increase significantly. The Company estimates that a regulatory asset and deferred tax liability of approximately $54 million, due primarily to previously flowed-through tax benefits, will be recorded on the Company's financial statements in the first quarter of 1993. These amounts are subject to further refinement but are not expected to be materially adjusted.

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, 1992 or 1991. 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, 1992 and 1991 was $15 million and $19 million, respectively, consisting of commercial paper. All commercial paper obligations are supported by such credit agreement.

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, 1990	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
Issued under dividend reinvestment plan	205,950	1,030	4,847
Issued under customer stock purchase plan	54,962	275	1,302
December 31, 1992	16,028,569	$ 80,143	$245,349

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

	Series	Redemption Price	Shares Outstanding December 31, 1992 and 1991
Without Sinking Fund:			
	4 ½%	$107.00	70,300
	4.75%	106.75	20,000
	4.35%	102.00	60,000
	4.96%	101.00	60,000
	7.72%	101.00	130,000
	7.44%	103.08 (a)	120,000
	8.40%	101.00	150,000
			610,300
With Sinking Fund (c):			
	A	103.00 (b)	200,000
Total			810,300

(a) Redemption price through January 31, 1993; eventual minimum redemption price is $101.22.
(b) Redemption price through March 31, 1993; eventual minimum redemption price is $100.00.
(c) Annual sinking fund payments to commence March 30, 1993. The portion that is due within one year at December 31, 1992 is included on the balance sheet under "Current maturities of long-term debt and preferred stock."

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 an involuntary liquidation of the Company, 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, which rate will never be less than 6% or greater than 12.5% per annum. The adjusted rates applied for each quarter of 1992 ranged between 6.56% and 7.40%, compared with the range of 7.40% to 7.96% experienced during 1991 and 7.16% to 8.20% experienced during 1990.

Expenses incurred on issuance of capital stock are accumulated and reported as a reduction in common stock equity. Such expenses are not being amortized, with the exception of expenses associated with the cumulative preferred stock with sinking fund, which expenses are being amortized evenly over 300 months effective April 1992, as allowed by the PSC.

NOTE 6 – CAPITALIZATION – LONG-TERM DEBT

Details of long-term debt are shown below:

Series	Maturity Date	December 31, 1992	December 31, 1991
		(Thousands of Dollars)	
First Mortgage Bonds (net of sinking fund requirements):			
8 ¼%	September 1, 1994	$ 50,000	$ 50,000
11 %	July 2, 1995	—	12,000
7 ¼%	January 15, 1999	20,000	20,000
9 ⅜%	June 1, 2000	—	25,000
7.70% (a)	June 12, 2000	25,000	—
8 ¾%	May 1, 2001	30,000	30,000
7 ¾%	February 1, 2002	20,000	20,000
7.97% (a)	June 11, 2003	8,000	—
7.97% (a)	June 13, 2003	8,000	—
9 ¼%	April 15, 2004	—	15,000
6 ¼%	June 1, 2007	4,500	4,500
9 ¼%	May 1, 2021	70,000	70,000
8.12% (a)	August 29, 2022	10,000	—
8.14% (a)	August 29, 2022	10,000	—
8.375%	December 1, 2028	16,700	16,700
		272,200	263,200
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 (7.375%)	October 1, 2014	16,700	16,700
1984 Series B (7.375%)	October 1, 2014	16,700	16,700
1985 Series A (Var. Rate)	November 1, 2020	36,250	36,250
1985 Series B (Var. Rate)	November 1, 2020	36,000	36,000
1987 Series A (Var. Rate)	June 1, 2027	33,700	33,700
1987 Series B (Var. Rate)	June 1, 2027	9,900	9,900
		149,250	149,250
Promissory Notes (net of sinking fund requirements):			
4.85%	December 1, 1995	2,644	2,726
7.85% (a)	July 2, 2004	15,000	—
		17,644	2,726
Secured Notes Payable of Subsidiary		3,081	2,820
Unamortized Premium (Discount) on Debt – Net		(1,079)	(1,966)
	Total long-term debt	$441,096	$416,030

(a) Issued under the Company's Medium Term Note Program.

In 1992 the Company redeemed three series of First Mortgage Bonds, totalling $56 million. The funds to redeem these bonds were obtained from the sale of an aggregate of $56 million of Medium Term Notes, issued in several tranches. In addition, Medium Term Notes in the amount of $20 million were sold in 1992.

