1995 Annual Report

Central Hudson Gas & Electric Corporation

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Tallix Casting Sculptures for Presidential Memorial

A sculpture of former President Franklin D. Roosevelt will be a centerpiece for the FDR Memorial, which is being built on a 26-acre site in Washington, D.C. Award-winning sculptor Neil Estern selected Tallix Art Foundry to cast three sculptures he completed for the Memorial. Tallix, located in Beacon, N.Y., is among the world's largest and most respected full service foundries for art casting and fabrication. It is appropriate that Tallix was chosen for the casting since it is located only 25 miles south of FDR's home and library, which is located in Hyde Park in Dutchess County. Shown in the foreground is a 35-inch maquette, which was used to create the clay model, which measures 8 1/2 feet in height. The finished sculpture will be cast in bronze for the Memorial, which will become only the fourth Presidential Memorial in the nation's capital.

Central Hudson takes pride in having Tallix as a customer, and we are pleased that Tallix is participating in our Energy Solutions program, which helps our customers improve their competitiveness. We have been working closely with Tallix to identify ways to best utilize their energy capacity and, in turn, improve their productivity. For more information about Energy Solutions, please see pages eight and nine of this report.

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Financial Highlights

	1995	1994	Change
Operating Revenues	$512,215,000	$ 515,668,000	(.7)%
Net Income	$52,722,000	$ 50,929,000	3.5%
Earnings Per Share	$2.74	$2.68	2.2%
Average Shares Outstanding	17,380,000	17,102,000	1.6%
Dividends Declared Per Share	$2.095	$2.075	1.0%
Total Assets	$1,250,092,000	$1,250,781,000	—
Electric Sales - Own Territory (kwh.)	4,477,402,000	4,567,693,000	(2.0)%
Natural Gas Firm Sales (thousands of cubic feet)	9,649,000	10,104,000	(4.5)%
Electric Customers - Own Territory (average)	261,876	259,765	.8%
Firm Gas Customers (average)	59,841	59,424	.7%

Keeping The **Customer** *In Focus*

Chairman's Report

The past year will be remembered as a good, solid year for our shareholders and as a pivotal year in our four-year recovery from the loss of thousands of manufacturing jobs in the Mid-Hudson Valley.

With respect to the financial results for 1995, I am pleased to report the following:

• Earnings per share were $2.74 during 1995, up 2 percent from $2.68 in 1994.

• Dividends paid to shareholders increased 1 percent from $2.07 in 1994 to $2.09 in 1995. During the past five years, the average annual increase in the dividend was 3.1 percent.

• Book value per share increased from $25.34 at the end of 1994 to $25.96 at the end of 1995.

Left, Paul J. Ganci, President and Chief Operating Officer, and John E. Mack III, Chairman and Chief Executive Officer, at the New York Stock Exchange to mark the 50th anniversary of Central Hudson's common stock listing on the NYSE.

• Our Company continues to be in an excellent cash position.

• The dividend payout ratio for 1995 was 76 percent, which compares with 77 percent in 1994. In keeping with our dividend policy, we are implementing a modest and gradual reduction in the payout ratio in order to reach our target of 70 percent.

• As part of our program of reducing the cost of capital, we redeemed all of our outstanding 7.44% Cumulative Preferred Stock, Series G, at a redemption price of $101.22 per share on October 1, 1995 and all of our outstanding 7.72% Cumulative Preferred Stock, Series F, at a redemption price of $101.00 per share on January 1, 1996. Savings on the payment of dividends amount to $1.9 million annually.

• The credit ratings on our First Mortgage Bonds have been maintained at "A" by one rating agency and at "A-" or the equivalent by three other rating agencies. We are pleased that in reaffirming our "A-" rating, Standard and Poors revised its outlook on Central Hudson from "stable" to "positive," citing the Company's "expectation of sustainable and modest financial improvement based on gradual economic growth and lower capital spending requirements."

We recognize the positive outlook of Standard and Poors, and we are perhaps even more optimistic than the rating agency based on our financial results for 1995.

For the three-year period 1992 through 1994, our industrial electric sales dropped by 30 percent and our total electric sales decreased by ten percent. During 1995, however, there was evidence that the economy in our service area was rebounding. As a result, we are forecasting an increase in electric sales for 1996.

While we are pleased by signs of a sales turn-around, we are equally pleased that during the period of declining sales we actually strengthened our financial position and enhanced service to our customers while operating the business with fewer employees.

We also continued to stabilize electric prices. During 1995, our electric prices were the lowest in the state for the third consecutive year among the seven investor-owned electric companies which serve New York State. In addition, our average price per kilowatt-hour was lower than in New England and in parts of our neighboring states to the south.

For the last several years, we also have been successful in controlling our natural gas prices. However, during 1995 it became necessary to file for a price increase. The proposed increase, if approved, would increase the price by an average of three percent, and would not become effective until October 1996. It would be the first increase in base rates since 1991. While we regret the need to increase prices, we are pleased that our natural gas prices have risen at less than half the rate of inflation during the last decade.

Looking to 1996, it will be a year when a number of things come together, particularly in the regulatory and public policy arenas with respect to competition in the electric industry.

We expect continuing regulation at the federal level which would require electric companies in the State to "open" their electric transmission systems to "outside" parties. At the state level, we have been actively participating in a proceeding being conducted by the Public Service Commission on how to bring about competition in New York State.

In the context of this proceeding, Central Hudson joined with the other electric companies in the State in proposing a plan which would replace regulation of electric generation with competition at the wholesale level. Without going into detail about a very complex issue, I want to assure you that the plan sets forth principles which protect the interests of our shareholders and our customers.

While it is uncertain whether or not the utilities' plan will be adopted for implementation, some form of competitive environment will emerge in the

months ahead. What is certain is our continuing advocacy of the following principles:

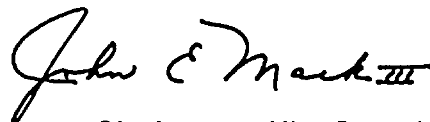
- Competition must be in the best interest of all of our customers, and our average price of electricity must not be increased.
- There must be an orderly transition to competition. A stable and efficient wholesale market must be established before moving to a retail market place.
- The reliability of the electric transmission systems must be maintained.
- Utility companies must maintain customer focus, be allowed to recover the cost of all "stranded" assets, improve productivity, stabilize prices and grow their business.
- The State must evaluate public policy regarding taxation and social and environmental issues in order to develop a level playing field prior to providing competition at the retail level.
- Regulatory mandates (including the utility's obligation to serve all customers, service contracts, pricing and performance-based regulation) must be reviewed before introducing retail competition.

Despite the many uncertainties posed by competition, we are moving forward with a number of programs and activities which we believe will enable us to compete effectively in a new market-driven business environment. The text in this year's annual report highlights the following initiatives:

- Economic Development, which is helping to revitalize the economy of our service area,
- Energy Solutions, which are helping our business customers improve their competitiveness,
- Marketing, which is helping customers take advantage of new energy technologies, products and services,
- Existing Assets, which are being used in innovative ways to strengthen our competitive position.

On behalf of the entire Central Hudson organization, I want to assure you that we are working hard to meet the challenge of competition and to meet your expectations. Our directors, officers and employees appreciate your support.

Very truly yours,



Chairman of the Board
and Chief Executive Officer

Moving Vigorously Toward the 21st Century

Central Hudson is transforming itself into a market-based, customer-driven organization

Our focus is changing from producing and supplying energy to capturing markets

In addition to being the lowest-cost supplier, we plan on being the highest-value provider

Historically, the utility industry has not been driven by a marketing strategy. As a regulated business, our industry developed a "one-size-fits-all" service and pricing structure.

In the world of competition, however, one size does not fit all. Not only is it tough to be all things to all customers, it is unprofitable.

We will achieve the benefits of competitive markets by producing, servicing and pricing products that meet customer needs and create profit opportunities.

Our marketing strategy starts with identifying markets and customers and the unique advantages we have for offering customers higher-quality, superior service at lower costs.

We are focusing on what we do best. We have a special knowledge of customers and energy markets in the Mid-Hudson Valley. We have cost-effective facilities and the technical ability to offer a variety of energy services.

Our business strategy is to produce what customers want, deliver it according to their schedule, and offer pricing and billing options that reflect their needs.

The Focus of Our Marketing Program is Economic Development

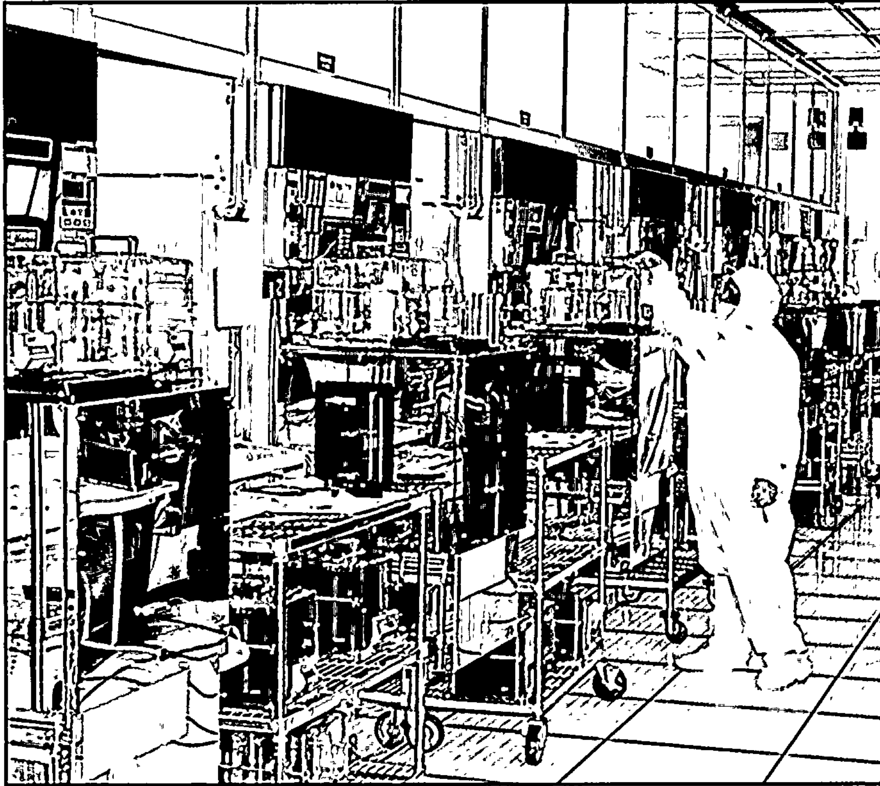
For the past few years, the creation of jobs and the economic revitalization of the Mid-Hudson Valley has been the greatest single concern of the people in the region.

In response to that concern, we have assumed a leadership role in a combined marketing effort being undertaken by the public and private sectors to stimulate job recovery in the region.

Since the spring of 1993, for example, more than 2,300 jobs have been created or retained in Dutchess County. These jobs involve 30 businesses and more than 895,000 square feet of space. All together, more than 4,300 jobs have been created or retained in the region during the past three years, and there is a strong possibility of achieving our goal of adding 5,000 full-time jobs by the end of 1997.

We are pleased that our electric prices, which were the lowest in the state for the third consecutive year, have contributed to the effort to revitalize the economy of the region.

Looking to the future, the region continues to be attractive to business because of its proximity to and quick access to major markets; a superior labor force; the existence of a major research park; educational, recreational and cultural facilities; and the overall quality of life.



MiCRUS Locates and Expands Operations In the Hudson Valley Research Park

The leading tenant of the Hudson Valley Research Park is MiCRUS, which is a joint venture between IBM Microelectronics and Cirrus Logic, Inc., of California. MiCRUS was created in 1994 when IBM and Cirrus jointly provided $500 million, in addition to a $300 million base, for new equipment and facilities in the Research Park, which is located in Southern Dutchess County. The wafer manufacturing operation began with 400 employees in January 1995 and expanded to 900 employees by the end of the year. Central Hudson worked closely with MiCRUS in designing energy efficiency systems, which enabled MiCRUS to qualify for a Central Hudson rebate of $540,000. MiCRUS also qualified for our Economic Incentive Growth Rate, which provides discounts for electric service for ten years. Our Economic Development programs - including incentive electric rates and energy efficiency services - are helping MiCRUS be competitive in a global economy.

We Provide Energy Solutions to Help Create and Retain Jobs and to Develop Marketing Opportunities

"Energy Solutions" is a Central Hudson initiative we offer to commercial and industrial customers to help them improve their competitiveness. This helps strengthen the economy of the Mid-Hudson Valley and increases our capacity to market our products and services.

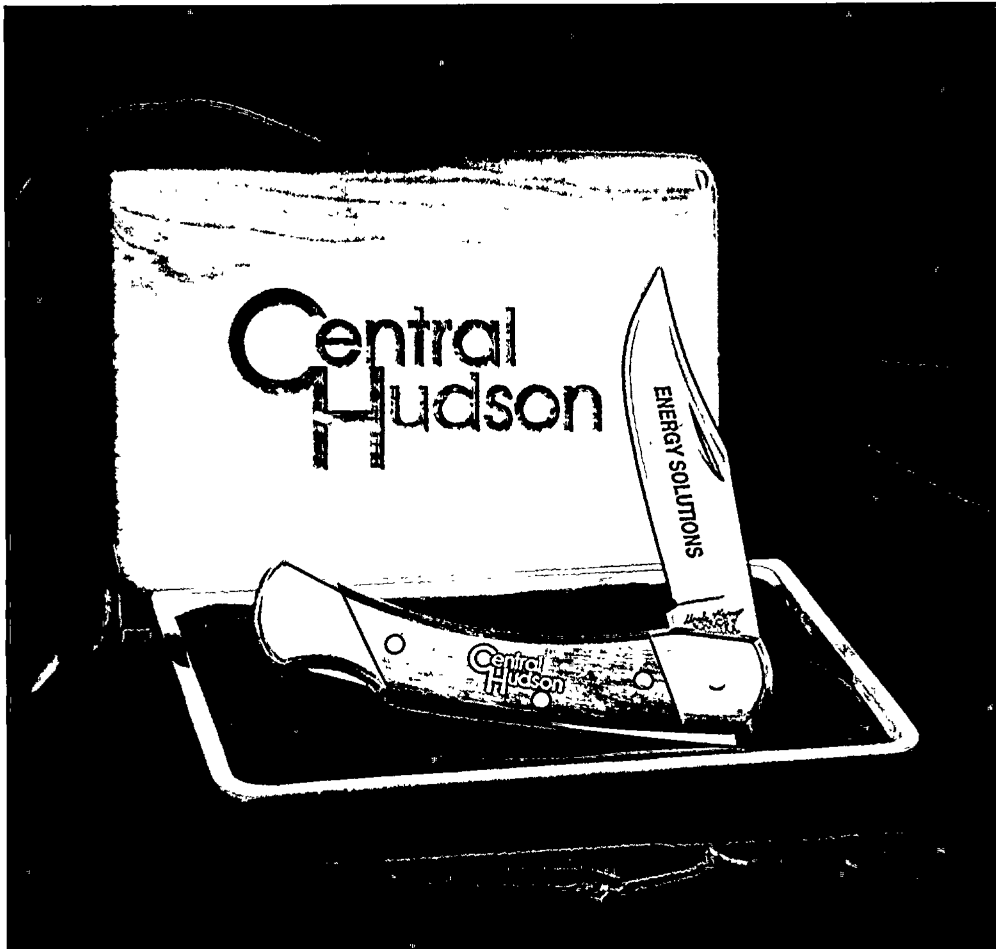
Our Energy Solutions program consists of plant surveys, energy analyses, discount electric rates, design services, financing programs and technical assistance.

During 1995, more than 875 commercial and industrial customers participated in our Energy Solutions program. We look at this program as a partnership between Central Hudson and our customers through which we help them operate more efficiently and increase productivity.

For many customers, the cornerstone of this program is an energy audit and a "competitiveness" analysis of their facility. Emphasis is placed on improving efficiency and productivity and reducing impacts on the environment.

Another important feature of our Energy Solutions program is competitive pricing. In addition to offering the lowest average electric prices among all of the investor-owned electric companies serving New York State, we offer an Economic Growth Incentive Rate and an Economic Revitalization Rate. Both rates provide discounts for electric service for customers who meet certain requirements.

When considering the Energy Solutions program in its entirety, it represents a major commitment by Central Hudson to help create and retain jobs in the Mid-Hudson Valley.



Energy Solutions Developed for Manufacturer of Custom-Designed Knives

The knife and box were made by Imperial Schrade not only to help feature Central Hudson's Energy Solutions program but to illustrate its ability to customize its cutlery products to meet the needs of its customers.

Imperial Schrade, which has about 600 employees at its Ellenville plant in Ulster County, has been making superior quality pocket and hunting knives since 1904. Producing a three-blade knife involves more than 100 operations, many of which are performed by hand by skilled craftsmen. As part of its participation in our Energy Solutions program, Imperial Schrade received a number of recommendations which would improve the efficiency of its manufacturing processes, including electric heat treating, which requires precise temperature control. Operating efficiency has a high priority at Imperial Schrade, and our Energy Solutions program is assisting this customer in improving its competitiveness.

We're Showing Customers How to Let the Earth Do the Heating...and the Cooling Too

Educating customers about the economics of highly efficient and environmentally compatible heating and cooling technologies is a major on-going activity at Central Hudson.

