F[illegible]ancially Stronger

Building Customer Loyalty

Securing Our Future

NYSEG

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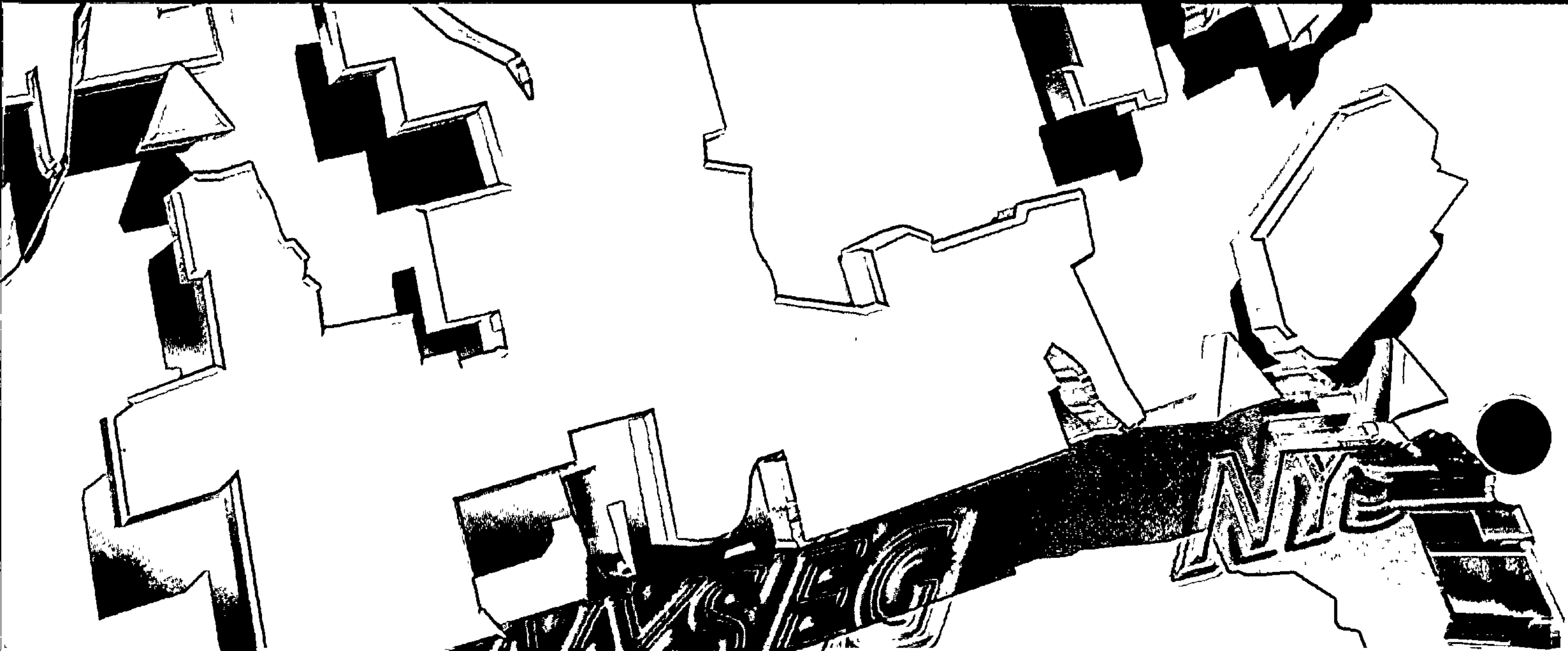

Corporate Profile

We serve 804,000 electric customers and 235,000 natural gas customers throughout one third of New York State. Our communities include high-tech businesses, top flight universities, highly skilled labor and an excellent transportation network that connects them with the major markets in the East and Canada. Our wholly-owned subsidiary, NGE Enterprises, Inc., owns XENERGY, Inc., an energy services and fuel management company that serves clients across the United States and overseas, and EnerSoft, a software company that has joined with the New York Mercantile Exchange to launch a natural gas supply and pipeline capacity trading system.