At December 31, 1992, the Company, under its registration statement, effective under the Securities Act of 1933, could issue and sell $49 million of Medium Term Notes, of which the PSC has authorized issuance of up to $24 million through December 31, 1994. The amounts and timing of future sales will depend on market conditions and the requirements of the Company.

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

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 expire on various dates and 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. If the Company were unable to extend the letter of credit that is related to a particular series of NYSERDA Pollution Control Revenue Bonds, that series would have to be redeemed unless a fixed rate of interest becomes effective. Payments made under the letters of credit in connection with purchases of tendered NYSERDA Pollution Control Revenue Bonds are repaid with the proceeds from the remarketing of such Bonds. To the extent the proceeds are not sufficient, the Company would be required to reimburse the bank that issued the letter of credit for the amount of any resulting draw under the letter of credit by the expiration date of the letter of credit. During 1992, the letter of credit expiration dates for the letters of credit supporting the 1985 NYSERDA Bonds were extended from November 16, 1994 to November 16, 1995, and for the letters of credit supporting the 1987 NYSERDA Bonds were extended from September 16, 1992 to September 16, 1995.

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 the 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.

Certain debt agreements require the maintenance by the Company of certain financial ratios and contain other restrictive covenants.

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 Northeastern United States. The majority of the loans accrue interest at the prime lending rate plus 3/4 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 under the federal income tax law nor less than the minimum requirement under the Employee Retirement Income Security Act of 1974.

Charges to expense were approximately 71%, 72% and 73% of the net periodic pension costs for the years 1992, 1991 and 1990, respectively. The allocation of net periodic pension costs between capital and expense follows the payroll distribution.

Net periodic pension costs for 1992, 1991 and 1990 include the following components:

	1992	1991	1990
	(Thousands of Dollars)		
Service cost – benefits earned during the period	$ 4,002	$ 3,780	$ 4,205
Interest cost on projected benefit obligation	12,801	12,140	10,991
Actual return on Plan assets	(21,941)	(43,296)	2,454
Net amortization and deferral	6,411	29,808	(14,561)
Net periodic pension cost	$ 1,273	$ 2,432	$ 3,089

The following table sets forth the Plan's funded status at September 30, 1992 and 1991:

	1992	1991
	(Thousands of Dollars)	
Actuarial present value of benefit obligations:		
Accumulated benefit obligation, including vested benefits of $140,156 and $127,016	$ 142,020	$128,681
Projected benefit obligation for service rendered to date	$ 169,858	$160,536
Plan assets at market value	211,435	198,719
Excess of Plan assets over projected benefit obligation	41,577	38,183
Unrecognized net gain	(43,748)	(38,543)
Prior service cost not yet recognized in net periodic pension cost	1,254	1,352
Unrecognized net asset being amortized over 15 years	(5,877)	(6,513)
Contributions withdrawn from the Plan (Note 9)	(7,501)	—
Pension liability recognized in the Balance Sheet	$ (14,295)	$ (5,521)

Plan assets consist primarily of equities and fixed income securities. 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 1992 or 1991.

The weighted average discount rate used in determining the actuarial present value of the projected benefit obligations under the Plan was 7 3/4% for 1992 and 8% for 1991. The rate of future compensation levels utilized was 6 1/2% for 1992 and 1991. The expected long-term rate of return on Plan assets was 9 1/2% for 1992 and 1991.

The Company also has an Executive Deferred Compensation Plan (EDC Plan) which was established in 1992 for a select group of key executives, under which periodic payments will be made to such employees upon retirement. The net periodic costs of the EDC Plan for 1992 amounted to approximately $142,000. In order to minimize the costs of the EDC Plan, the Company has obtained life insurance policies on the participants in such Plan, with the Company as beneficiary. Future annual costs are not expected to be significantly different from 1992.

Other Postretirement 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 for active and retired employees was $7.920 million for 1992, $8.170 million for 1991 and $6.512 million for 1990. Prior to 1992, the cost of providing retirees with these benefits was not separable from the cost of providing those benefits for the active employees. Beginning in 1992, such costs were separated, and for the period of April through December 1992, the cost of such benefits for retirees amounted to $1.356 million, which is included in the 1992 amount above.