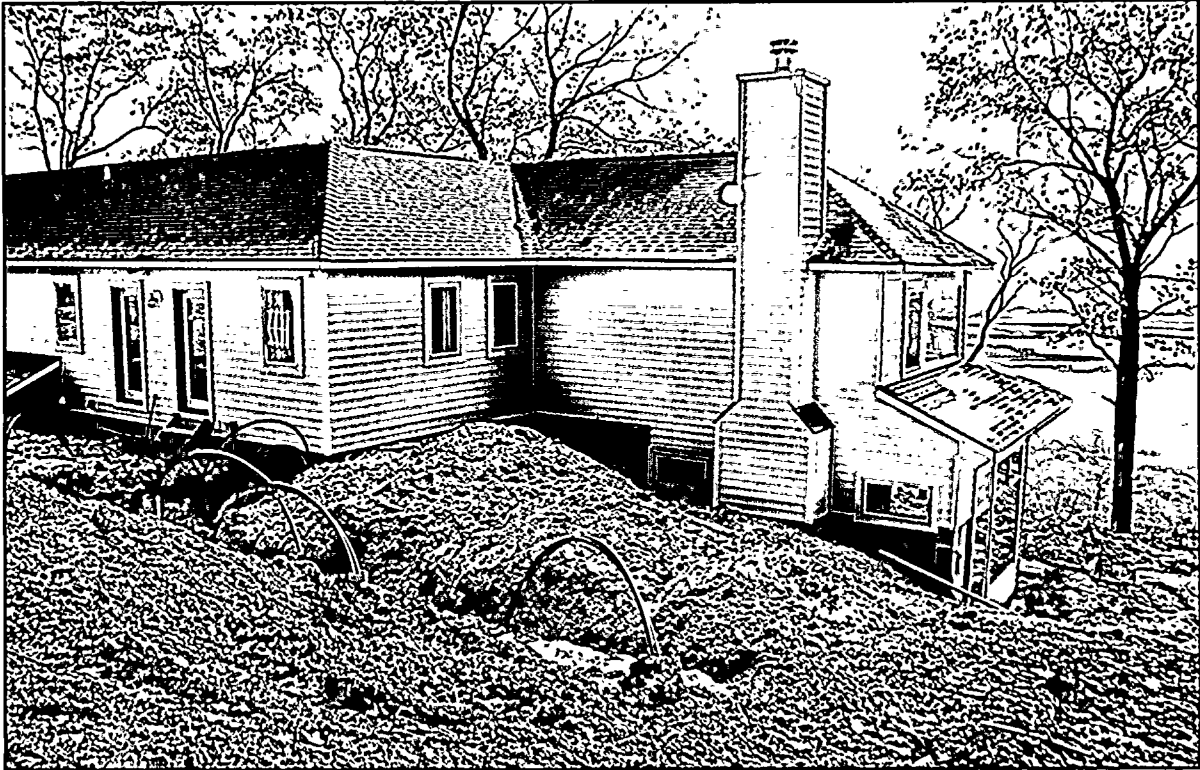
Specifically, we have been focusing on geothermal heat pumps, which we market as "GeoSystem" technology. These heat pumps, which take advantage of the earth's natural below-ground temperature to heat in the winter and cool in the summer, are extremely competitive for both residential and commercial new construction markets.

Add-on heat pumps also are being marketed for year-round comfort and value. As an incentive during 1995, we offered customers 5,500 miles from American Airlines AAdvantage travel awards program for installing a heat pump. This innovative marketing approach received recognition in national business publications.

We also are marketing outdoor lighting and a lighting design service for homes and businesses or for any location where there is a desire to enhance visibility, attractiveness, safety or security.

A leasing program for electric water heaters is being promoted for a low monthly fee which entitles the customer to installation, service and repairs for the life of the unit.

Looking to the future, we will continue to develop marketing partnerships and strategic alliances to enhance shareholder and customer value and strengthen our competitive advantage.



Geothermal Heat Pumps Provide Efficient, Economical Year-Round Comfort Conditioning

An autumn snow squall dusted the mountaintop overlooking the Ashokan Reservoir in Ulster County. The owner of this custom-built house selected a geothermal heat pump to provide year-round comfort conditioning. Central Hudson has been marketing this advanced technology as "GeoSystem - the most efficient home energy system on earth." In the foreground, flexible piping is extended vertically in well holes in the trench. Once the piping is connected to the house, the heat pump circulates a liquid in the closed loop system to extract heat from the earth and transfer it to the house. In the summer, the heat pump moves heat to the household water heater, and the excess heat is transferred below ground where it is absorbed by the earth. The result is domestic water heating and central air conditioning. GeoSystem represents another Energy Solution being offered by Central Hudson to meet the needs of its customers.

We Are Making Greater Use of Our Existing Assets In Innovative Ways to Enhance Our Competitive Position

Innovation characterized two developments during 1995 which illustrate the far-reaching changes which are taking place in the utility industry.

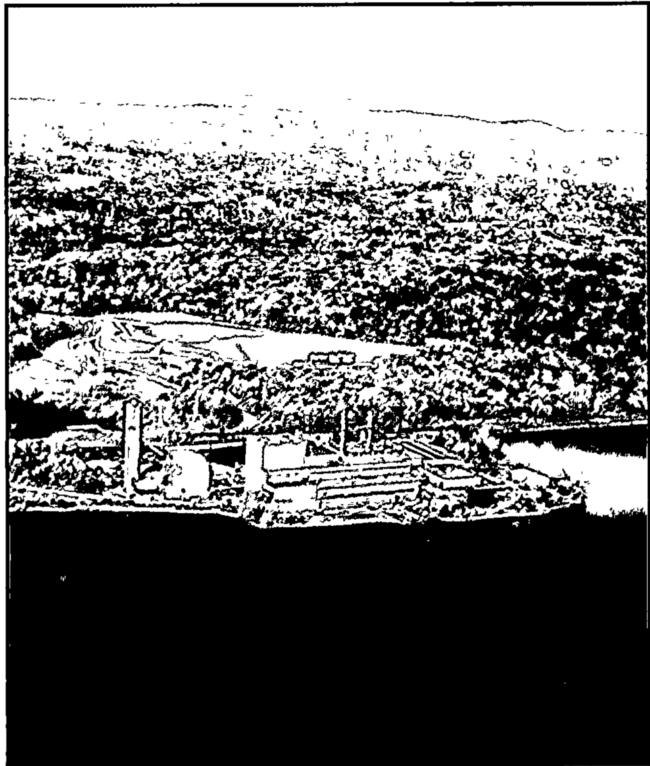
First, we entered into contracts during the year for energy exchanges. That is, energy marketing firms supplied us with natural gas which we used to generate electricity. We made the electricity available to the energy marketers, who sold it elsewhere.

These transactions enabled Central Hudson to improve the utilization of both gas transmission and electric generating capacity to increase revenue and offset operating and maintenance expenses. Such opportunities help us to control the price of electricity and natural gas and enhance our competitive position.

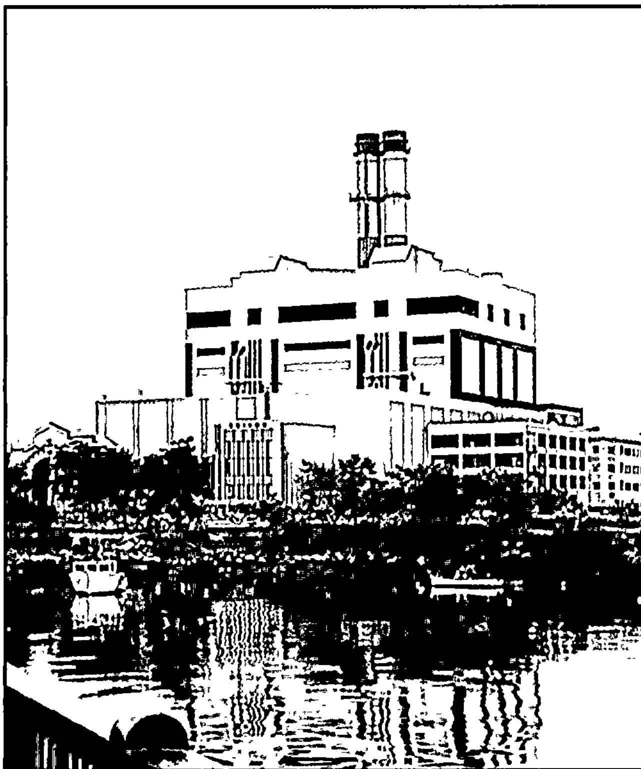
The second development further improved an underutilized asset: available capacity in a natural gas pipeline. We entered into a five-year agreement with a New England utility for the transportation of natural gas to the utility through a pipeline reserved for our use. In this case, the payment we receive is being used to reduce charges to our gas customers.

We continue to explore other ways to increase the use of our existing assets in order to strengthen our competitive position and provide benefits to our customers.

Maximizing Assets In the Mid-Hudson Valley



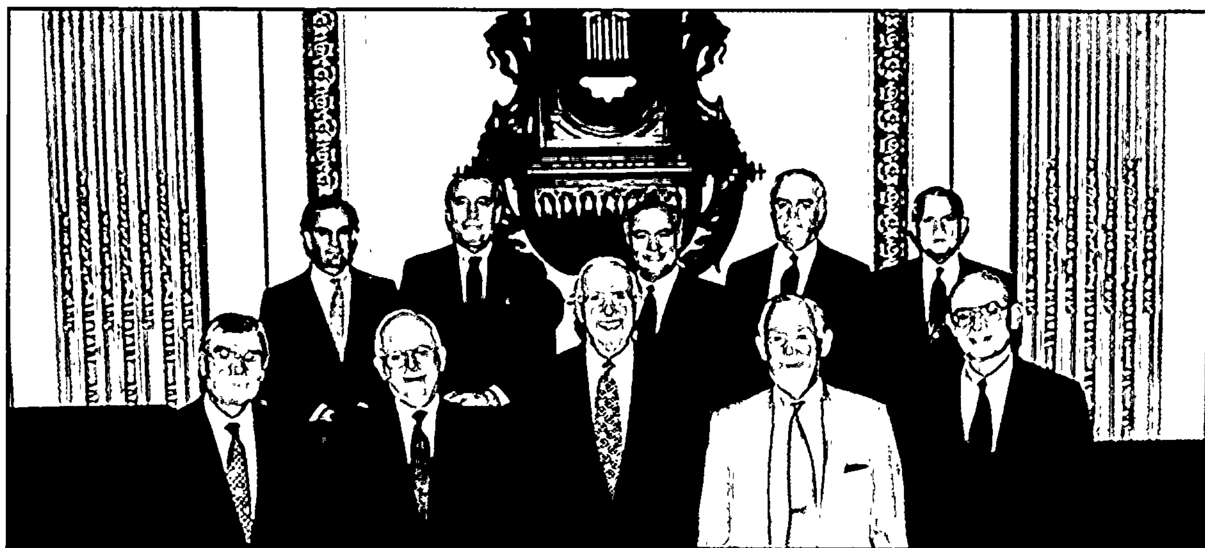
The availability of electric generating capacity at the Danskammer Plant, shown surrounded by autumn foliage, made it possible for Central Hudson to participate in external power marketing during 1995. Through agreements with energy marketers, we burned natural gas supplied by the marketers to generate electricity at Danskammer. The marketers then sold the electricity in open markets. Through this energy exchange - natural gas for electricity - we were able to maximize our Production assets and increase our revenues.



Moving Natural Gas to Boston

Increased utilization of a natural gas asset was initiated during 1995 when we entered into a five-year agreement with the Boston Edison Company to make pipeline capacity available to the New England utility for the transportation of natural gas to its New Boston Station, shown to the left. Revenue received from Boston Edison is being used to help offset the cost of supplying natural gas to our own customers. We are continually exploring opportunities to increase the utilization of our available assets.

Board Of Directors



To mark the 50th anniversary of Central Hudson's common stock listing on the New York Stock Exchange, the Board of Directors held its October meeting at the Exchange's headquarters, which was the setting for the group photograph.

Front row, from left: Heinz K. Fridrich; Richard H. Eyman; John E. Mack, III, Chairman and Chief Executive Officer; Howard C. St.John, Vice Chairman; and Jack Effron.

Back row, from left: Edward P. Swyer; Charles LaForge; Paul J. Ganci, President and Chief Operating Officer; Edward F. X.Gallagher; and L. Wallace Cross. Frances D. Fergusson was unavailable for the photograph.,

Richard H. Eyman

Two Directors, each of whom has provided outstanding service to the Board of Directors, will not be standing for re-election at the Annual Meeting of Shareholders on April 2, 1996.

Richard H. Eyman joined the Board in 1984. During his twelve years of service, he served on various Committees of the Board and Chaired the Committee on Audit.

Howard C. St. John

Howard C. St. John became a Director in 1984. His principal responsibilities have been as Chairman of the Finance Committee and as Vice Chairman of the Board, a position he has held since 1987.

The Company takes great pride in the contributions of both Directors during a critical period in the history of Central Hudson.

Corporate & Stock Information

Annual Meeting

The annual meeting of holders of common stock will be held on Tuesday, April 2, 1996 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, 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, 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, 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, P.O. Box 2550, Jersey City, N.J. 07303-2550.

Stock Exchange Listings

Common: *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 Chase Manhattan Plaza
New York, N.Y. 10005

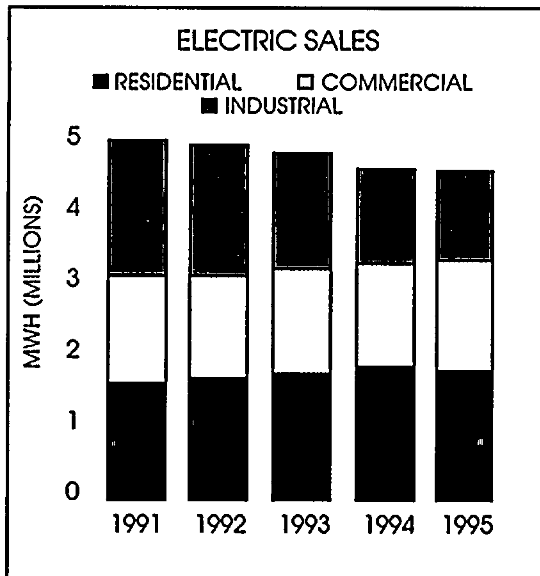
Independent Accountants

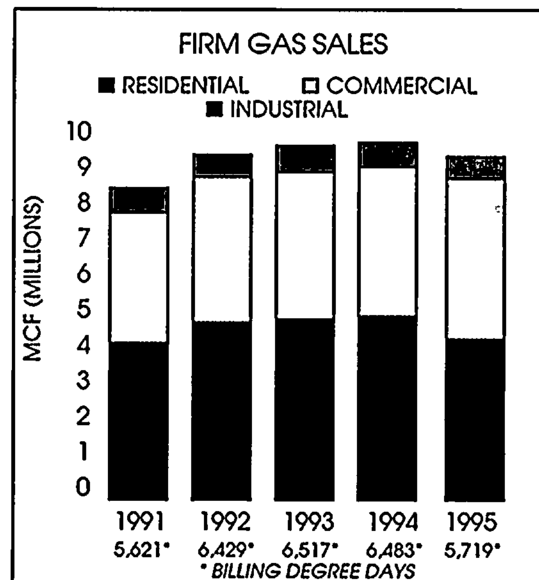
Price Waterhouse
1177 Avenue of the Americas
New York, N.Y. 10036

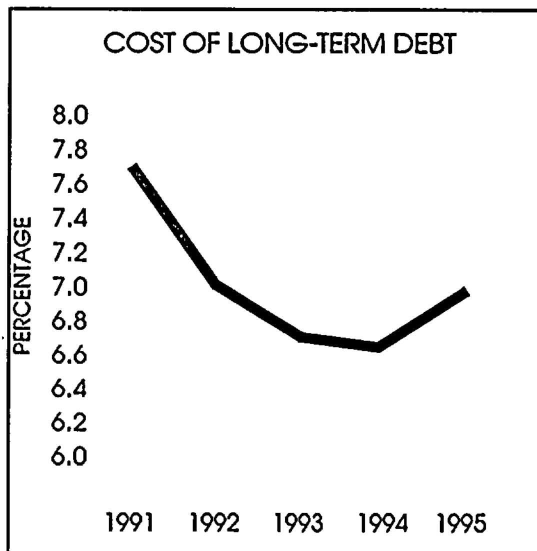
Common Stock
Market Price and Dividends Paid Per Share

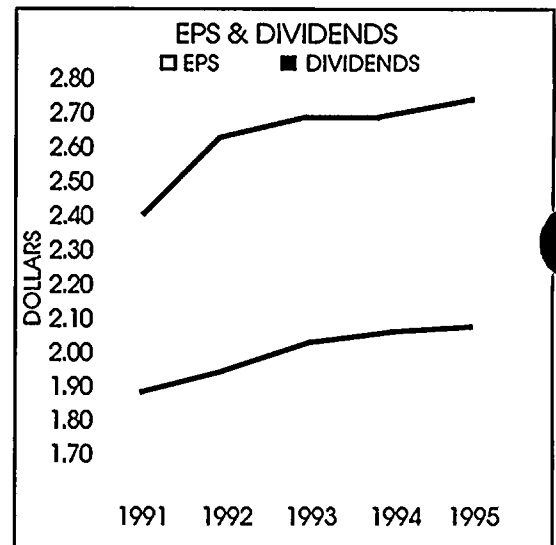
	1995 High	1995 Low	1995 Dividend	1994 High	1994 Low	1994 Dividend
1st Quarter	$27 5/8	$26	$.52	$30 1/8	$27 7/8	$.515
2nd Quarter	27 1/2	25 1/2	.52	29 3/4	25 3/4	.515
3rd Quarter	30 1/2	26 1/4	.525	27 5/8	23	.52
4th Quarter	31 7/8	29 7/8	.525	26 1/2	22 7/8	.52

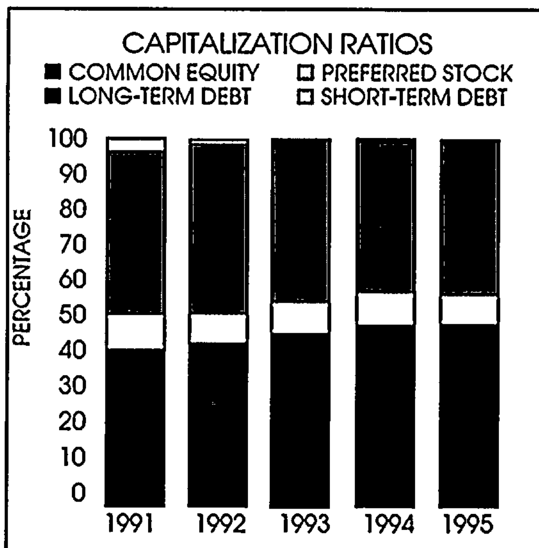
FINANCIAL PROFILE

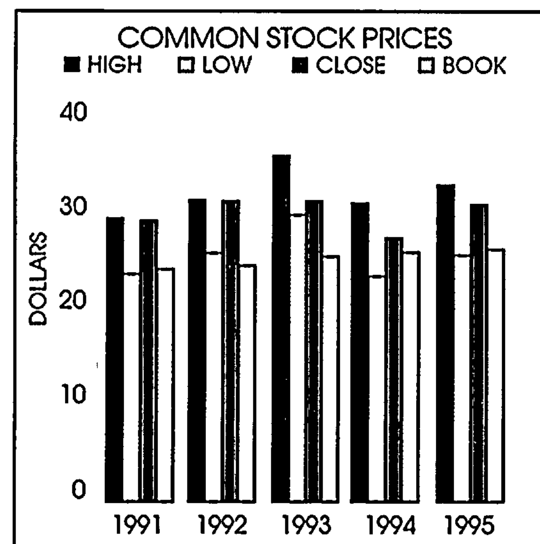












FINANCIAL SECTION

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FINANCIAL HIGHLIGHTS

EARNINGS PER SHARE: (PAGE 26)

Earnings per share of common stock were $2.74 in 1995 compared to $2.68 in 1994. This $.06 or 2% increase in earnings per share resulted primarily from decreased operation and maintenance costs, decreased interest expense and a gain from the sale of long-term stock investments. Partially offsetting these increases in earnings in 1995 were decreases in electric and gas net operating revenues due to decreased sales attributable largely to the warmer winter weather experienced in the first quarter of 1995 and decreased sales to IBM.