In December 1990, the FASB issued SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other than Pensions" (SFAS 106), which the Company will adopt in 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 that unfunded accumulated postretirement benefit obligations other than pensions upon adoption of SFAS 106 (Transition Obligation) will be approximately $68 million in 1993 subject to the health care cost assumptions utilized by the Company in measuring its liability. As allowed by SFAS 106, the Company intends to recognize the Transition Obligation on a delayed basis over a 20-year period. The Company's additional annual cost resulting from the adoption of SFAS 106, using the same cost assumptions, is estimated at approximately $9 million, including the amortization of the Transition Obligation. The assumed health care cost trend is 14% in the early years and trends down over time to an ultimate rate of 5.5%. If the health care cost trend rate assumptions were increased by 1%, the accumulated postretirement benefit obligation at January 1, 1993 would be increased by 13%.

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 will be recovered through the normal regulatory process. In a PSC proceeding, initiated in March 1992, to develop a PSC Statement of Policy concerning the accounting and rate-making for pensions and other postretirement benefits, the PSC Staff recommended deferred accounting for any difference between the amount of the expense resulting from the adoption of SFAS 106 and the amount allowed in rates. The PSC is expected to act on this matter early in 1993. In January 1993, the Emerging Issues Task Force (EITF) of the FASB reached a consensus on the criteria under which a regulatory asset should be recognized for the difference between actual SFAS 106 costs and the amount of postretirement benefit costs other than pensions that are included in rates. While no assurance can be given that the PSC will follow the EITF criteria for deferral of said difference, the Company believes that the PSC will do so, and accordingly, the Company expects that the impact of adopting SFAS 106 will be immaterial to its future results of operations.

In order to better manage its postretirement benefit costs other than pensions, the Company has established a tax-effective funding vehicle for such retirement benefits for collective bargaining employees in the form of a qualified Voluntary Employee Beneficiary Association (VEBA) trust. Establishment of a qualified VEBA trust for such retirement benefits for management employees is currently in progress. The Company anticipates funding the VEBA trusts in 1993 with tax-deductible contributions. Earnings on contributions to the VEBA trust established for collective bargaining employees' retirement benefits would not be subject to income tax. Benefits will be paid out of the VEBA trusts. The amount of funding will ultimately depend upon the amount of rate recovery allowed by the PSC.

Other Postemployment Benefits: The Company provides certain illness and disability-related benefits to former or inactive employees, beneficiaries, and covered dependents. The cost of providing these benefits was $216,000 in 1992. In November 1992, the FASB issued SFAS No. 112, "Employer Accounting for Postemployment Benefits" (SFAS 112), which

establishes accounting and reporting requirements employers who provide benefits to former or inactive employees after employment but before retirement. The Company must adopt SFAS 112 not later than the first quarter of 1994. Based on studies the Company has performed to date, the adoption of SFAS 112 is not expected to have a material adverse effect on the Company's results of operations.

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. There was no amount of outstanding receivables sold as of December 31, 1992. The amount of the outstanding receivables sold as of December 31, 1991 and 1990 was $3.2 million and $8.2 million, respectively. The average daily amount of accounts receivable sold was $4.3 million in 1992, $8.3 million in 1991 and $5.1 million in 1990.

The costs associated with the sale of receivables are charged to operating expense and amounted to $200,000 in 1992, $600,000 in 1991 and $400,000 in 1990.

The Company had a reserve balance for uncollectible accounts receivable of $1.5 million at December 31, 1992 and $1.1 million at December 31, 1991.

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, under a 1968 Agreement (Basic Agreement), has the option to purchase the interests of Niagara Mohawk (25%) and of Consolidated Edison Company of New York, Inc. (Con Edison) (40%) in the Roseton Plant in December 2004, exercise of which option is subject to the approval of the PSC. However, in 1987, in order to make provision for anticipated requirements for additional generating capacity commencing in the mid-1990s, the Company and Niagara Mohawk entered into an agreement (Amendment) using the Basic Agreement option which the Company has to buy Niagara Mohawk's interest in the Roseton Plant. The Company's option to buy Con Edison's interest in the Roseton Plant is not affected by the Amendment. The Amendment is subject to the approval of the PSC and, in the event such approval is not obtained, the Amendment is cancelled and the parties return to their same positions under the Basic Agreement.

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 depreciation to provide for a fully depreciated 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 assumed physical life as agreed upon by the parties.

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 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. On or about September 15, 1992, the Company concluded that it was neither in its interest nor in its customers' interest for it to accept any of the third party bids for additional long-term generating capacity submitted under such RFP. As the date of the first proposed transfer of interest approaches, the Company intends to test the commercial reasonableness of the Amendment through a new RFP solicitation. The Company cannot predict what action the PSC may ultimately take in connection with the joint petition for the

approval of such transfers under the Amendment.

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 1993-1997.

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 $472,000 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 67% 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 Point Nuclear Station and $2.015 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 presently has in place five term contracts (Contracts) for the supply of natural gas. Two of such Contracts are with interstate pipeline companies (Pipelines) and three of such Contracts are with third-party suppliers (Suppliers). Under the Contracts with Pipelines, the Pipelines acquire and deliver gas directly to the Company's gas transmission system. Under the Contracts with Suppliers, the Suppliers deliver the gas to the Pipelines and the Pipelines deliver the gas to the Company's gas transmission system under separate firm transportation contracts which the Company has in place with such Pipelines. It is anticipated that, during 1993, the two Contracts with Pipelines will be converted to firm transportation contracts which will allow the Company to purchase gas directly from third-party suppliers at a cost lower than pipeline-supplied gas. With the exception of 19,940 Mcf. per day of gas purchased from Canadian sources, or approximately 20% of total gas purchases (which expires in January 2012), all of the above gas supply contracts will terminate in 1993. All such expiring gas supply contracts will be replaced with competitively bid contracts with third-party gas suppliers.

The Company has in aggregate, gas storage capability of 34,608 Mcf. per day, under long-term contracts. The Company also has a contract for the supply of liquefied natural gas which will remain in effect through September 30, 1995 and will continue from year-to-year thereafter. All pipeline gas supply, transportation and storage contracts and associated tariffs are approved by FERC.

In addition to the above gas supply transportation, storage and liquefied natural gas supply contracts, the Company has in place a contract for the supply of up to 100,000 Mcf. per day of gas during April through October of each year for use as boiler gas at the Roseton Plant. Modifications to the Roseton Plant to permit the consumption of such gas were completed during the second quarter of 1992.

In April 1992, FERC issued its final rule (Order 636) regarding the "unbundling" of natural gas services from transportation and storage services. Order 636, entitled "Pipeline Service Obligations and Revisions to Regulations Governing Self-Implementing Transportation under Part 284 of the Commission's Regulations," contains three central features as follows:

1) Unbundling of Sales and Transportation Services: Gas pipelines that offer firm and interruptible transportation services must "unbundle" (separate) those services from firm and interruptible sales services at an upstream point near the production area.

2) No-Notice Transportation: Gas pipelines that make bundled sales must provide non-discriminatory, no-notice transportation.

3) Equality of Service: Firm and interruptible services must be offered on a basis that is equal in quality for all gas supplies whether purchased from the pipeline or not.

Order 636 and subsequent amendments, Order 636-A and Order 636-B, establish a restructuring proceeding by which each pipeline must file with FERC a comprehensive explanation of how it intends to implement restructuring. FERC has stated that it

cts to act on all compliance filings in time to implement such r in advance of the 1993-94 winter heating season. The mpany can make no prediction as to the effect of such Order, including the cost effect, until such filings of its gas pipeline suppliers have been made in compliance with such Order and have been approved by FERC.

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 the deferred charges not subject to conditional recovery at ember 31, 1992 and 1991 were $2.208 million and 1 million, respectively.

In the PSC proceeding, 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 the Company 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 $6 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. The PSC has recently approved certain take-or-pay costs settlements with other utilities that, if applied to the Company, would not have a rial adverse effect on the Company's earnings.

Clean Air Act Amendments: The Clean Air Act Amendments of 1990 (CAA 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" and ozone.

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's emissions of nitrogen oxides may also be subject to additional controls by May 31, 1995 under Title I of the CAA Amendments.

The Company is unable to predict the effect (including cost) of this legislation since details of the CAA Amendments are yet to be established by regulation. Regulations implementing this legislation will be issued over a period of years. The amendments could require the Company to expend considerable funds in altering its fossil-fueled power plant operations. However, the Company expects that it will have adequate financial resources to comply with the requirements of the CAA Amendments.