DIVIDENDS PER SHARE: (PAGE 30)

The quarterly dividend rate was increased to $.525 per share, effective June 23, 1995. This represented an increase of 1% over the previous quarterly rate of $.52 per share. Dividends paid to shareholders in 1995 were $2.09 per share as compared to $2.07 per share in 1994. No portion of the 1995 dividend constitutes a return of capital.

ECONOMY:

The past year proved to be a period of growth and recovery for the Company's service area. The Company's economic development efforts coupled with State and local government efforts helped to attract over 4,300 value-added jobs throughout the region since the spring of 1993. Included in these value-added jobs are 900 positions brought to the area in the last two years by a semi-conductor manufacturing company.

ELECTRIC SALES: (PAGE 27)

Sales of electricity within the Company's service territory decreased 2% in 1995. Sales of electricity to residential customers decreased 2% due to a decrease in usage per customer. Commercial sales increased 1% resulting from the net effect of a 2% increase in the number of customers and a 1% decrease in usage per customer. Electric sales to industrial customers decreased 6% due primarily to an 18% decline in usage by IBM.

GAS SALES: (PAGE 27)

Firm sales of natural gas decreased 5% in 1995. Sales of gas to residential customers decreased 10% due to a decrease in usage per customer. Commercial sales decreased 1% due largely to a decrease in usage per customer. Firm gas sales to industrial customers remained stable when compared to 1994. When normalized for effects of weather, firm gas sales increased 3% in 1995. Interruptible gas sales increased 70% due to a significant increase in the boiler gas usage at the Company's fossil-fueled generating plants.

RATE PROCEEDING - ELECTRIC: (PAGE 25)

The Company has no pending electric rate case filed with the Public Service Commission (PSC) and cannot predict with certainty the date of its next filing.

The last rate increase was issued and effective February 11, 1994 which increased base rates by $5.133 million (or approximately 1.3% on an annual basis), based on a 10.6% return on common equity, and an 8.58% return on total invested capital.

RATE PROCEEDING - GAS: (PAGE 25)

The Company filed a request with the PSC on November 10, 1995 to increase its base rates for firm natural gas. The request, if accepted by the PSC, would effectively produce a net increase in firm gas revenues of $2.422 million, an 11.50% return on common equity and a 9.22% return on total invested capital. The Company can make no prediction as to what further action the PSC will take on this gas rate increase request.

COMMON STOCK: (NOTE 5)

Issuances under the Automatic Dividend Reinvestment and Stock Purchase Plan and Customer Stock Purchase Plan increased the number of common shares outstanding by 257,587 shares to a total of 17,496,051 as of December 31, 1995. At the end of 1995, a share of common stock was selling at $30.875 while the book value per share was $25.96.

FINANCING PROGRAM: (NOTES 5 & 6)

On October 1, 1995, the Company optionally redeemed all of its outstanding 7.44% Cumulative Preferred Stock at a price of $101.22 per share. The associated cash requirements were financed from internal funds and from net proceeds of $7.0 million realized from the issuance of 257,587 shares of common stock in 1995 through the Company's Automatic Dividend Reinvestment and Stock Purchase Plan and its Customer Stock Purchase Plan.

TAXES: (PAGE 29)

In 1995, the Company incurred $95.7 million for operating taxes levied by federal, state and local governments, representing 19 cents of every dollar of revenues.

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

(Thousands of Dollars)

	1995	1994	1993	1992	1991
Operating Revenues					
Electric	$ 409,445	$ 411,082	$ 422,925	$ 427,436	$ 424,121
Gas	102,770	104,586	94,448	96,121	70,615
Total	512,215	515,668	517,373	523,557	494,736
Operating Expenses					
Operations	274,665	274,497	274,477	283,787	267,339
Maintenance	29,440	32,716	34,486	34,226	31,504
Depreciation and amortization	41,467	40,380	39,682	39,596	37,230
Taxes, other than income tax	66,709	66,899	65,564	66,339	60,554
Federal income tax	29,040	28,043	28,603	25,111	22,613
Total	441,321	442,535	442,812	449,059	419,240
Operating Income	70,894	73,133	74,561	74,498	75,496
Other Income and Deductions					
Allowance for equity funds used during construction	986	866	934	596	921
Federal income tax	353	1,237	1,445	748	1,252
Other - net	8,886	6,296	5,167	4,427	854
Total	10,225	8,399	7,546	5,771	3,027
Income before Interest Charges	81,119	81,532	82,107	80,269	78,523
Interest Charges	28,397	30,603	31,717	32,581	35,582
Net Income	52,722	50,929	50,390	47,688	42,941
Premium on Preferred Stock Redemption - Net	169	-	-	-	-
Dividends Declared on Cumulative Preferred Stock	4,903	5,127	5,562	5,544	5,659
Income Available for Common Stock	47,650	45,802	44,828	42,144	37,282
Dividends Declared on Common Stock	36,459	35,541	34,497	31,545	29,800
Amount Retained in the Business	11,191	10,261	10,331	10,599	7,482
Retained Earnings - beginning of year	79,284	69,023	58,692	48,093	40,611
Retained Earnings - end of year	$ 90,475	$ 79,284	$ 69,023	$ 58,692	$ 48,093

	1995	1994	1993	1992	1991
Common Stock					
Average shares outstanding (000s)	17,380	17,102	16,725	15,901	15,530
Earnings per share on average shares outstanding	$2.74	$2.68	$2.68	$2.65	$2.40
Dividends declared per share	$2.095	$2.075	$2.045	$1.98	$1.90
Book value per share (at year-end)	$25.96	$25.34	$24.65	$23.60	$22.84
Total Assets	$1,250,092	$1,250,781	$1,264,240	$1,167,124	$1,141,128
Long-term Debt	389,245	389,364	391,810	441,096	416,030
Cumulative Preferred Stock	56,030	81,030	81,030	81,030	81,030
Common Equity	454,239	436,731	417,846	378,214	360,203

* *This summary should be read in conjunction with the Consolidated Financial Statements and Notes thereto included in the "Financial Section" of this Annual Report.*

COMPETITION

GENERAL

The Company is subject to regulation by the Public Service Commission of the State of New York (PSC) and by the Federal Energy Regulatory Commission (FERC). As a result, the Company is substantially free from direct competition at the retail level, at this time. The enactment of the Energy Policy Act of 1992 and the FERC's rules providing open-access to interstate gas pipelines, as well as federal and state proposals to introduce competition to the utility market, will expose the electric and gas industry to additional risks and uncertainties. The introduction of increased competition and related regulatory and legislative requirements may unfavorably impact the position of a utility as a franchised monopoly. The Company cannot predict the scope, timing and consequences of these changes; however, such changes could result in a write-off of utility assets. See the following subcaption entitled "Continuing Applicability of SFAS No. 71."

RECENT DEVELOPMENTS

FERC Notice of Proposed Rulemaking (NOPR) On March 29, 1995, FERC issued a NOPR on generic requirements for electric transmission tariffs. FERC proposes to require all jurisdictional utilities (including the Company) to offer comparable service, open-access transmission tariffs for network and point-to-point service. Such utilities would also be required to take transmission service under the same tariffs and each ancillary service they offer in their rates and to effect functional unbundling of their transmission operations. Included with the open-access NOPR is a supplementary NOPR on stranded costs, in which FERC endorses the principle of stranded cost recovery. Stranded costs are prudently incurred utility costs which would be recoverable under the current system of regulation, but which might not be recoverable in a more competitive electric industry environment.

New York - Electric

Competitive Opportunities Proceeding: In 1993, the PSC initiated a proceeding to address numerous issues related to competition in the electric energy markets in New York State. Two phases of this proceeding have been established to address the issues to be considered.

Phase I of such proceeding, which was completed in the Summer of 1994, resulted in the approval by the PSC of "flexible rates" that would allow electric utility companies to negotiate individual contracts with certain large industrial and commercial customers to provide electricity at prices lower than currently offered.

Phase II of such proceeding, which is now underway, has an overall objective of identifying regulatory and rate-making practices that will assist in the transition to a more competitive electric industry designed to increase efficiency in the provision of electricity while maintaining safety, environmental, affordability and service priority goals. Issues related to both wholesale and retail competition also are being examined in Phase II of this proceeding.

By Opinion and Order, issued and effective June 7, 1995, the PSC adopted principles to guide the transition to competition which included a reasonable opportunity to recover stranded investments and called for further investigation of whether vertically integrated utility corporate structures would impede or obstruct development of effective wholesale or retail competition. The PSC next directed a review of certain alternative models for competition within New York State's electric industry. The parties to such proceeding filed their comments with the PSC, including the following:

The Energy Association of New York State (Energy Association), which is a group comprised of the eight major investor-owned gas and electric utilities serving New York State (including the Company), recommended a wholesale poolco model. The key elements of this model include, among others, the following which assumes full recovery of stranded costs:

> (i) setting up an unregulated market for competitively selling wholesale bulk power into a pool, regardless of whether that power is provided by investor-owned utilities, non-utility generators, power marketers, cooperatives or on-site generators and
>
> (ii) creating an Independent System Operator to direct the operation of the State's transmission system so that bulk power will be delivered safely and reliably.

The New York State Power Authority (NYPA) recommended a retail bilateral contract model under which all customers would have the choice to select their electricity suppliers according to individually negotiated arrangements. The bilateral model supported by NYPA Staff would incorporate a power exchange that would accommodate the development of a spot market and a single transmission system operator that would have the ultimate responsibility for the reliable operation of the system. NYPA recom-

mended that it assume the role of the single owner and operator of the bulk power transmission system in New York State.

The Staff of the PSC filed a recommendation for a flexible poolco model of competition that provides a full range of competitive alternatives, including retail and wholesale competition, market-clearing spot prices for electricity purchases and physical bilateral contracts. The PSC Staff model includes divestiture of utility generation assets through sale or spin-off. The PSC Staff proposed that shareholders absorb a portion of stranded costs. The Staff's plan calls for testing the new market structure in the wholesale market in late 1997 and beginning the transition to a competitive retail market by early 1998.

On December 21, 1995, the Administrative Law Judge and the Deputy Director, Energy and Water Division of the Department of Public Service issued a recommended decision in Phase II. In summary, this decision recommended that the PSC adopt a transitional plan leading to a flexible retail poolco model. The first stage would be a wholesale poolco model with an independent system operator and market mechanisms to allow an orderly movement to full retail access. Under their recommended decision, reliability of the bulk power system is recognized to be critical and should not be compromised to achieve lower prices from retail access. Stranded costs would be recovered by non-bypassable access charges or wire charges, and must be determined to be prudent, verifiable and non-mitigable. A utility would be entitled to present a case as to why it would be reasonable to allow recovery of its stranded costs, subject to allowing consumers a reasonable opportunity to realize savings and receive reasonable prices; thus, a careful balance of interest and expectations is required and may vary utility by utility. Utilities would be required to individually file for PSC approval, within six months of the PSC's order, a long-term proposal addressing, among other things, (i) recoverable stranded costs, (ii) the separation of generation from transmission and distribution, either functionally, structurally or by divestiture, (iii) phasing in retail access for all customers, and (iv) the utility's proposed relationship with an independent system operator.

The Company is considering the impact the recommended decision would have on its business and can make no prediction as to what action the PSC will take with respect to Phase II, except that if the PSC were to adopt the stranded cost recommendations in such decision, the Company's ability to recover its plant costs and regulatory assets in rates would be at risk. Action by the PSC is expected by July 1, 1996.

Niagara Mohawk Proposal: On October 6, 1995, as publicly reported by Niagara Mohawk Power Corporation (Niagara Mohawk), Niagara Mohawk filed a proposal with the PSC which provides for a corporate restructuring designed to create an open, competitive retail electricity market, deregulate electricity generation in Niagara Mohawk's service area, allow its customers, by year 2000, to choose their electricity supplier and freeze or reduce electricity prices over the next five years. The restructuring would place Niagara Mohawk's power plants (which would include Niagara Mohawk's interest in the Nine Mile 2 Plant and Niagara Mohawk's interest in the Roseton Plant) and unregulated generator contracts in a separate generating company, with the remaining business being separated into a holding company with regulated subsidiaries that would transmit and distribute electricity and natural gas and supply energy services to core customers. This holding company would also have unregulated subsidiaries that would engage in marketing, brokering and service activities. In addition, Niagara Mohawk also put forth in its proposal a request for "relief from overpriced unregulated generator contracts that were mandated by public policy." In its proposal, Niagara Mohawk indicated that if it were unable to negotiate new contracts with unregulated generators, Niagara Mohawk would propose to take possession of the unregulated generator projects and compensate their owners through Niagara Mohawk's power of eminent domain. Niagara Mohawk would then resell the projects, allowing the projects to sell electricity into the competitive pool at market prices. Niagara Mohawk has indicated that its proposals are offered as an integrated package, and not piecemeal.

Niagara Mohawk has stated that if it appears that such a proposal were unachieveable, Niagara Mohawk could not rule out the possibility of a restructuring under Chapter 11 of the United States Bankruptcy Code.

The Company has intervened in the proceeding but cannot predict whether Niagara Mohawk's proposal will be effected or, if effected, what impact, if any, Niagara Mohawk's proposal would have on the gas and electric utility business in New York State, including the Company's franchise area, or what effect Niagara Mohawk's proposal and/or a restructuring under Chapter 11 of the United States Bankruptcy Code would have on the Company's interest in the Nine Mile 2 Plant or the Company's interest in the Roseton Plant.

New York - Natural Gas

In October 1993, the PSC initiated a proceeding to address issues associated with the restructuring of the emerging competitive natural gas market, a process which had been set in motion by Order 636 of FERC, which requires pipeline gas suppliers to separate natural gas sales

service from transportation and storage service, and which allows Local Distribution Companies (LDCs), such as the Company and other end users, open access to the interstate pipeline system for the purpose of transporting their gas from gas producing areas to the customer. This PSC proceeding examined such issues to determine how best to implement changes in the services provided by the LDCs' segment of the gas industry, so that the benefits of the increased competition fostered by federal actions are fully realized by customers. By Opinion and Order, issued and effective December 20, 1994, the PSC set forth the policy framework to guide the transition of New York's gas distribution industry in the post-FERC Order 636 environment. Such PSC Order essentially extends a number of the FERC "unbundling" concepts, found in said Order 636 to the retail gas business. In compliance with such Order, the Company and other LDCs filed proposed open-access compliance tariffs with the PSC on November 9, 1995. At this time, the Company can make no prediction as to whether or when the PSC will take action on these filings.

Mergers in the Electric Industry

In response to the increasingly competitive environment, utilities across the country have been reorganizing to better position themselves financially and territorially for the future. Thus, mergers and possible mergers have been reported in business publications throughout the past year. The Company cannot predict at this time what effect these mergers or future mergers will have on the utility industry in New York State.

CONTINUING APPLICABILITY OF SFAS NO. 71

The Company's electric and gas rates, currently subject to approval by the PSC, are designed to recover the Company's costs of providing electric and gas services to its customers. A primary difference between a rate regulated entity and an unregulated entity is the timing of recognizing certain assets and expenses for financial reporting purposes. The Statement of Financial Accounting Standards No. 71, "Accounting for the Effects of Certain Types of Regulation" (SFAS No. 71), prescribes the method to be used to record the financial transactions of a regulated entity. If the Company were to determine that its business fails to meet the criteria of SFAS No. 71, it would have to eliminate from its financial statements all transactions prescribed by the regulators that would not have been recognized if it had been a non-regulated company which could result in a write-down or write-off of utility assets. Currently, such transactions are included in the Company's consolidated financial statements as regulatory assets and liabilities, as described in Note 1 of the Notes to the Company's Consolidated Financial Statements for the year ended December 31, 1995 (Notes). An unfavorable impact on the financial results of the Company would occur if the Company determined that it could no longer apply SFAS No. 71. The Company believes, however, that it meets the criteria for operating as a rate regulated entity, as prescribed by SFAS No. 71, at this time, but cannot predict whether it will continue to meet such criteria, in whole or in part, in the future.

COMPANY'S RESPONSE

Currently, the Company is the lowest cost electric provider in New York State and, through strategies and cost-reduction measures such as those described below, will strive to remain in that position.