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 using guidelines of the DEC. As a result of these studies, the Company concluded that no remedial actions were required at any of these sites. Subsequently, the DEC advised the Company that all sites had been deleted from such Registry. The DEC also indicated that such deletion of the six sites was subject to reconsideration in the future.

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 $3.6 million and $3.4 million as of December 31, 1992 and 1991, 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 noncancelable rental commitments. Although certain items meet the criteria for recording as capital leases, such recognition would have no significant effect on the

consolidated financial statements. Therefore, all items are treated as operating leases.

Asbestos Litigation: Since 1987, the Company, along with many other parties, has been joined as a defendant or third-party defendant in 358 asbestos lawsuits commenced in New York State and federal courts. The plaintiffs in these lawsuits have each sought 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.

One hundred forty-one (141) of these cases have been dismissed with respect to the Company, and the Company has agreed to settle 105 of the cases for amounts which are not material in relation to the consolidated financial statements. Consequently, on January 15, 1993, the Company was a defendant in 112 asbestos cases. Although the Company is presently unable to assess the validity of the remaining 112 asbestos lawsuits, and accordingly cannot determine the ultimate liability relating to these cases, 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 cost to be incurred in connection with the remaining 112 lawsuits will not have a material adverse effect on the Company's financial position.

Environmental Matters: The Company is a party to several administrative proceedings (which are in their early stages) involving the effect on the environment of the operation and maintenance of facilities for the generation, transmission and distribution of electricity and the manufacture, transmission and distribution of natural gas. At this stage of such proceedings, the Company can make no determination as to the outcome of such proceedings or the impact, if any, on the Company's financial position or results of operations.

IRS Challenge to Pension Plan Interest Rate Assumption and Actuarial Resolutions Program: In 1990, the IRS challenged the deductibility of an aggregate of $7.501 million of contributions made to the Retirement Income Plan (Plan) during the years 1986 through and including 1989. The IRS alleged 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. The Company contested the IRS's position by a request for technical advice from the National Office of the IRS. By National Office Technical Advice Memorandum, dated August 6, 1992, the National Office of the IRS ruled in favor of the IRS. By letter, dated July 31, 1992, as amended by letter, dated October 13, 1992, the IRS offered the Company the opportunity to settle this matter under the IRS's Actuarial Resolutions Program. On November 11, 1992, the Company accepted such offer by executing a Closing Agreement, which was executed by the IRS on November 17, 1992. Such Closing Agreement disallows $7.501 million of the Company's claimed deductions for taxable years 1986 through 1989 and waives all related "penalties." The resultant increased tax due to the loss of such deductions is $1.903 million and interest on such amount is currently estimated to be about $1.160 million. In accordance with such Closing Agreement, the Company withdrew the $7.501 million of contributions in question from the Plan on December 18, 1992. The Company has requested authorization from the PSC for deferral accounting on such interest until it can be recovered through rates. While no assurance can be given that the PSC will grant such a request, the Company believes that recovery through rates of the taxes and interest will be permitted as a normal cost of service and accordingly the Company has deferred these amounts at December 31, 1992.

Tax Matters: The IRS has closed out all of the Company's Federal Income Tax returns through 1986. The Company's Federal Income Tax returns for the years 1987 and 1988, which are currently under review, reflect significant tax matters related to the Nine Mile 2 Plant. The Company believes that the results of such review will not have a material adverse effect on the Company's results of operations.

Other Matters: The Company is involved in various other legal and administrative proceedings incidental to its business which are in various stages. While these matters collectively involve substantial amounts, it is the opinion of management that their ultimate resolution will not have a material adverse effect on the Company's financial position or future results of operations.

Included in such proceedings is a PSC investigation of a November 1992 explosion in a dwelling in Catskill, New York involving personal injuries, including the death of an occupant, and property damage. The National Transportation Safety Board and the PSC are investigating this incident. On January 27, 1993, the Staff of the PSC issued a report which attributes the cause of this incident to the Company's alleged violations of the PSC's gas safety regulations and the Company's operating procedures. Based upon such report, the PSC has approved the commencement of a penalty proceeding against the Company. The Company understands that the PSC Staff, based on its interpretation of the New York Public Service Law, intends to seek a penalty up to approximately $8.25 million. In the opinion of the Company's counsel, there is no statutory basis for a level of penalty under such Law which would be materially adverse to the Company's financial condition. The Company intends to contest any proposed penalty of the magnitude which it understands the PSC Staff intends to seek. The Company can make no prediction as to the liability of the Company relating to this incident, including the final outcome of such penalty proceeding or any other governmental investigation.

NOTE 10 – DEPARTMENTAL INFORMATION

The Company is engaged in the electric and natural gas utility businesses and serves the Mid-Hudson 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
1992	82%	18%	87%	13%
1991	86%	14%	93%	7%
1990	86%	14%	91%	9%

For the year ended December 31, 1992, the Company served an average of 256,503 electric and 58,091 gas customers. Of the Company's total electric revenues during that period, approximately 39% was derived from residential customers, 28% from commercial customers, 25% from industrial customers and 8% from other utilities and miscellaneous sources. Of the Company's total gas revenues during that period, approximately 42% was derived from residential customers, 27% from commercial customers, 4% from industrial customers, 21% from interruptible customers and 6% from miscellaneous sources (including revenues from transportation of customer-owned gas).

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 8% of its total gas revenues for the year ended December 31, 1992. Reference is made to "Management's Discussion and Analysis of Financial Condition and Results of Operations" for further information regarding IBM.

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		
	1992	1991	1990	1992	1991	1990
	(Thousands of Dollars)					
Operating Revenues	$427,436	$424,121	$433,859	$ 96,121	$70,615	$69,749
Operating Expenses:						
Fuel and purchased electricity	132,805	140,488	155,999	—	—	—
Purchased natural gas	—	—	—	55,066	39,867	38,888
Depreciation and amortization	36,074	34,563	33,399	3,522	2,667	2,735
Other, excluding income tax	172,301	157,883	152,790	24,180	21,159	19,523
Total	341,180	332,934	342,188	82,768	63,693	61,146
Operating Income before Income Tax	86,256	91,187	91,671	13,353	6,922	8,603
Federal income tax, including deferred income tax – net	21,368	20,886	20,464	3,743	1,727	1,992
Operating Income	$ 64,888	$ 70,301	$ 71,207	$ 9,610	$ 5,195	$ 6,611
Construction Expenditures	$ 50,159	$ 52,819	$ 42,515	$ 11,562	$18,088	$ 8,306
Identifiable Assets at December 31*						
Net utility plant	$779,291	$761,984	$750,102	$ 90,352	$71,129	$66,777
Construction work in progress	30,282	36,408	33,458	4,648	15,876	4,766
Total utility plant	809,573	798,392	783,560	95,000	87,005	71,543
Materials and supplies	31,496	30,992	35,004	6,544	6,450	5,578
Total	$841,069	$829,384	$818,564	$101,544	$93,455	$77,121

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

NOTE 11 – DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS

In December 1991, the FASB issued SFAS No. 107, "Disclosures about Fair Value of Financial Instruments" (SFAS 107) which requires the Company to disclose the fair value of all financial instruments.

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

Cash, Temporary Cash Investments and Special Deposits: The carrying amount approximates fair value because of the short maturity of those instruments.

Long-term Investments: Long-term investments, consisting primarily of investments in insurance companies, are immaterial in amount.

Cumulative Preferred Stock with Sinking Fund: The fair value of the Company's cumulative preferred stock with sinking fund is estimated based on the quoted market price of that instrument.

Long-term Debt: The fair value of the Company's long-term debt is estimated based on the quoted market prices for same or similar issues or on the current rates offered to the Company for debt of the same remaining maturities and quality.

Notes Payable: The carrying amount approximates fair value because of the short maturity of those instruments.

The estimated fair values of the Company's financial instruments are as follows:

	December 31, 1992	
	Carrying Amount	Fair Value
	(Thousands of Dollars)	
Cash, temporary cash investments and special deposits	$ 12,467	$ 12,467
Cumulative preferred stock with sinking fund (including current maturities)	(20,000)	(20,200)
Long-term debt (including current maturities)	(442,539)	(465,368)
Notes Payable	(15,000)	(15,000)

SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)

Selected financial data for each quarterly period within 1991 and 1992 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, 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
March 31, 1992	146,587	23,540	14,601	.92
June 30, 1992	126,171	17,058	8,699	.55
September 30, 1992	118,715	17,046	10,087	.63
December 31, 1992	132,084	16,854	8,756	.55

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 the Committees on Audit and Finance * 1990