The Company's goal is to be the energy supplier of competitive choice to its customers. In order to achieve this goal, the Company has implemented, and will continue to implement appropriate cost-reduction measures. Measures which have been put into place to improve the Company's position in a competitive marketplace include: the operation of certain of its generating units on alternating six-month intervals and/or the placement of certain of its generating units on "ready reserve"; satisfying a portion of its power requirements with purchased power from energy providers outside the Company's service territory at a lower cost than if such power were generated by the Company; reduction of contractor costs by redeploying its own workforce; redeeming or refinancing debt or preferred stock at lower interest rates; and a continued reduction of its workforce through attrition.

Due to the rapid change in the utility industry, the Company has considered and will continue to consider various strategies designed to enhance its competitive position and to adapt to anticipated changes in its business. In November of 1995, the Company entered into a five-year agreement with the Boston Edison Company to transport natural gas to one of the electric generating plants of the Massachusetts-based utility for a demand charge. The demand charge being received for this service will result in an estimated 4% savings to our natural gas customers. Another strategy implemented to prepare the Company for future changes in the industry is capacity brokering. LDCs, such as the Company, are permitted to offer their unutilized firm transportation service to others for a fee. This program, which was used at various times in 1995 and 1994, gives the Company an opportunity to defray some or all of the monthly fixed charges when its firm gas transportation capacity is not fully utilized and, as a result, reduces the costs billed to the Company's firm gas customers.

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 $49.3 million in 1995, a $7.9 million decrease from the $57.2 million expended in 1994. As shown in the table below, cash construction expenditures for 1996 are estimated to be $61.3 million, an increase of $12.0 million compared to 1995 expenditures. Internal sources funded 100% of the 1995 cash construction expenditures and are presently estimated to fund 100% of the forecasted cash construction expenditures for 1996.

In 1996, the Company expects to fund any external funding requirements through issuances of common stock pursuant to its Automatic Dividend Reinvestment and Stock Purchase Plan and its Customer Stock Purchase Plan and by issuing additional debt securities.

Estimates of construction expenditures, internal funds available, mandatory and optional redemption of long-term securities, and working capital requirements for the five-year period 1996-2000 are set forth by year in the following table:

	1996	1997	1998	1999	2000	Total 1996-2000
			(Thousands of Dollars)			
Construction Expenditures *:						
Electric	$39,200	$36,400	$42,900	$36,500	$39,100	$194,100
Gas	7,300	7,700	7,900	8,200	8,500	39,600
Common	9,500	8,200	8,400	8,600	7,600	42,300
Nuclear fuel	5,300	-	5,800	-	5,900	17,000
Total	61,300	52,300	65,000	53,300	61,100	293,000
Internal Funds Available:	64,900	55,600	56,600	59,800	62,100	299,000
Excess of Construction Expenditures over Internal Funds	(3,600)	(3,300)	8,400	(6,500)	(1,000)	(6,000)
Mandatory Redemption of Long-term Securities:						
Long-term debt	-	100	100	20,100	35,100	55,400
Optional Redemption of Long-term Securities:						
Long-term debt	30,000	-	-	-	-	30,000
Preferred Stock	13,000	-	-	-	-	13,000
Working Capital Requirements	(2,900)	3,000	3,000	3,000	3,000	9,100
Total Cash Requirements	$36,500	$ (200)	$11,500	$16,600	$37,100	$101,500

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

Estimates of construction expenditures are subject to continuous review and adjustment, and actual expenditures may vary from such estimates. These construction expenditures include capitalized overheads, nuclear fuel and the debt portion of AFDC.

Included in the construction expenditures are expenditures which are required to comply with the Clean Air Act Amendments of 1990. The Company estimates such required expenditures will cost approximately $6.1 million. A discussion of the Clean Air Act Amendments is included in Note 8 of the Notes under the caption entitled "Environmental Matters - Clean Air Act Amendments."

As shown in the table above, it is presently estimated that funds available from internal sources will finance 100% of the Company's cash construction expenditures for the five-year period 1996-2000. During this same five-year period, total external financing requirements are projected to amount to $101.5 million, of which $55.4 million is related to the mandatory redemption of long-term securities and $43.0 million is related to the optional redemption of long-term securities.

CAPITAL STRUCTURE

Over the past few years, the Company has substantially increased its common equity ratio through retention of a portion of its earnings, offerings of its common stock to the public, issuances of its common stock under its Automatic Dividend Reinvestment and Stock Purchase Plan and its Customer Stock Purchase Plan and redemption of debt and preferred stock. One result of these recent increases in its common equity ratio has been a significant improvement in its interest coverage ratios (as shown under "Financial Indices" on page 30 of this Report) which have also been improved by the refinancing of a portion of its debt at lower interest rates. Despite a tightening of bond rating criteria applied to the electric utility industry, the Company has maintained its bond ratings since 1991. The Company's bond ratings, which were recently reaffirmed during 1995, are "A-" or equivalent by Standard & Poor's Corporation, Moody's Investors Service, Inc. and Duff & Phelps Credit Rating Co., and "A" by Fitch Investors Service. Standard & Poor's Corporation has revised its outlook on the Company from "stable" to "positive" in August 1995, citing the Company's "expectation of sustainable and modest financial improvement based on gradual economic growth and lower capital spending requirements." The Company's long-term goal is to achieve and maintain bond ratings at the "A" level.

Set forth below is certain information with respect to the Company's capital structure at the end of 1995, 1994 and 1993:

	Year-end Capital Structure		
	1995	1994	1993
Long-term debt	42.8%	43.0%	47.0%
Short-term debt	-	.3	-
Preferred stock	7.5	8.9	8.6
Common equity	49.7	47.8	44.4
	100.0%	100.0%	100.0%

FINANCING PROGRAM

On December 1, 1995, the Company paid in full at maturity its 4.85% Promissory Notes. The $2.6 million principal amount was funded through internal sources.

The Company redeemed all of its outstanding shares of 7.44% Cumulative Preferred Stock (par value $100 per share) on October 1, 1995 at a redemption price of $101.22 per share. The $12.1 million total redemption price paid and associated costs were funded through internal sources and from the issuance of 257,587 additional shares of common stock during 1995 through the Company's Automatic Dividend Reinvestment and Stock Purchase Plan and its Customer Stock Purchase Plan.

On September 1, 1994, the Company retired at maturity its 8 1/8% Series First Mortgage Bonds, of which $50 million principal amount was issued and outstanding. The associated cash requirements were financed from internal funds and from the issuance of 285,317 additional shares of common stock during 1994 through the Company's Automatic Dividend Reinvestment and Stock Purchase Plan and its Customer Stock Purchase Plan.

In 1993, the Company optionally redeemed two series of First Mortgage Bonds totaling $40 million and two series of preferred stock totaling $34.2 million. These securities were refunded with similar securities bearing lower interest or dividend rates. In March 1993, the Company issued 700,000 additional shares of common stock through a public offering. These funds were used to reduce short-term debt outstanding and to fund working capital requirements.

The Company optionally redeemed on January 1, 1996 all of its outstanding shares of 7.72% Cumulative Preferred Stock (par value $100 per share) at a redemption price of $101.00 per share. The $13.1 million redemption price paid and associated costs were funded through internal sources. Financial markets will continue to be monitored throughout 1996 by the Company for opportunities to refinance debt or preferred stock at lower cost.

By an Order issued and effective October 17, 1994, the PSC granted the Company authorization to issue and sell through December 31, 1996 up to an additional $80 million of securities. This $80 million can be composed of Medium Term Notes solely or a combination of Medium Term Notes and up to $40 million of Common Stock. For more information with respect to such Order and the Company's financing program in general, see Notes 5 and 6 of the Notes.

SHORT-TERM DEBT

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 $50.0 million through December 14, 1997. In addition, the Company continues to maintain confirmed lines of credit totaling $1.5 million with two regional banks. Also, the Company has short-term credit agreements with four commercial banks totaling $130.0 million in the aggregate. Such agreements give the Company competitive options to minimize its cost of short-term debt borrowing. Authorization from the PSC limits the amount the Company may have outstanding at any time under all of its short-term borrowing arrangements to $52.0 million in the aggregate.

RATE PROCEEDINGS

Electric: The Company has no pending electric rate case filed with the PSC and cannot predict with certainty the date of its next filing. The Company's most recent electric rate case was filed November 12, 1992 and, by Order Determining Revenue Requirement and Rate Design issued and effective February 11, 1994, the PSC permitted the Company to increase its electric base rates by $5.133 million (or approximately 1.3% on an annual basis), based on a 10.6% return on common equity, and an 8.58% return on total invested capital.

The Company's electric fuel cost adjustment clause also 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, as appropriate, in total to the customers. In addition, the Company credits to customers the net revenue (gross revenue less incremental costs, principally fuel) from sales of electricity to other utilities after adjusting for an 80%/20% sharing between customers and the Company, respectively, of any variations from forecasted amounts which have been approved by the PSC for a specific twelve-month period. See subcaption "Deferred Electric Fuel Costs" of Note 1 of the Notes.

Gas: On November 10, 1995, the Company filed a request with the PSC to increase its base rates for firm natural gas service to produce a net increase in firm gas revenues of $2.422 million based on projected operations during the rate year comprised of the period November 1, 1996 through October 31, 1997. This would represent an overall increase in firm gas revenues of 3%.

The higher rates have been requested to cover increases in capital and operating costs that are projected for the rate year that are not adequately provided for in present rates and will not be provided for by increased sales.

In its filing, the Company requested an 11.50% return on common equity and a 9.22% return on total invested capital. It is not expected that any new gas rates, which may result from this filing, will become effective before October 1, 1996.

Based on the Company's proposed allocation between firm customer classes, the proposed increase would be approximately 4.9% for residential customers and 1.0% for commercial/industrial customers. By Order issued and effective December 4, 1995, the PSC suspended the rate increase through April 7, 1996.

The Company can make no prediction as to what further 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 10%, 12% and 14% of the Company's total electric revenues for the years ended December 31, 1995, 1994 and 1993, respectively. Published reports indicate that IBM reduced its employment in the Company's service territory by approximately 400 employees in 1995, 2,600 employees in 1994 and 8,400 employees in 1993 to remain competitive in a challenging marketplace. These reductions bring the total number employed in the Company's service territory to 10,100, as compared to the peak level of IBM employment in excess of 30,000 in 1985. In 1995, IBM closed its facility in Kingston, New York and relocated 1,500 of its workers to its facility in Poughkeepsie, New York. Both facilities are in the Company's service territory. During 1993, IBM phased out its semiconductor manufacturing operations at its East Fishkill, New York facility, which is also in the Company's service territory. This downsizing of IBM is the main contributor to a decline in 1995 of 18% in industrial electric sales. This is in addition to the 1994 and 1993 declines in electric sales to IBM of 17% and 20%, respectively.

New Accounting Standards: The Company is currently reviewing the accounting implications of SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets To Be Disposed Of," which is effective for its 1996 financial statements. As discussed in more detail in Note 1 of the Notes, the Company does not expect that the adoption of this standard will have a material impact on the Company.

Environmental Issues: On an ongoing basis, the Company assesses environmental issues which could impact the Company and its ratepayers. Notes 1, 2 and 8 of the Notes, discuss current environmental issues affecting the Company, including (i) the recent decommissioning study of the Nine Mile 2 Plant, (ii) the Clean Water Act and Clean Air Act Amendments of 1990, which require control of emissions from fossil-fueled electric generating units, (iii) asbestos litigation cases, and (iv) a legal action filed in 1995 against the Company by the City of Newburgh, New York after that City discovered allegedly hazardous coal-tar material on its property, in 1994, allegedly migrating from a former manufactured gas plant facility of the Company located in Newburgh, New York.

RESULTS OF OPERATIONS

The following discussion and analysis includes an explanation of the significant changes in revenues and expenses when comparing 1995 to 1994 and 1994 to 1993. 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 and the rate of return earned on average common equity are as follows:

	1995	1994	1993
Average shares outstanding (000s)	17,380	17,102	16,725
Earnings per share	$ 2.74	$ 2.68	$ 2.68
Return earned on common equity per books*	10.5%	10.7%	11.1%

* *Return on equity for regulatory purposes differs from these figures.*

Earnings per share in 1995 increased $.06 per share over 1994 results primarily because of a decrease in maintenance costs of the Company's electric generating plants and gas distribution and transmission system in 1995. A decrease in the operation and maintenance costs associated with the Nine Mile 2 Plant contributed to the total decrease in operation and maintenance costs as well. Also contributing to the increase in 1995 earnings was reduced interest expense in 1995 resulting primarily from the 1994 retirement at maturity of $50 million 8 1/8% Series First Mortgage Bonds, increased earnings related to PSC incentive programs related to fuel costs and energy efficiency, and an $.08 per share gain from the sale of long-term stock investments in June and December 1995.

Partially offsetting these increases to earnings were significant decreases in electric and gas net operating revenues attributable primarily to decreased sales from the warmer winter weather experienced in the first quarter of 1995, as compared to the same period of 1994, as well as decreased sales to a large industrial customer (IBM) in 1995. The earnings per share in 1995 were also unfavorably impacted by increased depreciation expense on the Company's plant and equipment, increased property taxes and an increase in the number of shares of common stock outstanding.

In 1994, earnings per share remained unchanged from 1993, although earnings from normal operations increased $.03 per share. Earnings in 1993 included a $.03 per share gain from the sale of long-term stock investments. The $.03 per share increase in earnings from normal operations in 1994 was due primarily to lower interest charges on the Company's outstanding debt, resulting in large part from retirement at maturity on September 1, 1994 of $50 million principal amount of 8 1/8% Series First Mortgage Bonds, the refinancing of high interest rate debt and preferred stock in 1993, and increased gas net operating revenues.

These 1994 increases were partially offset, however, by reduced earnings from PSC incentive programs related to fuel costs and energy efficiency programs, decreased electric net operating revenues attributable primarily to decreased sales to large industrial customers, an increase in the number of shares of common stock outstanding, and decreased earnings of non-regulated subsidiary companies.

OPERATING REVENUES

Total operating revenues decreased $3.5 million (.7%) in 1995, as compared to 1994, and $1.7 million (.3%) in 1994, as compared to 1993.

See the table below for details of the variations:

	Increase or (Decrease) from Prior Year					
	1995			1994		
	Electric	Gas	Total	Electric	Gas	Total
	(Thousands of Dollars)					
Customer sales	$(7,711)	$ 4,779	$(2,932)	$ (6,105)	$ 4,555	$(1,550)
Sales to other utilities	2,017	-	2,017	(831)	-	(831)
Increase in base rates	-	-	-	4,704	-	4,704
Fuel cost adjustment	3,346	(6,564)	(3,218)	(7,534)	6,234	(1,300)
Deferred revenues	1,374	21	1,395	(3,405)	(881)	(4,286)
Miscellaneous	(663)	(52)	(715)	1,328	230	1,558
Total	$(1,637)	$(1,816)	$(3,453)	$(11,843)	$10,138	$(1,705)

SALES

Sales of electricity within the Company's service territory decreased 2% and 3% in 1995 and 1994, respectively. The decline in sales experienced in 1995 was primarily the result of unusual warm winter weather experienced in the first quarter of 1995 when compared to the same period in 1994. This 1995 sales decrease was also impacted by the continued declining usage by IBM. The decrease in 1994 sales largely occurred due to a decline in usage by IBM, as described under the above caption entitled "Other Developments."

Firm sales of natural gas decreased 5% in 1995 largely because of a decrease in usage by residential and commercial customers. In 1994, firm sales of natural gas increased 4% primarily due to an increase in the usage by residential and commercial customers. Changes in sales by major customer classification are set forth below:

	% Increase (Decrease) from Prior Year	
	Electric	
	1995	1994
Residential	(2)	1
Commercial	1	3
Industrial	(6)	(13)
	Gas	
	1995	1994
Residential	(10)	3
Commercial	(1)	7
Industrial	-	(4)

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:

	% Increase (Decrease) from Prior Year	
	1995	1994
Growth in number of customers	-	-
Change in average usage per customer	(2)	1

The decreased customer usage in 1995 was primarily due to the warmer winter weather experienced in the Company's service territory in the first quarter of 1995. Heating degree days were 22% lower in this quarter of 1995 than in the same quarter in 1994. For the twelve months of 1995, heating degree days decreased 12% when compared to the results for the year 1994.

In 1994, the increased usage per customer was largely attributable to hotter summer weather as cooling degree days increased 10% over 1993.

Commercial Electric Sales: The components of the changes in commercial electric sales are set forth in the table below:

	% Increase (Decrease) from Prior Year	
	1995	1994
Growth in number of customers	2	1
Change in average usage per customer	(1)	2

Industrial Electric Sales: In 1995, as compared to 1994, and 1994, as compared to 1993, industrial electric sales decreased 6% and 13%, respectively, due primarily to a decline in usage by a large industrial customer (IBM) of 18% in 1995 and 16% in 1994.

Gas Sales - Firm: The following tables set forth customer growth, changes in customer usage and heating degree days for the residential and commercial classifications. Changes in residential and commercial gas sales are affected by weather conditions.

	% Increase (Decrease) from Prior Year	
	Residential Sales	
	1995	1994
Growth in number of customers	-	-
Change in average usage per customer	(10)	3
	Commercial Sales	
	1995	1994
Growth in number of customers	3	2
Change in average usage per customer	(7)	5
	Degree Days	
	1995	1994
Bimonthly billing cycle	(12)	(1)
Calendar year	(4)	(3)

Firm gas sales to industrial customers for 1995 remained stable when compared to the prior year. In 1994, firm gas sales to industrial customers decreased 4% primarily due to the shift of two large industrial customers from firm service to gas transportation service.

Gas Sales - Interruptible: Interruptible gas sales increased 70% in 1995, as compared to 1994, and 33% in 1994, as compared to 1993. The 1995 and 1994 increases were due primarily to the sale of natural gas to the other cotenant owners of the Roseton Plant for use as a boiler fuel.