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

RICHARD H. EYMAN
Norwalk, CT
Former Senior Vice President, Brouillard Communications, Division of J. Walter Thompson Company; retired; 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 Retirement Committee * 1987

JOHN E. MACK, III
Poughkeepsie, NY
Chairman of the Board and Chief Executive Officer; Chairman of the Executive and Retirement Committees; 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 (1)

RONALD P. BRAND
Vice President – Engineering
and Environmental Affairs

JOHN F. DRAIN
Vice President – Controller and Treasurer

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

CARL E. MEYER
Vice President – Customer Services

ALLAN R. PAGE
Vice President – Corporate Services

GLADYS S. COOPER
Secretary

BENON BUDZIAK
Assistant Vice President – Production

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

ELLEN AHEARN
Assistant Secretary

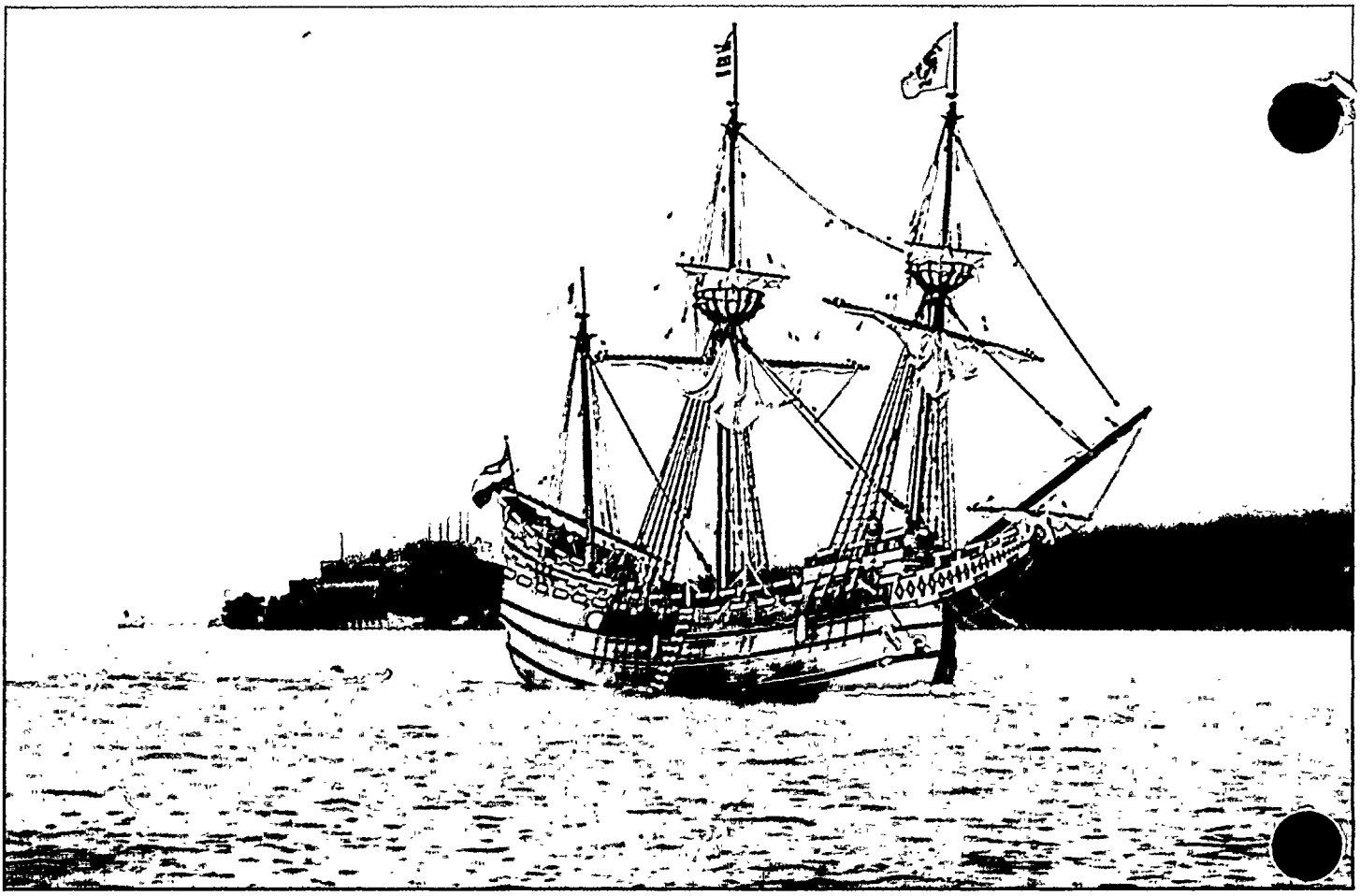
WALTER A. BOSSERT, JR.
Assistant Secretary and Assistant Treasurer