NUCLEAR OPERATIONS

The Company owns a 9% interest as one of the five tenants-in-common of the Nine Mile 2 Plant, which is discussed in Note 2 of the Notes under the caption entitled "Nine Mile 2 Plant." The operations of this Plant have continued to improve. The actual capacity factor of 76.5% for 1995 exceeded the targeted capacity factor of 73.2% included in the Company's electric fuel adjustment clause. The actual cost of operation for 1995 was less than the amounts provided in the Company's rates. Both of these factors contributed to a favorable impact on earnings. In 1994, the actual cost of operation approximated the amount provided for in the rate-making process.

The Company has continued to participate actively on the management, operations and accounting committees for the Nine Mile 2 Plant and expects to continue to do so in the future.

The Nine Mile 2 Plant is scheduled to commence its fifth refueling outage in September 1996, with a targeted 37-day duration.

Decommissioning of nuclear plants such as the Nine Mile 2 Plant was an important part of the Energy Policy Act of 1992. Through this act, the Uranium Enrichment Decontamination and Decommissioning Fund was established. For further information on this enactment, refer to Note 2 of the Notes. With respect to its interest in the Nine Mile 2 Plant, the Company based its 1995 decommissioning cost estimates on the decommissioning study completed in 1989. As more fully discussed in Note 2 of the Notes, a recent decommissioning study was completed in December 1995. 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.

SHARING ARRANGEMENTS

Pursuant to certain incentive formulas approved by the PSC, the Company shares, with its customers, certain revenues and/or cost savings exceeding defined predetermined levels. These incentive formulas, in some cases, include penalty provisions for shortfalls from the targeted levels as well.

Incentive formulas are in place for fuel cost variations, sales of electricity to other utilities and interruptible gas sales.

The net effect of these incentive formulas was to increase pretax earnings by $4.0, $2.1 and $2.0 million during 1995, 1994 and 1993, respectively.

OPERATING EXPENSES

As a result of the Company's continuing efforts to reduce costs of operation, the Company experienced a significant reduction in its operating expenses, especially in the operation and maintenance costs of its generating and nuclear plants, when comparing 1995 to 1994 results. Changes from the prior year in the components of the Company's operating expenses are listed below:

	Increase or (Decrease) from Prior Year			
	1995		1994	
	Amount	%	Amount	%
	(Dollars in Thousands)			
Operating Expenses:				
Fuel and purchased electricity	$ 1,279	1	$(10,266)	(8)
Purchased natural gas	1,751	3	6,688	12
Other expenses of operation	(2,354)	(3)	3,436	4
Maintenance	(2,905)	(10)	(2,381)	(8)
Nine Mile 2 Plant operation and maintenance	(879)	(6)	773	5
Depreciation and amortization	1,087	3	698	2
Taxes, other than income tax	(190)	-	1,335	2
Federal income tax	997	4	(560)	(2)
Total	$(1,214)	-	$ (277)	-

The most significant elements of operating expenses are fuel and purchased electricity in the Company's electric department and purchased natural gas in the Company's gas department. Approximately 28% in 1995 and 27% in 1994 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 were 61% and 58%, respectively.

In 1995, the combined cost of fuel used in electric generation and purchased electricity increased $1.3 million (1%) primarily due to a 1% increase in total system sales which included sales to other utilities. In 1994, the combined cost of fuel used in electric generation and purchased electricity decreased $10.3 million (8%) resulting primarily from lower per unit costs and decreased sales of electricity.

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.

Purchased natural gas increased $1.8 million (3%) in 1995 largely because of higher interruptible gas sales including gas used as a boiler fuel at the Roseton Plant. The 1994 $6.7 million (12%) increase in gas purchased was due primarily to increased sales

of natural gas to the other cotenant owners for use as a boiler fuel at the Roseton Plant and increased sales of natural gas to residential and commercial customers. As discussed in Note 8 of the Notes, competitively bid contracts that the Company has in place for a majority of its gas supply will expire in 1996 after the 1995-1996 winter heating season and are expected to be replaced with competitively bid contracts with third-party gas suppliers.

Other expenses of operation decreased $2.4 million (3%) in 1995 primarily because of decreased costs of the Company's electric distribution and transmission system. The 1994 increase of $3.4 million (4%) in other expenses of operation was primarily due to higher employee wages and associated fringe benefits.

Maintenance expenses decreased $2.9 million (10%) in 1995 due largely to a $3.5 million decrease in costs associated with the Company's electric generating plants and a $1.6 million decrease in leak repair costs on the Company's gas distribution and transmission system. These decreases were partially offset by a $2.0 million increase in the Company's electric distribution and transmission system costs largely resulting from increases to storm costs and tree trimming expenses in 1995. The 1994 decrease of $2.4 million (8%) in maintenance expenses was due primarily to $4.1 million of higher costs incurred in 1993 for the scheduled major overhauls of Units 3 and 4 at the Danskammer Plant with no comparable overhauls in 1994. These costs were partially offset by a $1.9 million increase in maintenance costs related to the Company's gas transmission and distribution system in 1994.

The Company's portion of operating expenses, taxes and depreciation pertaining to the operation of the Nine Mile 2 Plant are included in the Company's financial results. In 1995, the Company's portion of the costs of the Nine Mile 2 Plant decreased $879,000 (6%) due primarily to a decrease in the nuclear plant's operation and maintenance costs. The Company's portion of the 1994 costs of the Nine Mile 2 Plant increased $773,000 (5%) due to the inclusion of approximately $1.7 million of non-recurring expenses largely attributable to Niagara Mohawk's corporate restructuring efforts at the Nine Mile 2 Plant.

The Company's composite rate for depreciation amounted to 3.14% in 1995, 3.15% in 1994 and 3.17% in 1993 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 35.3% in 1995, 34.5% in 1994 and 32.8% in 1993.

Property taxes, including school taxes, increased $1.2 million and $1.5 million in 1995 and 1994, respectively.

State and local taxes levied on gross revenues decreased $1.2 million and $406,000 in 1995 and 1994, respectively. The 1995 decrease in revenue taxes was largely due to a change in New York State tax law, reducing the surcharge tax rate for utility service from 12.5% to 7.5% effective June 1, 1995. In 1994, the revenue taxes decreased due to the reduced rate of the New York State Surcharge Tax for utility service from 15% to 12.5% effective June 1, 1994.

With the enactment in August 1993 of the Omnibus Budget Reconciliation Act of 1993 (OBRA), the corporate federal income tax rate increased from 34% to 35%, effective January 1, 1993. The PSC authorized deferral of the resultant increase in the corporate federal income tax rate in 1993 until its disposition is determined in the next rate case.

See Note 3 of the Notes for an additional analysis and reconciliation of the federal income tax.

OTHER INCOME AND INTEREST CHARGES

Other income (excluding AFDC) increased $1.7 million (23%) in 1995 and $921,000 (14%) in 1994. The increase was substantially due to the gain on the sale of long-term stock investments in June and December 1995 which is more fully discussed in Note 10 of the Notes. Other income increased in 1994 primarily because of an increase in the amount of Mirror CWIP which flowed through the income statement as a rate moderator, prescribed by the Order of the PSC issued and effective February 11, 1994, as referred to above under the caption entitled "Rate Proceedings - Electric."

Total interest charges (excluding AFDC) decreased $2.2 million (7%) in 1995 and $1.2 million (4%) in 1994. The following table sets forth some of the pertinent data on the Company's outstanding debt:

	1995	1994	1993
	(Thousands of Dollars)		
Long-term debt:			
New debt issued	$ -	$ -	$ 40,000
Debt retired	2,562	50,000	40,000
Outstanding at year-end*:			
Amount (including current portion)	391,715	393,853	443,897
Effective rate	7.00%	6.71%	6.75%
Short-term debt:			
Average daily amount outstanding	$ 103	$ 16	$ 330
Weighted average interest rate	6.16%	6.69%	3.94%

**Including debt of subsidiaries of $5.3 million in 1995 and $4.8 million in 1994 and 1993.*

See Notes 4 and 6 of the Notes for additional information on short-term and long-term debt of the Company.

FINANCIAL INDICES

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

	1995	1994	1993	1992	1991
Pretax coverage of total interest charges:					
Including AFDC	3.68x	3.38x	3.29x	3.07x	2.70x
Excluding AFDC	3.43x	3.15x	3.15x	2.95x	2.62x
Pretax coverage of total interest charges and preferred stock dividends	2.97x	2.74x	2.65x	2.49x	2.22x
Percent of construction expenditures financed from internal funds	100%	100%	100%	100%	88%
AFDC and Mirror CWIP* as a percentage of income available for common stock	16%	16%	11%	10%	8%
Effective tax rate	35%	35%	35%	34%	33%

* Refer to Note 1 of the Notes entitled "Summary of Significant Accounting Policies" under subcaptions "Rates, Revenues and Regulatory Matters" and "Deferred Finance Charges - Nine Mile 2 Plant" for a definition of Mirror CWIP.

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 15 of this Report.

On June 25, 1993, the Company increased the quarterly dividend rate on its common stock to $.515 per share and on June 24, 1994 increased such quarterly dividend rate to $.52 per share. On June 23, 1995, the Company further increased such quarterly dividend rate to $.525 per share. The Company presently intends to increase future common stock dividends by a modest amount if and to the extent supported by sustained earnings growth, while at the same time gradually reducing the Company's payout ratio; however, any determination of future dividend declarations, and the amounts and dates of such dividends, will depend on the circumstances at the time of consideration of such declaration.

The number of registered holders of common stock as of December 31, 1995 was 25,422. Of these, 24,725 were accounts in the names of individuals with total holdings of 6,225,354 shares, or an average of 252 shares per account. The 697 other accounts, in the names of institutional or other non-individual holders, for the most part, hold shares of common stock for the benefit of individuals.

The Company's 4.85% Promissory Notes became due and were retired on December 1, 1995. Therefore, the limitations contained in these notes, upon the right of the Company to declare or pay any dividend or make any other distribution on or acquire, for a consideration, any shares of its common stock, no longer apply. Thus, at December 31, 1995 the amount of retained earnings available for dividends on the Company's common stock is 100% of the amount reported in the Consolidated Balance Sheet.

REPORT OF INDEPENDENT ACCOUNTANTS

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, 1995 and 1994, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1995, 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 LLP
New York, New York
January 26, 1996

STATEMENT OF MANAGEMENT'S RESPONSIBILITY

Management is responsible for the preparation, integrity and objectivity of the consolidated financial statements of Central Hudson Gas & Electric Corporation and its subsidiaries (collectively, the Company) as well as all other information contained in this Annual Report. The consolidated financial statements have been prepared in conformity with generally accepted accounting principles and, in some cases, reflect amounts based on the best estimates and judgements of the Company's Management, giving due consideration to materiality.

The Company maintains adequate systems of internal control to provide reasonable assurance, that, among other things, transactions are executed in accordance with Management's authorization, that the consolidated financial statements are prepared in accordance with generally accepted accounting principles and that the assets of the Company are properly safeguarded. The systems of internal control are documented, evaluated and tested by the Company's internal auditors on a continuing basis. Due to the inherent limitations of the effectiveness of internal controls, no internal control system can provide absolute assurance that errors will not occur. Management believes that the Company has maintained an effective system of internal control over the preparation of its financial information including the consolidated financial statements of the Company as of December 31, 1995.

Independent accountants were engaged to audit the consolidated financial statements of the Company and issue their report thereon. The Report of Independent Accountants, which is presented above, does not limit the responsibility of Management for information contained in the consolidated financial statements and elsewhere in the Annual Report.

The Company's Board of Directors maintains a Committee on Audit which is composed of Directors who are not employees of the Company. The Committee on Audit meets with Management, its Internal Auditing Manager, and its independent accountants several times a year to discuss internal controls and accounting matters, the Company's consolidated financial statements, the scope and results of the audits performed by the independent accountants and the Company's Internal Auditing Department. The independent accountants and the Company's Internal Auditing Manager have direct access to the Committee on Audit.

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

Donna S. Doyle
DONNA S. DOYLE
Controller

January 26, 1996

CONSOLIDATED BALANCE SHEET

At December 31, (In Thousands)	1995	1994
ASSETS		
Utility Plant		
Electric	$1,149,233	$1,114,574
Gas	140,341	131,830
Common	83,220	80,652
Nuclear fuel	32,541	31,525
	1,405,335	1,358,581
Less: Accumulated depreciation	490,576	462,105
Nuclear fuel amortization	26,435	23,655
	888,324	872,821
Construction work in progress	48,770	58,252
Net Utility Plant	937,094	931,073
Other Property and Investments	11,332	10,948
Current Assets		
Cash and cash equivalents	15,478	5,792
Accounts receivable from customers - net of allowance for doubtful accounts; $2.5 million in 1995 and $2.0 million in 1994	44,536	43,908
Accrued unbilled utility revenues	15,806	15,076
Other receivables	4,674	5,953
Materials and supplies, at average cost:		
Fuel	13,319	19,293
Construction and operating	14,271	14,096
Special deposits and prepayments	12,659	12,092
Total Current Assets	120,743	116,210
Deferred Charges		
Regulatory assets (Note 1)	159,907	169,808
Unamortized debt expense	6,080	6,527
Other	14,936	16,215
Total Deferred Charges	180,923	192,550
TOTAL ASSETS	$1,250,092	$1,250,781

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

At December 31, (In Thousands)	1995	1994
CAPITALIZATION AND LIABILITIES		
Capitalization		
Common Stock Equity		
Common stock, $5 par value (Note 5)	$ 87,480	$ 86,192
Paid-in capital (Note 5)	282,942	277,205
Retained earnings	90,475	79,284
Capital stock expense	(6,658)	(6,773)
Unrealized gain on investment (Note 10)	-	823
Total Common Stock Equity	454,239	436,731
Cumulative Preferred Stock (Note 5)		
Not subject to mandatory redemption	21,030	46,030
Subject to mandatory redemption	35,000	35,000
Total Cumulative Preferred Stock	56,030	81,030
Long-term Debt (Note 6)	389,245	389,364
Total Capitalization	899,514	907,125
Current Liabilities		
Current redemption of preferred stock	13,000	-
Current maturities of long-term debt	1,577	3,525
Notes payable	-	3,000
Accounts payable	24,433	29,441
Dividends payable	10,244	10,246
Accrued taxes and interest	7,824	6,829
Accrued vacation (Note 1)	4,157	4,081
Customer deposits	4,021	3,763
Other	6,166	5,556
Total Current Liabilities	71,422	66,441
Deferred Credits and Other Liabilities		
Regulatory liabilities (Note 1)	74,132	72,134
Operating reserves	6,024	5,663
Other	9,659	19,463
Total Deferred Credits and Other Liabilities	89,815	97,260
Accumulated Deferred Income Tax (Note 3)	189,341	179,955
Commitments and Contingencies (Notes 2 and 8)		
TOTAL CAPITALIZATION AND LIABILITIES	$1,250,092	$1,250,781

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

CONSOLIDATED STATEMENT OF INCOME

Year Ended December 31, (In Thousands)	1995	1994	1993
Operating Revenues			
Electric	$396,673	$400,327	$411,339
Gas	102,770	104,586	94,448
Total - own territory	499,443	504,913	505,787
Electric sales to other utilities	12,772	10,755	11,586
Total Operating Revenues	512,215	515,668	517,373
Operating Expenses			
Operation:			
Fuel used in electric generation	60,940	67,899	72,291
Purchased electricity	52,323	44,085	49,959
Purchased natural gas	62,339	60,588	53,900
Other expenses of operation	99,063	101,925	98,327
Maintenance	29,440	32,716	34,486
Depreciation and amortization (Note 1)	41,467	40,380	39,682
Taxes, other than income tax	66,709	66,899	65,564
Federal income tax (Note 3)	29,040	28,043	28,603
Total Operating Expenses	441,321	442,535	442,812
Operating Income	70,894	73,133	74,561
Other Income and Deductions			
Allowance for equity funds used during construction (Note 1)	986	866	934
Federal income tax (Note 3)	353	1,237	1,445
Other - net	8,886	6,296	5,167
Total Other Income and Deductions	10,225	8,399	7,546
Income before Interest Charges	81,119	81,532	82,107
Interest Charges			
Interest on long-term debt	25,925	27,541	28,877
Other interest	1,917	1,784	1,204
Allowance for borrowed funds used during construction (Note 1)	(514)	(515)	(611)
Amortization of expense on debt	1,069	1,793	2,247
Total Interest Charges	28,397	30,603	31,717
Net Income	52,722	50,929	50,390
Premium on Preferred Stock Redemption - Net	169	-	-
Dividends Declared on Cumulative Preferred Stock	4,903	5,127	5,562
Income Available for Common Stock	$ 47,650	$ 45,802	$ 44,828
Common Stock:			
Average shares outstanding (000s)	17,380	17,102	16,725
Earnings per share on average shares outstanding	$2.74	$2.68	$2.68

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

Year Ended December 31, (In Thousands)	1995	1994	1993
Balance at beginning of year	$ 79,284	$ 69,023	$ 58,692
Net Income	52,722	50,929	50,390
	132,006	119,952	109,082
Premium on Preferred Stock Redemption - Net	169	-	-
Dividends declared:			
On cumulative preferred stock	4,903	5,127	5,562
On common stock ($2.095 per share 1995; $2.075 per share 1994; $2.045 per share 1993)	36,459	35,541	34,497
	41,362	40,668	40,059
Balance at end of year	$ 90,475	$ 79,284	$ 69,023

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

CONSOLIDATED STATEMENT OF CASH FLOWS

Year Ended December 31, (In Thousands)	1995	1994	1993
Operating Activities			
Net Income	$52,722	$50,929	$50,390
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization including nuclear fuel amortization	45,388	44,616	43,887
Deferred income taxes, net	14,146	12,970	15,593
Allowance for equity funds used during construction	(986)	(866)	(934)
Nine Mile 2 Plant deferred finance charges, net	(4,855)	(4,855)	(7,987)
Provisions for uncollectibles	3,220	3,306	3,431
Accrued pension costs	(10,627)	(2,028)	(2,562)
Gain on sale of long-term investment	(2,104)	-	(670)
Deferred gas costs	5,302	3,256	(2,974)
Deferred gas refunds	(1,784)	2,616	416
Other - net	11,466	4,376	3,807
Changes in current assets and liabilities, net:			
Accounts receivable and unbilled utility revenues	(3,300)	(2,604)	(3,701)
Materials and supplies	5,799	2,028	2,623
Special deposits and prepayments	(567)	(724)	444
Accounts payable	(5,008)	887	668
Accrued taxes and interest	995	219	(4,561)
Other current liabilities	944	1,396	7
Net cash provided by operating activities	110,751	115,522	97,877
Investing Activities			
Additions to plant	(50,269)	(58,045)	(54,037)
Allowance for equity funds used during construction	986	866	934
Net additions to plant	(49,283)	(57,179)	(53,103)
Roseton Plant restoration costs related to fire damage	-	(853)	(9,454)
Insurance recoveries related to Roseton Plant restoration	-	4,371	5,936
Nine Mile 2 Plant decommissioning trust fund	(1,895)	(895)	(942)
Proceeds from sale of long-term investments	2,879	-	2,212
Other - net	(1,161)	(2,648)	(215)
Net cash used in investing activities	(49,460)	(57,204)	(55,566)
Financing Activities			
Proceeds from issuance of:			
Long-term debt	1,000	230	41,722
Common stock	7,064	7,783	30,122
Cumulative preferred stock	-	-	35,000
Net borrowings (repayments) of short-term debt	(3,000)	3,000	(15,000)
Retirement and redemption of long-term debt	(3,139)	(50,273)	(41,443)
Retirement and redemption of cumulative preferred stock	(12,000)	-	(35,000)
Premium on preferred stock redemption	(146)	-	-
Dividends paid on cumulative preferred and common stock	(41,364)	(40,328)	(39,527)
Issuance and redemption costs	(20)	(110)	(2,271)
Net cash used in financing activities	(51,605)	(79,698)	(26,397)
Net Change in Cash and Cash Equivalents	9,686	(21,380)	15,914
Cash and Cash Equivalents at Beginning of Year	5,792	27,172	11,258
Cash and Cash Equivalents at End of Year	$ 15,478	$ 5,792	$ 27,172
Supplemental Disclosure of Cash Flow Information			
Interest paid (net of amounts capitalized)	$26,738	$ 28,681	$ 30,287
Federal income taxes paid	14,100	12,100	13,000

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.

Certain amounts from prior years have been reclassified on the consolidated financial statements to conform with the 1995 presentation. Preparation of the financial statements includes the use of estimates.

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 each wholly owned, and consist of landholding, cogeneration or energy management companies. The net income of the Company's subsidiaries is reflected in the Consolidated Statement of Income as other non-operating income.

Utility Plant: The costs of additions to utility plant and replacements of retired units of property are capitalized at original cost. The Company's share of the costs of Unit No. 2 of the Nine Mile Point Nuclear Station (Nine Mile 2 Plant) are capitalized at original cost, less the disallowed investment of $169.3 million which was recorded in 1987. 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 (AFDC). 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.

Jointly Owned Facilities: The Company has a 9%, or 102.9 MW, undivided interest in the 1,143 MW Nine Mile 2 Plant (see Note 2) and a 35%, or 420 MW, undivided interest in the 1,200 MW Roseton Steam Electric Generating Plant (Roseton Plant) (see Note 8 caption "Roseton Plant").

The Company's pro rata shares of the investments in the Nine Mile 2 Plant and the Roseton Plant, as included in its Consolidated Balance Sheet at December 31, 1995 and 1994, were:

	1995	1994
	(Thousands of Dollars)	
Nine Mile 2 Plant		
Plant in service	$315,423	$309,893
Construction work in progress	594	3,941
Accumulated depreciation	(55,319)	(48,248)
Roseton Plant		
Plant in service	$133,741	$130,310
Construction work in progress	1,872	3,740
Accumulated depreciation	(71,880)	(70,525)

Allowance For Funds Used During Construction: The Company includes in plant costs 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 AFDC rate was 8.50% in 1995, 8.50% in 1994 and 8.75% in 1993.

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 on a remaining life amortization method. The year 2026, which is the year in which the Nine Mile 2 Plant operating license expires, is used as the end date in the development of the remaining life amortization. Reference is made to the caption "Operating Expenses" in "Management's Discussion and Analysis of Financial Condition and Results of Operations" for the ratio of the total provision for depreciation to the original cost of average depreciable property. The Company performs depreciation studies on a continuing basis and, upon approval by the PSC, periodically adjusts the rates of its various classes of depreciable property. The most recent study was performed in 1993. 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 expense 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 (DOE) for the ultimate disposal and storage of spent nuclear fuel. The cotenants are assessed a fee for such disposal based upon the kilowatt-hours 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 DOE will ultimately provide for the satisfactory permanent disposal of such waste products.

Cash and Cash Equivalents: 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.

Federal Income Tax: The Company and its wholly owned subsidiaries file a consolidated federal income tax return. Federal income taxes are allocated to operating expenses and other income and deductions in the Consolidated Statement of Income. Federal income taxes are deferred under the liability method in accordance with Financial Accounting Standard No. 109 "Accounting for Income Taxes." Under the liability method, deferred income taxes are provided for all differences between financial statement and tax basis of assets and liabilities. Additional deferred income taxes and offsetting regulatory assets or liabilities are recorded to recognize that income taxes will be recoverable or refundable through future revenues.

Rates, Revenues and Regulatory Matters: Electric and gas retail rates, including fuel and gas cost adjustment clauses, 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.

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 certain costs of manufactured gas.

Regulatory Assets and Liabilities: Certain utility expenses and credits normally reflected currently in income are deferred on the balance sheet as regulatory assets and liabilities and are recognized in income as the related amounts are included in service rates and recovered from or refunded to customers in utility revenues.

The following table sets forth the Company's regulatory assets and liabilities:

At December 31,	1995	1994
Regulatory Assets (Debits):	(In thousands)	
Deferred finance charges -		
Nine Mile 2 Plant	$ 70,760	$ 71,904
Income taxes recoverable		
through future rates	65,723	69,331
Deferred energy efficiency cost	11,046	9,583
Other	12,378	18,990
Total Regulatory Assets	$159,907	$169,808
Regulatory Liabilities (Credits):		
Deferred finance charges -		
Nine Mile 2 Plant	$ 28,431	$ 34,431
Income taxes refundable	29,093	28,383
Deferred unbilled gas revenues	4,030	3,754
Deferred OPEB costs over collection	3,600	-
Other	8,978	5,566
Total Regulatory Liabilities	$ 74,132	$ 72,134

Deferred Finance Charges - Nine Mile 2 Plant: 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. 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. Mirror CWIP is 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's Opinion and Order Determining Revenue Requirement and Rate Design, issued and effective February 11, 1994 (1993 Rate Order) the Company was authorized to offset $5.5 million of the deferred credit against other deferred balances and to amortize $6.0 million annually beginning in December 1993. In 1995, 1994 and 1993, the Company amortized $6.0 million, $6.0 million and $3.3 million, respectively, of this deferred credit.

The $6.0 million amortization of the deferred credit will be continued until changed in a future PSC rate order. The level of the deferred debit amortization is based on the level of deferred credits that have been utilized in setting revenue requirements for a rate year. Any amounts of deferred credits that are utilized in the period between the end of the rate year and the setting of new rates are included in the amortization level for the deferred debit over the then remaining life of the Nine Mile 2 Plant. The deferred debit amortization level is currently set at $1.145 million per year.

Deferred Energy Efficiency Costs: The PSC has required utilities to adopt comprehensive long-range planning which includes demand side management and energy conservation (Energy Efficiency Program). The Company's 1995 Energy Efficiency Program was approved by the PSC. The Energy Efficiency Program costs are deferred and amortized over either five or ten years, as directed by the PSC.

In addition to the deferral of Energy Efficiency Program costs, the Company recovers lost net revenues that result from the Program. Incentive earnings related to the achievement of energy efficiency goals are recovered through the electric fuel cost adjustment clause as discussed below.

Deferred and Accrued Vacation: 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. Accordingly, the Company records a current liability for earned vacation pay and an equivalent regulatory asset representing the future recoverability of the difference between costs incurred and costs recovered in the rate-making process.

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 targeted amount, as well as amounts above the targeted amount, will be shared 80% by the customers and 20% by the Company.

Reference is made to the caption "Sharing Arrangements" in "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 8 captions "Natural Gas Supply" and "Take-or-Pay Gas Costs" as to deferral of certain contract take-or-pay costs charged by pipeline suppliers.

New Accounting Standards:

Impairment: In March 1995, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of" (SFAS 121). SFAS 121 requires companies, including utilities, to assess the need to recognize a loss whenever events or circumstances occur which indicate that the carrying amount of an asset may not be fully recoverable. SFAS 121 also amends SFAS 71, "Accounting

for the Effects of Certain Types of Regulation," to require the write-off of a regulatory asset if it is no longer probable that future revenues will recover the cost of the asset. SFAS 121, which is applicable to the Company starting in 1996, may have consequences for a number of utilities, especially those which have relatively high-cost nuclear generating assets, including the Company, which are facing growing competitive pressures that may erode prices for future utility services. The Company does not expect that the adoption of SFAS 121 will have a material impact on the financial position or results of operations of the Company in 1996 based on the current regulatory treatment of its long-lived and regulatory assets. However, future developments in the utility industry including the effects of deregulation and increasing competition could change this conclusion.

Plant Decommissioning: Because diverse accounting practices have developed for recognizing the cost of closure and removal of long-lived assets in the financial statements, including the cost of decommissioning utility generating plants, the FASB has agreed to review the accounting for this topic. The FASB is considering when a liability for plant decommissioning or other asset retirement should be recognized, how any such liability should be measured, and whether a corresponding asset is created. In a preballot draft SFAS, issued December 1995, FASB has tentatively concluded that a liability should be recognized for legal or unavoidable constructive obligations for closure and removal of facilities such as the Nine Mile 2 Plant as the obligation is incurred. The liability recognized for those closure and removal obligations shall reflect the present value of estimated future cash outflows currently expected to be required to satisfy those obligations. Initial recognition of a liability for closure and removal obligations increases the cost of the related asset because incurrence of the obligation is integral to or a prerequisite for operating the asset. Further, if securities or other assets have been dedicated for future settlement of closure and removal obligations, the liability for those obligations shall, generally, not be offset by those dedicated assets. The proposed statement, when issued, may be effective as early as the 1997 financial statements of the Company. The Company does not believe that such changes, if required, would have an adverse effect on results of operations due to its current belief that decommissioning costs will continue to be recovered in rates.

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 1,143 MW, (as reported by Niagara Mohawk) 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.

Under the Operating Agreement entered into by the cotenants, Niagara Mohawk acts as operator of the Nine Mile 2 Plant, and all five cotenants share certain policy, budget and managerial oversight functions. The Operating Agreement remains in effect subject to termination on six months' notice.

Radioactive Waste: An agreement for interim storage of the Nine Mile 2 Plant low-level radioactive waste has been agreed to between Niagara Mohawk and the cotenants that will provide for the storage of the Nine Mile 2 Plant low-level radioactive waste at Unit No. 1 of the Nine Mile Point Nuclear Station (Nine Mile 1 Plant) until June 30, 2010. It is expected that all low-level radioactive waste stored at Nine Mile 1 Plant (owned 100% by Niagara Mohawk) will have been transferred to a low-level radioactive waste repository operating within New York State by this date. Niagara Mohawk has contracted with the DOE for disposal of high-level radioactive waste (spent fuel) from the Nine Mile 2 Plant (see Note 1 - Summary of Significant Accounting Policies - "Amortization of Nuclear Fuel"). The DOE has forecasted the start of operations of its high-level radioactive waste repository to be no sooner than 2010. The Company has been advised by Niagara Mohawk that the Nine Mile 2 Plant Spent Fuel Storage Pool has a capacity for spent fuel that is adequate until 2014. If DOE schedule slippage should occur, facilities that extend the on-site storage capability for spent fuel at the Nine Mile 2 Plant beyond 2014 would need to be acquired.

Nuclear Plant Decommissioning Costs: The Company's 9% share of costs to decommission the Nine Mile 2 Plant, is estimated to be approximately $209.6 million ($72.6 million in 1995 dollars) and assumes that decommissioning will begin in the year 2028. This estimate is based upon a site specific study completed in December 1995.

The annual decommissioning allowance reflected in ratemaking is based upon a 1989 study as filed with the Nuclear Regulatory Commission (NRC). The 1989 study included amounts for radioactive and non-radioactive dismantlement costs and is charged to operations through depreciation recovery. The 1989 study estimated the Company's 9% share of costs of decommissioning to be $118.5 million ($26.4 million in 1995 dollars). 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 1988 through December 31, 1995 amounted to $1.4 million. The external decommissioning trust fund at December 31, 1995 and 1994 amounted to $6.4 million and $4.5 million, respectively. The net earnings from inception through December 31, 1995 amounted to $1.6 million. The external decommissioning trust fund is reflected in the Company's Consolidated Balance Sheet in "Other Property and Investments." The amount of accumulated decommissioning costs recovered through rates and the net earnings of the external decommissioning trust fund are reflected in accumulated depreciation in the Consolidated Balance Sheet and amount to $7.9 million and $5.7 million at December 31, 1995 and 1994, respectively. NRC regulations require the direct funding of eventual decommissioning costs of nuclear facilities. The Company, in 1990, established a master trust in order to comply with these NRC requirements. The Company has estimated that its share of the minimum funding requirements will be approximately $38.8 million in 1995 dollars.

There is no assurance that the decommissioning allowance recovered in rates will ultimately aggregate a sufficient amount to decommission the unit.

Reference is made to the caption "New Accounting Standards - Plant Decommissioning" in Note 1 above for details of the proposed changes in accounting for nuclear decommissioning costs.

The Company believes that if decommissioning costs are higher than currently estimated, such higher costs would be recovered in rates.

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 DOE's enrichment facilities. Special annual assessments to utilities with nuclear power plants, which began in 1993 and continue until 2006, and government appropriations for such purpose 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.

The unamortized portion of the Company's share of this assessment at December 31, 1995 and 1994 of approximately $630,000 and $664,000, respectively and a corresponding regulatory asset are reflected in the Consolidated Balance Sheet. Payments to the Fund are made to Niagara Mohawk by the cotenants of the Nine Mile 2 Plant.

NOTE 3 - FEDERAL INCOME TAX

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:

	1995	1994	1993
	(Thousands of Dollars)		
Charged to operating expense:			
Federal income tax	$19,245	$18,190	$14,502
Deferred income tax	9,795	9,853	14,101
Income tax charged to operating expense	29,040	28,043	28,603
Charged (credited) to other income and deductions:			
Federal income tax	(4,704)	(4,354)	(2,937)
Deferred income tax	4,351	3,117	1,492
Income tax charged (credited) to other income and deductions	(353)	(1,237)	(1,445)
Total federal income tax	$28,687	$26,806	$27,158

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:

	1995	1994	1993
	(Thousands of Dollars)		
Net income	$52,722	$50,929	$50,390
Federal income tax	14,541	13,836	11,565
Deferred income tax	14,146	12,970	15,593
Income before taxes	$81,409	$77,735	$77,548
Computed tax @ 35% statutory rate	$28,493	$27,207	$27,142
Increase (decrease) to computed tax due to:			
Tax depreciation	(10,096)	(9,597)	(10,796)
Deferred finance charges - Nine Mile 2 Plant	(1,701)	(1,700)	(862)
Deferred gas costs	2,286	1,149	(844)
Deferred OPEB expense	(223)	713	(1,617)
Pension expense	(1,738)	(1,471)	(893)
Alternative minimum tax	(2,958)	(1,544)	(59)
Other	478	(921)	(506)
Federal income tax	14,541	13,836	11,565
Deferred income tax	14,146	12,970	15,593
Total federal income tax	$28,687	$26,806	$27,158
Effective tax rate	35.2%	34.5%	35.0%

The following is a summary of the components of accumulated deferred income taxes at December 31, 1995 and 1994, as reported in the Consolidated Balance Sheet:

	1995	1994
	(Thousands of Dollars)	
Accumulated Deferred Income Tax Assets:		
Future tax benefits on investment tax credit basis difference	$ 16,073	$ 16,829
Alternative minimum tax	10,530	12,989
Tax depreciation - Nine Mile 2 Plant disallowed investment	3,077	6,155
Unbilled revenues	5,434	5,045
Other	22,444	17,611
Accumulated Deferred Income Tax Assets	$ 57,558	$ 58,629
Accumulated Deferred Income Tax Liabilities:		
Tax depreciation	$172,033	$162,734
Accumulated deferred investment tax credit	29,850	31,254
Future revenues - recovery of plant basis differences	22,971	24,269
Other	22,045	20,327
Accumulated Deferred Income Tax Liabilities	$246,899	$238,584
Net Accumulated Deferred Income Tax Liability	$189,341	$179,955

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 $50.0 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. In addition, the Company continues to maintain confirmed lines of credit totaling $1.5 million with two regional banks. There were no outstanding loans under these Agreements at December 31, 1995 or 1994. In order to diversify its sources of short-term financing, during 1994 the Company entered into short-term credit facilities agreements with four commercial banks totaling $130.0 million in the aggregate. There was no outstanding short-term debt at December 31, 1995. There was $3.0 million outstanding at December 31, 1994 related to these credit facilities with a weighted average interest rate of 6.69%.

Authorization from the PSC limits the amount the Company may have outstanding, at any time, under all of its short-term borrowing arrangements to $52.0 million in the aggregate.