STEVEN V. LANT
Assistant Treasurer and Assistant Secretary

(1) Retired on February 1, 1993

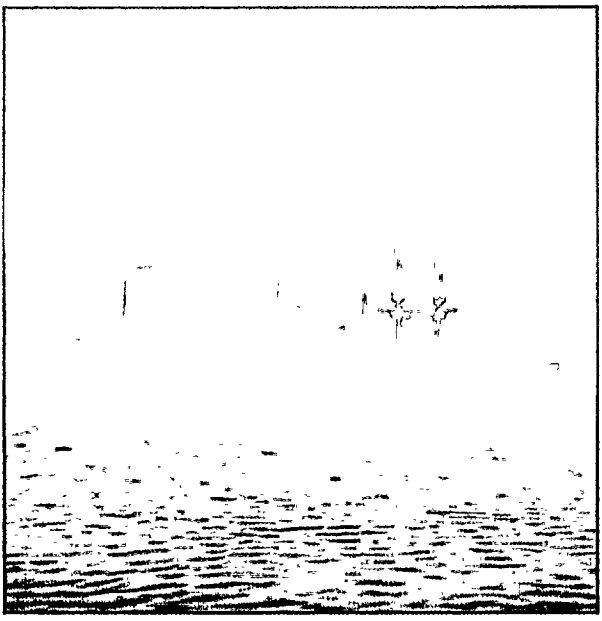
Affirmative Action Statement of Policy

It is the policy of Central Hudson Gas & Electric Corporation to provide equal employment opportunities for all persons. This means that all personnel policies and practices including, but not limited to, those related to hiring, layoff, termination, compensation, benefits, transfers, promotions, training, recruitment, tuition assistance and social and recreational programs shall be administered without regard to race, color, religion, age, sex, national origin, physical or mental disability or military service during the Vietnam era so as to assure fulfillment of the Company's equal employment goals and objectives, except where sex, age, physical or mental ability is a bona fide occupational qualification.



"De duyfels dans kammer"

In the year 1609, Henry Hudson sailed the "Halv Maen," or "Half Moon" up what is now known as the Hudson River. According to folklore, while sailing up the river seeking a Northwest Passage, he and his crew saw Indians dancing and shouting on a promontory. So frightful was the spectacle that they exclaimed: "De duyfels dans kammer," or "The devil's dance chamber." The Dutch explorers and the Algonquin Indians became part of the history of the land and the river. And the promontory, which eventually became known as Danskammer Point, became the site of Central Hudson's Danskammer Electric Generating Plant. During 1992, Central Hudson observed the 40th anniversary of the first generating unit at the Danskammer Plant. During the summer, a replica of the Half Moon sailed past the plant on a foggy morning during a visit to a number of cities between New York City and Albany. The photo shows the Half Moon as it broke out of the fog with the Danskammer Plant in the background.



Last summer, a replica of Henry Hudson's Half Moon sailed in the fog past our electric generating plant at Danskammer Point, which was named by the Dutch explorer in 1609. Please see the back cover.

Tear off at perforation and mail.

Dear Reader:

To help Central Hudson plan future Annual Reports, would you please complete this survey card and place it in the mail. No postage is necessary. Thank you for your cooperation.

What is your interest in Central Hudson? (Please check all that apply)

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[ ] Financial Analyst
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[ ] Institutional Investor
[ ] Community Leader
[ ] News Media
[ ] Other

How would you rate this Annual Report?

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

Which part of the Report was of most interest?

[ ] Financial Highlights
[ ] Chairman's Report
[ ] The Year In Review
[ ] Photographs & Captions
[ ] Financial Section

What was the general level of readability?

[ ] Easy
[ ] Average
[ ] Difficult
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Do you have any general comments about the Annual Report or about Central Hudson?

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Peter Burdash, front and back covers & inside front
and back covers.

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