NOTE 5 - CAPITALIZATION - CAPITAL STOCK

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

	Common Stock		Paid-In
	Shares Outstanding	Amount ($000)	Capital ($000)
January 1, 1993	16,028,569	$ 80,143	$245,349
Issued through public offering	700,000	3,500	19,299
Issued under dividend reinvestment plan	185,101	926	5,124
Issued under customer stock purchase plan	39,477	197	1,076
December 31, 1993	16,953,147	84,766	270,848
Issued under dividend reinvestment plan	227,772	1,139	5,104
Issued under customer stock purchase plan	57,545	287	1,253
December 31, 1994	17,238,464	86,192	277,205
Issued under dividend reinvestment plan	218,610	1,093	4,897
Issued under customer stock purchase plan	38,977	195	879
Redemption of preferred stock	-	-	(39)
December 31, 1995	17,496,051	$ 87,480	$282,942

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

	Series	Final Redemption Date	Redemption Price 12/31/95	Shares Outstanding December 31, 1995	Shares Outstanding December 31, 1994
Not Subject to Mandatory Redemption:					
	4 1/2%		$107.00	70,300	70,300
	4.75%		106.75	20,000	20,000
	4.35%		102.00	60,000	60,000
	4.96%		101.00	60,000	60,000
	7.72%	(a)	101.00	130,000	130,000
	7.44%			-	120,000
				340,300	460,300
Subject to Mandatory Redemption:					
	6.20%	10/1/08 (b)		200,000	200,000
	6.80%	10/1/27 (b)		150,000	150,000
				350,000	350,000
Total				690,300	810,300

(a) Redeemed January 1, 1996 at a redemption price of $101.00 per share.
(b) Cannot be redeemed prior to October 1, 2003.

Reference is made to the caption "Financing Program" in "Management's Discussion and Analysis of Financial Condition and Results of Operations" for details on issuances and redemptions of capital stock.

The Cumulative Preferred Stock not subject to mandatory redemption is redeemable only at the option of the Company. Upon redemption, 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 Company optionally redeemed all of its outstanding 7.44% Cumulative Preferred Stock, at the $101.22 redemption price on October 1, 1995. Costs associated with this redemption were charged directly to retained earnings.

The Company optionally redeemed all of its outstanding 7.72% Cumulative Preferred Stock at the $101.00 redemption price on January 1, 1996. Costs associated with this redemption will be charged directly to retained earnings in 1996.

Expenses incurred on issuance of capital stock are accumulated and reported as a reduction in common stock equity. These expenses are not being amortized, except that, as directed by the PSC, certain issuance and redemption costs and unamortized expenses associated with certain issues of preferred stock that were redeemed have been deferred and are being amortized over the remaining lives of the issues subject to mandatory redemptions.

The PSC has authorized the issuance and sale of certain debt and equity securities of the Company. Accordingly, a registration statement became effective in April, 1995 under which the Company registered with the Securities and Exchange Commission (SEC) the following securities: (i) Debt Securities and Common Stock, $5.00 par value, but not in excess of $80.0 million in aggregate, and not in excess of $40.0 million initial public offering price of such Common Stock and (ii) Cumulative Preferred Stock, not in excess of $25.0 million, par value $100 per share, which may be issued as Depositary Preferred Shares, each representing 1/4 of a share of such Cumulative Preferred Stock, each evidenced by Depositary Receipts.

NOTE 6 - CAPITALIZATION - LONG-TERM DEBT

Details of long-term debt are shown below:

Series		Maturity Date	December 31, 1995	1994
			(Thousands of Dollars)	
First Mortgage Bonds:				
6.10%	(a)	April 28, 2000	$ 10,000	$ 10,000
7.70%	(a)	June 12, 2000	25,000	25,000
8 3/4%		May 1, 2001	30,000	30,000
7.97%	(a)	June 11, 2003	8,000	8,000
7.97%	(a)	June 13, 2003	8,000	8,000
6.46%	(a)	August 11, 2003	10,000	10,000
6 1/4%	(b)	June 1, 2007	4,500	4,500
9 1/4%		May 1, 2021	70,000	70,000
8.12%	(a)	August 29, 2022	10,000	10,000
8.14%	(a)	August 29, 2022	10,000	10,000
8.375%	(b)	December 1, 2028	16,700	16,700
			202,200	202,200
Promissory Notes:				
1984 Series A	(7 3/8%) (c)	October 1, 2014	16,700	16,700
1984 Series B	(7 3/8%) (c)	October 1, 2014	16,700	16,700
1985 Series A	(Var. rate) (c)	November 1, 2020	36,250	36,250
1985 Series B	(Var. rate) (c)	November 1, 2020	36,000	36,000
1987 Series A	(Var. rate) (c)	June 1, 2027	33,700	33,700
1987 Series B	(Var. rate) (c)	June 1, 2027	9,900	9,900
5.38%	(a)	January 15, 1999	20,000	20,000
7.85%	(a)	July 2, 2004	15,000	15,000
			184,250	184,250
Secured Notes Payable of Subsidiary			3,688	3,878
Unamortized Discount on Debt			(893)	(964)
Total long-term debt			$389,245	$389,364

(a) Issued under the Company's Medium Term Note Program.
(b) First Mortgage Bonds issued in connection with the sale by the New York State Energy Research and Development Authority (NYSERDA) of tax-exempt pollution control revenue bonds.
(c) Promissory Notes issued in connection with the sale by NYSERDA of tax-exempt pollution control revenue bonds.

Medium Term Notes: Authorization by the PSC to issue Medium Term Notes under the Company's Medium Term Note Program expired on December 31, 1994. Of the $125.0 million of Medium Term Notes authorized under such program, $116.0 million were issued. By Order effective October 17, 1994, the PSC authorized the Company to issue and sell not later than December 31, 1996, new debt securities and common stock totaling not more than $80.0 million in the aggregate. Such Order also authorized the issuance of up to $115.0 million of tax exempt NYSERDA Pollution Control Revenue Bonds for the purpose of refinancing, if economical, a like amount of such bonds presently outstanding.

NYSERDA: The NYSERDA Pollution Control Revenue Bonds issued in 1985 (Series A and B) and 1987 (Series A and B) (collectively, the "1985 and 1987 NYSERDA Bonds") are variable rate obligations subject to weekly repricing and investor tender. The Company has the right, exercisable independently with respect to each series of the 1985 and 1987 NYSERDA Bonds, to convert the Bonds of each such series to a fixed rate for the remainder of their term. 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 1985 and 1987 NYSERDA Bonds. Deferred accounting has been granted by the PSC for any variation between actual interest rates and those interest rates allowed for rate-making purposes. The deferred balance under such accounting at December 31, 1995 was a regulatory asset of $1.3 million and the deferred balance under such accounting at December 31, 1994 was a regulatory liability of $488,000. Such deferred balances are to be disposed of in future rate cases.

Interest Rate Cap: In 1995, the Company entered into a three-year interest rate cap agreement with a bank to manage exposure to upward changes in interest rates on the 1985 and 1987 NYSERDA Bonds. Under this agreement, in the event a nationally recognized tax-exempt bond interest rate index exceeds 8%, the Company will receive a payment from such bank equal to the amount by which the actual interest costs on such bonds exceeds 8% per annum. This agreement has the effect of limiting the interest rate the Company must pay on such bonds (on a $115.9 million notional amount) to the lesser of their actual rate or 8% per annum. In the event such bank failed to make any required payment under such interest rate cap agreement, the Company's exposure would be limited to a maximum interest rate of 15% per annum under the terms of such bonds.

Letters of Credit: The Company has in place irrevocable letters of credit which support certain payments required to be made on the 1985 and 1987 NYSERDA Bonds. Such letters of credit expire on various dates. The Company anticipates being able to extend such letters of credit if the interest rate on the related series of such bonds is not converted to a fixed interest rate. If the Company were unable to extend the letter of credit that is related to a particular series of such bonds, that series would have to be redeemed unless a fixed rate of interest became effective. Payments made under the letters of credit in connection with purchases of tendered 1985 and 1987 NYSERDA 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. The letter of credit expiration date for the letters of credit supporting the 1985 NYSERDA Bonds is November 16, 1998, and the letter of credit expiration date for the letters of credit supporting the 1987 NYSERDA Bonds is September 16, 1998. The cost of these letters of credit is $584,400 for 1995.

Debt Expense: 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 shorter of the remaining lives of the related extinguished issues or the new issues as directed by the PSC.

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

Subsidiary Debt: 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 such loans accrue interest at the prime lending rate. Interest and principal are amortized 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 (Retirement Plan) covering substantially all of its employees. The Retirement 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 Retirement 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.

Net periodic pension costs were allocated 73%, 73% and 71% to expense for the years 1995, 1994 and 1993, respectively, with remaining costs allocated to capital projects. The allocation of net periodic pension costs between capital and expense follows the payroll distribution.

Net periodic pension (income) costs for 1995, 1994 and 1993 include the following components:

	1995	1994	1993
	(Thousands of Dollars)		
Service cost - benefits earned during the period	$ 3,877	$ 5,876	$ 4,518
Interest cost on projected benefit obligation	14,449	13,256	13,148
Actual return on Retirement Plan assets	(38,849)	(6,947)	(34,022)
Net amortization and deferral	9,896	(14,213)	13,794
Net periodic pension (income) costs	$ (10,627)	$ (2,028)	$ (2,562)

The net periodic pension income for 1995 and 1994 was determined using a weighted average discount rate of 8.5% and 6.25%, respectively, and a rate of increase in future compensation levels of 5.5% for 1995 and 1994. The expected long-term rate of return on Retirement Plan assets used in determining the net periodic pension (income) costs was 10.5% for 1995 and 8.5% for 1994.

The following table sets forth the Retirement Plan's funded status at October 1, 1995 and 1994 and amounts recognized in the Company's Consolidated Balance Sheet at December 31, 1995 and 1994:

	1995	1994
	(Thousands of Dollars)	
Actuarial present value of benefit obligations:		
Accumulated benefit obligation, including vested benefits of $170,039 and $146,779	$173,281	$148,854
Projected benefit obligation for service rendered to date	$196,038	$171,713
Retirement Plan assets at market value	250,246	223,376
Excess of Retirement Plan assets over projected benefit obligation	54,208	51,663
Unrecognized net gain	(52,846)	(60,551)
Prior service cost not yet recognized in net periodic pension cost	3,531	3,789
Unrecognized net asset being amortized over 15 years	(3,971)	(4,606)
Pension Asset (liability) recognized in the Consolidated Balance Sheet	$ 922	$ (9,705)

Retirement Plan assets consist primarily of equities and fixed income securities. The Retirement Plan is deemed to be fully funded for federal income tax purposes, therefore, the Company did not make any contributions to the Retirement Plan during 1995 or 1994.

The actuarial present value of projected benefit obligations for October 1, 1995 and 1994 was determined using a weighted average discount rate of 7.5% and 8.5%, respectively, and an assumed rate of increase in compensation of 4.5% and 5.5% for 1995 and 1994, respectively.

Pursuant to the PSC Statement of Policy and Order Concerning the Accounting and Rate-making Treatment for Pensions and Postretirement Benefits Other than Pensions (OPEB), issued September 7, 1993 (Pension and OPEB Order), effective January 1, 1993 the Company began amortizing each year's experienced gain or loss over ten years.

Pursuant to the Pension and OPEB Order, deferred accounting has been granted by the PSC for any variation (above or below) between actual costs of the Company's pension plans and those costs allowed for rate-making purposes.

Other Postretirement Benefits: The Company provides certain health care and life insurance benefits for retired employees through its postretirement benefit plan (Benefit Plan). 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. In order to recover a portion of the costs of these benefits, the Company requires employees who retire on or after October 1, 1994 to contribute toward the cost of such benefits.

Net periodic postretirement benefit cost for 1995 and 1994 includes the following components:

	1995	1994
	(Thousands of Dollars)	
Service cost - benefits attributed to the period	$ 1,384	$ 2,392
Interest cost on accumulated postretirement benefit obligation	4,613	4,654
Actual return on Benefit Plan assets	(875)	(426)
Amortization of Transition Obligation	3,114	3,114
Net amortization and deferral	(1,837)	928
Net periodic postretirement benefit cost	$ 6,399	$ 10,662

The Company is amortizing the unfunded accumulated postretirement benefit obligation (Transition Obligation) at January 1, 1993 over a 20-year period.

The net periodic postretirement benefit cost of the Benefit Plan for 1995 and 1994 was determined using a weighted average discount rate of 8.50% and 6.25%, respectively, and a rate of increase in future compensation levels of 5.5% for both periods. The expected long-term rate of return of Benefit Plan assets used in determining the net periodic postretirement benefit cost was 6.7% for 1995 and 6.6% for 1994.

The Benefit Plan's funded status reconciled with the Company's Consolidated Balance Sheet is as follows:

	December 31, 1995	December 31, 1994
	(Thousands of Dollars)	
Accumulated postretirement benefit obligation:		
Retirees	$ (31,899)	$ (27,526)
Fully eligible employees	(4,706)	(4,537)
Other employees	(31,495)	(25,532)
	(68,100)	(57,595)
Benefit Plan assets at fair value	22,899	14,051
Excess of accumulated postretirement benefit obligation over Benefit Plan assets	(45,201)	(43,544)
Unrecognized net (gain) loss	(8,922)	(14,489)
Prior service cost not yet recognized in net periodic postretirement benefit cost	(160)	-
Unrecognized Transition Obligation	52,921	56,035
Postretirement benefit liability recognized in the Consolidated Balance Sheet	$ (1,362)	$ (1,998)

The accumulated postretirement benefit obligation under the Benefit Plan at December 31, 1995 and 1994 was determined using a weighted average discount rate of 7.5% and 8.5%, respectively and a rate of increase in future compensation levels of 4.5% and 5.5% for 1995 and 1994, respectively. The expected long-term rate of return of Benefit Plan assets used in determining the net periodic postretirement benefit cost was 6.7% for 1995 and 6.6% for 1994.

The assumed health care cost trend is 12% in the early years and trends down to an ultimate rate of 5.5% by the year 2010. A 1% increase in health care cost trend rate assumptions would produce an increase in the accumulated postretirement benefit obligation at December 31, 1995 and 1994 of $8.921 and $7.545 million, respectively and an increase in the aggregate service and interest cost of the net periodic postretirement benefit cost of $873,000 and $1.076 million for 1995 and 1994, respectively.

The Company has established a qualified funding vehicle for such retirement benefits for collective bargaining employees and a similar vehicle for management employees in the form of qualified Voluntary Employee Beneficiary Association (VEBA) trusts. The Company funded the VEBA trusts in 1995 and 1994 with tax-deductible contributions totaling $7.2 million and $8.3 million, respectively.

Pursuant to the 1993 Rate Order, an estimated annual level of OPEB costs is included in the Company's electric and gas rates, effective November 22, 1993. In the Pension and OPEB Order, deferred accounting has been granted by the PSC for any variation between actual OPEB costs and those allowed for rate-making purposes. Such amounts are included in "Regulatory liabilities" on the Consolidated Balance Sheet.

NOTE 8 - COMMITMENTS AND CONTINGENCIES

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 1996-2000.

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. The exercise of this option is subject to PSC approval.

On March 30, 1994, Niagara Mohawk and the Company entered into a Letter of Understanding which, among other things, provides for:

(1) consideration by the Company, Niagara Mohawk and Con Edison for staggering the operation of the two units of the Roseton Plant in order to take advantage of current market costs for energy and capacity; and

(2) the purchase by the Company of up to 100 MW of energy and capacity during peak periods from Niagara Mohawk during the period May 1, 1994 through April 30, 1995. During the period May 1995 through April 2004, the Company may from time to time issue requests for proposals to purchase energy and capacity on the open market. Niagara Mohawk, among others, will be requested by the Company to bid on these future purchases.

(3) Subject to regulatory approval, Niagara Mohawk and the Company intend to enter into agreements, which would cover (i) the purchase by the Company of the following electric capacity and associated energy from Niagara Mohawk if needed: 15 MW each year, subject to a reservation charge, commencing in 1998 through 2004, up to a total of 75 MW, and up to an additional 150 MW in the period 2001 through 2004 not subject to a reservation charge; (ii) the option of Niagara Mohawk to bid competitively for the Company's long-term purchases of capacity and energy during the period May 1995 through April 2004 as indicated in item (2) and (iii) a revision in the Company's 1968 option to purchase Niagara Mohawk's 25% interest in the Roseton Plant in 2004 which would give Niagara Mohawk an option to retain said 25% interest.

Entering into the agreements contemplated by the Letter of Understanding will result in capital and operating and maintenance cost savings. The Company's option to buy Con Edison's interest in the Roseton Plant is not affected by the Letter of Understanding.

Nuclear Liability and Insurance: The Price-Anderson Act is a federal law which limits the public liability which can be imposed with respect to 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 $6.8 million (subject to adjustment for inflation) and the Company could be assessed $339,800 (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 $233,200 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 80% of the weekly indemnity for a second 52-week period and 80% 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 with respect to 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 $2.25 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 such 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 firm contracts (Contracts) for the supply of an aggregate of 10,497,708 Mcf. of natural gas, all of which are with third-party gas suppliers (Suppliers). Under the Contracts, the Suppliers deliver the gas to interstate pipeline companies (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. With the exception of 20,000 Mcf. per day of gas purchased from Canadian sources under contracts which expire in January 2012, or approximately 30% of total gas purchases, all of the above gas supply contracts will terminate in 1996 after the 1995-1996 winter heating season and will be replaced before the next winter heating season.

The Company has in aggregate, gas storage capability of 39,604 Mcf. per day, under long-term contracts. The Company has a firm gas peaking service, under contract, for the supply of 9,804 Mcf. per day for 15 days during the period November 1-March 31. This contract became effective November 1, 1995 and will remain in effect through March 31, 1998.

In addition to the above, the Company has in place an interim 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. This interim contract expires on March 31, 1996. The Company expects to replace the interim contract with a long-term contract which will expire in October 2006.

In April 1992, FERC issued its final rule (Order 636) regarding the unbundling of natural gas supply services from transportation and storage services. These changes will require the Company to pay a share of certain transition costs incurred by the Pipelines as a result of Order 636.

The Company has been billed $3.4 million of transition costs through December 31, 1995 by the Pipelines. Transition costs are currently being recovered by the Company through its gas cost adjustment clause. The aggregate amount that the Company will ultimately be billed will depend on the outcome of FERC proceedings, the outcome of which the Company is not able to predict. Depending on the outcome of such proceedings, the Company projects the aggregate amount of such transition costs could range between $4.0 million and $6.0 million over the next several years. The Company expects to continue to recover such costs through its gas cost adjustment clause.

The Company received $2.765 million in gas supplier refunds during 1995, resulting from settlements approved by FERC. Gas supplier refunds are distributed to firm gas customers through the Company's gas cost adjustment clause over a subsequent twelve-month period as authorized by the PSC.

Take-or-Pay Gas Costs: In prior years, many interstate gas pipeline companies had 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.

In October 1988, the PSC 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.

On September 15, 1995, the Company submitted to the PSC a Motion for Approval of a settlement agreement entered into between the Company and PSC Staff which would allow for the Company to recover through its rates approximately $3.0 million of deferred take-or-pay costs, which amount will be reduced by an associated $1.7 million including $200,000 of interest on take-or-pay refunds received from various gas transmission companies in 1994.

Such settlement agreement allows the Company to amortize and recover in rates the supplier

take-or-pay charges deferred as of June 30, 1995 (an amount estimated to be, including interest, $3.0 million as of December 31, 1995), together with interest accrued on such deferral up to the dates rates reflecting such amortization are made effective January 1996. Amortization periods and specific rate recovery methods will vary, depending on the type of customer. As of January 1996, the Company will terminate the accrual of interest on the balances of deferred costs to be amortized and shall not be entitled to accrue additional interest on such deferred costs during the amortization period. The settlement agreement also provides for the recovery of take-or-pay charges incurred after July 1, 1995 on a current basis until the total of such charges (excluding interest) equals $5.5 million. The settlement requires that only 65% of the costs above this amount be collected on a current basis. The remaining 35% will be spread out and recovered over a 48-month period.

The PSC approved the Company's settlement agreement in November 1995. The Company began to recover these take-or-pay charges in January 1996.

Environmental Matters:

General: On an ongoing basis, the Company assesses environmental issues which could impact the Company and its ratepayers.

Clean Water Act Compliance: The Company is a party to a proceeding before the New York State Department of Environmental Conservation related to the processing of permit renewal applications for the Company's generating stations under the State Pollution Discharge Elimination System. At this stage of the proceeding, the Company can make no determination as to the outcome of the proceeding or the impact, if any, on the Company's financial position.

Clean Air Act Amendments: The Clean Air Act Amendments of 1990 (CAA Amendments) added several new programs which address attainment and maintenance of national ambient air quality standards. These include control of emissions from fossil-fueled electric power plants that affect "acid rain" and ozone.

The Phase II "acid rain" emissions reduction requirements do not apply to the Company's generating plants until January 1, 2000; however, the Company has elected to have the Roseton Plant covered under the Phase I acid rain regulation 40 CFR Part 72 which went into effect in 1995. More specifically, the Roseton Plant has been conditionally identified as a substitute for a Phase I plant. Such a substitution, if implemented, results in the Environmental Protection Agency (EPA) providing emissions allowances to the Roseton Plant. Emission allowances that are not needed for current year emissions may be held for use in future years or sold. A decision by the Company to implement a substitution plan must be made each year by December 1.

The Company's emissions of nitrogen oxides were subject to additional controls effective May 31, 1995 under Title I of the CAA Amendments. To comply with these requirements, the Company installed nitrogen oxides emissions controls at a cost of $4.7 million for the Danskammer Plant and $3.7 million for the Company's share of the Roseton Plant. The Northeast Ozone Transport Commission (OTC), of which New York State is a member, has agreed that additional reductions of nitrogen oxides emission will be required in 1999 and, possibly, in the year 2003. Because regulations have not yet been promulgated by New York State to implement this agreement, the specific reductions required at the Company's facilities have not been determined. The Company expects that it will have adequate financial resources to comply with the requirements of the CAA Amendments.

Former Manufactured Gas Plant Facilities: In May 1995, the City of Newburgh, New York (City) filed suit against the Company in the United States District Court for the Southern District of New York. The City alleges that the Company has released certain allegedly hazardous substances without a permit from the site of the Company's former coal gasification plant (Central Hudson Site) in Newburgh, New York into the ground at the Central Hudson Site and into adjacent and nearby property of the City, in violation of the federal Comprehensive Environmental Response, Compensation and Liability Act (CERCLA), the federal Resource Conservation and Recovery Act (RCRA) and the federal Emergency Planning and Community Right to Know Act (EPCRA). The City also alleges a number of nuisance, trespass, damage and indemnification claims pursuant to New York State law.

The City seeks injunctive relief against such alleged disposal, storage or release of hazardous substances at the Central Hudson Site, remediation and abatement of the conditions alleged to lead to endangerment of the City's property, payment of restitution of clean-up costs and money damages of at least $70 million, assessment of certain civil penalties under RCRA, CERCLA and EPCRA, and recovery of the City's costs and attorneys' fees in such action.

In its answer to the City's complaint, the Company denied liability and asserted affirmative defenses and counterclaims against the City. The Company also filed a third-party complaint against "John Doe" defendants whose identities are presently unknown but who may be responsible for some or all of the contamination that is alleged to exist on the City's property.

In October 1995, the Company and the New York State Department of Environmental Conservation (NYSDEC) entered into an Order on Consent regarding the development and implementation of an investigation and remediation program for the Central Hudson Site and the City's adjacent and nearby property.

In November 1995, the Company and the City reached an agreement in a Memorandum of Understanding to postpone until August 1, 1996 any further action under the City's lawsuit pending the results of the studies required under said Order on Consent. The agreement also provides for the resumption of settlement negotiations between the Company and the City. The District Court has approved a schedule of proceedings consistent with such Memorandum.

At this time, the Company can make no prediction as to the outcome of this matter, nor can it make reasonable estimates of the cost of the activities required under the Order on Consent. However, the Company has put its insurance carriers on notice and intends to pursue reimbursement from them. The Company cannot predict the extent of reimbursement that will be available from its carriers at this time.

By letter dated September 22, 1995, the Company has petitioned the PSC for authorization to defer all costs including legal defense costs, but excluding the Company's labor, related to environmental site investigation and remediation actions that were incurred by the Company in 1995 and thereafter in connection with this matter. These expenses are not reasonably known or estimable by the Company at this time, nor can the Company predict at this time what action the PSC will take on such letter petition. Such costs for 1995 amounted to $719,700 and were included in "Deferred Charges-Other" on the Consolidated Balance Sheet.

Asbestos Litigation: Since 1987, the Company, along with many other parties, has been joined as a defendant or third-party defendant in approximately 740 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.

Approximately 155 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 1, 1996, the Company was a defendant in approximately 480 asbestos cases. Although the Company is presently unable to assess the validity of the remaining 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 lawsuits will not have a material adverse effect on the Company's financial position.

The Company is insured under successive comprehensive general liability policies issued by a number of insurers, has put such insurers on notice of the asbestos lawsuits and has demanded reimbursement for its defense costs and liability.

Tax Matters:

Assessments: The Internal Revenue Service (IRS) has completed its examination of the Company's federal income tax returns for 1987 and 1988. The IRS Agent's Report proposes adjustments which have the potential to increase the Company's tax liability by approximately $16.0 million plus interest. Included in the proposed adjustments are significant issues related to the tax in-service date of the Nine Mile 2 Plant. In May 1994, the Company, in defending its position regarding Nine Mile 2 Plant and other tax matters, filed a Protest with the Appeals Office of the IRS. The Appeals Office of the IRS has not yet rendered a decision on such Protest. To the extent the IRS is able to sustain its positions on Nine Mile 2 Plant, the Company will be required to absorb a portion of the resulting tax liability. Although the Company is unable to assess its ultimate liability in this matter, the Company believes it would be able to recover a significant portion of any additional liability including interest through rates. Accordingly, the Company expects that the ultimate resolution of this matter will not have a material adverse effect on the Company's financial position.

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.

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 results of operations.

Included in such proceedings are two lawsuits against the Company arising from a November 1992 explosion in a dwelling in Catskill, New York involving personal injuries, including the death of an occupant, and property damage. One of the lawsuits seeks recovery from the Company of compensatory and punitive damages in the sum of $4.0 million. The other lawsuit seeks an unspecified amount of compensatory and punitive damages.

The PSC, by Order issued and effective January 7, 1994, approved an Agreement which provides for a program for evaluating and replacing cast iron and unprotected steel pipeline facilities, and for an investment in four permanent employee training centers. The Company's shareholders contributed $1.0 million in 1995 and $500,000 in 1994 toward the

costs of such training centers and replacement program.

No shareholder contribution will be required in 1996, however, under such Agreement the Company's shareholders may be required to contribute in 1997 from $0 to $500,000 toward the cost of such pipeline replacement program, depending on the Company's completion of certain tasks by specified dates. The Company believes these tasks will be completed by the specified dates and, therefore, the Company's shareholders would have no further contribution obligations under such Agreement.

In addition to the above, on February 12, 1994, a fire and an explosion destroyed a residence in the Village of Wappingers Falls, New York, in the Company's service territory. A short time later, a second explosion and fire destroyed a nearby commercial facility. Three lawsuits have arisen from the Wappingers Falls incident. One of the lawsuits seeks recovery from the Company of compensatory and punitive damages in the sum of $1.0 million, one seeks recovery of $250,000 in compensatory damages, and the other lawsuit seeks an unspecified amount of damages against the Company.

The Company is investigating the above claims and presently has insufficient information on which to predict their outcome. The Company believes that it has adequate insurance to cover any compensatory damages that might be awarded. The Company's insurance, however, does not extend to punitive damages which, if awarded, could have a material adverse effect on the Company's financial position. At this time, the Company can make no prediction as to any other litigation which may arise out of these incidents.

NOTE 9 - 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
1995	80%	20%	90%	10%
1994	80%	20%	89%	11%
1993	82%	18%	89%	11%

For the year ended December 31, 1995, the Company served an average of 261,876 electric and 59,895 gas customers. Of the Company's total electric revenues during that period, approximately 43% was derived from residential customers, 32% from commercial customers, 18% from industrial customers and 7% from other utilities and miscellaneous sources. Of the Company's total gas revenues during that period, approximately 39% was derived from residential customers, 29% from commercial customers, 4% from industrial customers, 24% from interruptible customers and 4% 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 10% of the Company's total electric revenues and approximately 6% of its total gas revenues for the year ended December 31, 1995. 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		
	1995	1994	1993	1995	1994	1993
	(Thousands of Dollars)					
Operating Revenues	$409,445	$411,082	$422,925	$102,770	$104,586	$ 94,448
Operating Expenses:						
Fuel and purchased electricity	113,263	111,984	122,250	-	-	-
Purchased natural gas	-	-	-	62,339	60,588	53,900
Depreciation and amortization	37,503	36,597	35,625	3,964	3,783	4,057
Other, excluding income tax	168,313	172,057	173,167	26,899	29,483	25,210
Total	319,079	320,638	331,042	93,202	93,854	83,167
Operating Income before Income Tax	90,366	90,444	91,883	9,568	10,732	11,281
Federal income tax, including deferred income tax - net	26,632	25,334	25,642	2,408	2,709	2,961
Operating Income	$ 63,734	$ 65,110	$ 66,241	$ 7,160	$ 8,023	$ 8,320
Construction Expenditures	$ 41,195	$ 49,316	$ 43,097	$ 9,074	$ 8,729	$ 10,940
Identifiable Assets at December 31*						
Net utility plant	$784,345	$776,169	$777,044	$103,979	$ 96,652	$ 95,074
Construction work in progress	38,978	46,879	35,424	9,792	11,373	7,317
Total utility plant	823,323	823,048	812,468	113,771	108,025	102,391
Materials and supplies	23,167	27,080	28,063	4,423	6,309	7,354
Total	$846,490	$850,128	$840,531	$118,194	$114,334	$109,745

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

NOTE 10 - 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 and Temporary Cash Investments: The carrying amount approximates fair value because of the short maturity of those instruments.

Cumulative Preferred Stock Subject to Mandatory Redemption: The fair value is estimated based on the quoted market price of similar instruments.

Long-Term Debt: The fair value is estimated based on the quoted market prices for the 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, 1995		December 31, 1994	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(Thousands of Dollars)			
Cash and temporary cash investments	$ 15,478	$ 15,478	$ 5,792	$ 5,792
Cumulative preferred stock subject to mandatory redemption	(35,000)	(34,875)	(35,000)	(29,500)
Long-term debt (including current maturities)	(390,822)	(411,299)	(392,889)	(389,957)
Notes payable	-	-	(3,000)	(3,000)

Effective January 1, 1994, the Company adopted SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities" (SFAS 115) issued by the FASB. The adoption of SFAS 115 resulted in the recording of an unrealized net holding gain as an adjustment to common stock equity. This unrealized net holding gain represents the amount by which the market value of an investment that the Company maintains in an insurance company exceeds its cost, net of tax effects. During 1995, the Company sold all of its investment in the stock of an insurance company which the Company held as an "available-for-sale" investment. The Company recognized net proceeds of $2.9 million on the stock sold, which cost $775,000. This sale resulted in a gross realized gain of $2.1 million which is recorded in the Consolidated Statement of Income.

Additionally, in accordance with SFAS 115, investments in debt and equity securities held in the Nine Mile 2 Plant Decommissioning Trust Fund (Fund) are reported at fair value. Pursuant to PSC accounting requirements, gains or losses on Fund investments are included in nuclear decommissioning trust assets and added to the accumulated decommissioning component of accumulated depreciation included in the Consolidated Balance Sheet.

SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)

Selected financial data for each quarterly period within 1995 and 1994 are presented below:

Quarter Ended:	Operating Revenues	Operating Income	Income Available for Common Stock	Earnings Per Average Share of Common Stock Outstanding
	(Thousands of Dollars)			(Dollars)
1995				
March 31	$144,686	$24,204	$18,273	$1.06
June 30	118,618	14,731	9,574	.55
September 30	127,547	18,817	12,260	.70
December 31	121,364	13,142	7,543	.43
1994				
March 31	$162,836	$28,175	$20,785	$1.22
June 30	117,214	14,500	7,646	.45
September 30	116,091	17,540	11,152	.65
December 31	119,527	12,918	6,219	.36

Directors

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.; Chairman of the Committee on Compensation and Succession and member of the Executive Committee and the Committee on Finance *1987

Richard H. Eyman
Salem, SC
Former Senior Vice President, Brouillard Communications, Division of J. Walter Thompson Company; retired; member of the Committees on Audit and Compensation and Succession *1984

Frances D. Fergusson
Poughkeepsie, NY
President, Vassar College; member of the Committee on Compensation and Succession *1993

Heinz K. Fridrich
Fernandina Beach, FL
Courtesy Professor, University of Florida, Gainsville, FL; Former Vice President — Manufacturing, International Business Machines Corp.; Chairman of the Committee on Audit; member of the Executive Committee *1988

Edward F.X. Gallagher
Newburgh, NY
President and Owner, Gallagher Transportation Services; member of the Committee on Finance *1984

Paul J. Ganci
Poughkeepsie, NY
President and Chief Operating Officer; member of the Executive Committee and the Committee on Finance *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 Committee on Finance *1981

Howard C. St. John
Glenford, NY
Chairman of the Board, 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
President, The Swyer Companies; 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

Jack Effron
Chairman of the Committee on Compensation and Succession

Heinz K. Fridrich
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

Ronald P. Brand
Vice President — Engineering and Environmental Affairs

Benon Budzlak
Vice President — Production

Joseph J. DeVirgilio, Jr.
Vice President — Human Resources and Administration

John F. Drain [1]
Vice President — Finance and Controller

Carl E. Meyer
Vice President — Customer Services

Allan R. Page
Vice President — Corporate Services

Ellen Ahearn
Secretary

Donna S. Doyle [2]
Controller

Steven V. Lant
Treasurer and Assistant Secretary

Gladys L. Cooper [3]
Assistant Vice President — Governmental Relations

Arthur R. Upright
Assistant Vice President — Cost & Rate and Financial Planning

William P. Reilly
Assistant Secretary and Assistant Treasurer

(1) Retired effective July 1, 1995
(2) Promoted effective April 4, 1995
(3) Appointed effective September 5, 1995

Affirmative Action Statement of Policy
It is the policy of Central Hudson Gas & Electric Corporation to provide equal employment opportunities for all persons. Central Hudson is committed to recruit, hire, train, and promote persons in all positions, without regard to race, sex, color, creed, religion, age, national origin, persons with a disability, disabled veteran or Vietnam-era veteran status, except where sex is a bona fide occupational qualification. The Company will base decisions on employment so as to further the principle of equal employment opportunity. Central Hudson will insure that promotion decisions are in accord with principles of equal employment opportunity by imposing only valid requirements for promotional opportunities. Central Hudson will insure that all personnel actions such as compensation, benefits, transfers, layoffs, return from layoff, employer sponsored training, education, tuition assistance, social and recreational programs, will be administered without regard to race, sex, color, creed, religion, age, national origin, disability, disabled veteran or Vietnam-era veteran status.

Holiday Lighting

Fireworks during the December holiday season helped mark the "Celebration of Light" in the City of Poughkeepsie and the lighting of the Franklin D. Roosevelt bridge for the first time since before World War II. Central Hudson designed the lighting for the bridge towers as part of our Marketing program to promote outdoor lighting and our free lighting design service. We are promoting outdoor lighting for homes and businesses or for any location where there is a desire to enhance visibility, attractiveness, safety or security.

Annual Report photography: cover, inside front cover and pages 9, 13 and 14, David Palmer of On Location; pages 2 and 14, New York Stock Exchange; page 7, IBM Microelectronics; page 11, Paul Tesoro; page 13, Boston Edison Company; back cover, Spencer Ainsley/ Poughkeepsie Journal.