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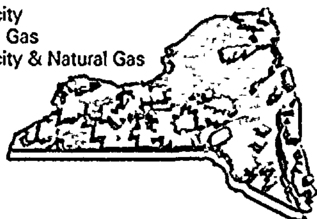
Service Territory

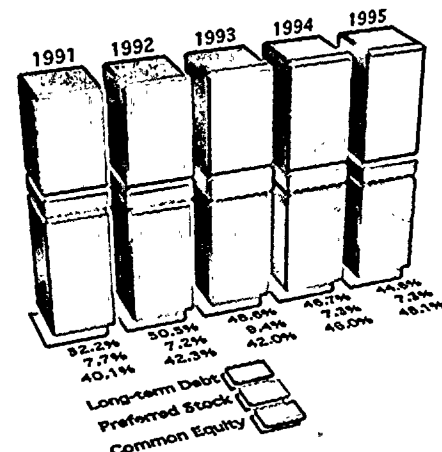


Financial Highlights

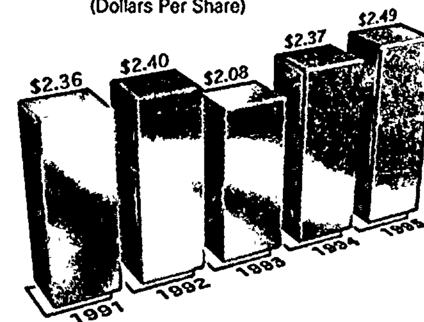
	1995	1994	% Change
At December 31			
Total Assets (Thousands)	$5,114,331	$5,230,685	(2)
Capitalization (Thousands)	$3,490,488	$3,581,438	(3)
Capital Structure			
(includes current maturities):			
Long-term Debt	44.6%	46.7%	(4)
Preferred Stock	7.3%	7.3%	–
Common Equity	48.1%	46.0%	5
Operating Results (Thousands)			
Total Operating Revenues	$2,009,541	$1,898,855	6
Operating Expenses	$1,672,178	$1,576,171	6
Net Income	$196,690	$187,645 *	5
Earnings for Common Stock	$177,969	$168,698 *	5
Retail Megawatt-hour Sales	13,093	13,148	–
Dekatherms of Natural Gas Delivered	58,535	58,624	–
Per Common Share			
Earnings	$2.49	$2.37 *	5
Dividends	$1.40	$2.00	(30)
Book Value (year end)	$24.38	$23.28	5
Market Value (year end)	$25.88	$19.00	36
Other Information			
Common Stock Price Range	$19 – 26¾	$17¾ – 30½	
Return on Average Equity	10.4%	10.3%*	1
Market-to-Book Ratio (year end)	106%	82%	29
Average Common Shares			
Outstanding (Thousands)	71,503	71,254	–
Common Shareholders of Record (year end)	50,576	56,279	(10)

* Net income, earnings for common stock, earnings per common share and return on average common equity for 1994 include the effect of the 1993 production-cost penalty that decreased net income and earnings for common stock by $8 million, earnings per share by 12 cents and return on average equity by 0.5%.

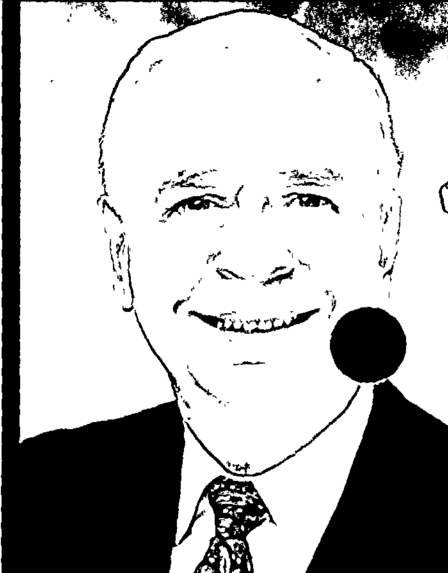
Capital Structure



Earnings
(Dollars Per Share)



We are using our strong cash flow to reduce debt and make your company financially stronger...Today we have the highest common equity ratio (50%) and lowest debt ratio (45%) in our history.



James A. Carrigg,
Chairman, President and
Chief Executive Officer

Dear Shareholder:

Competition is looming ever larger on the horizon of the electric utility industry. To prepare for competition we are using our strong cash flow to reduce debt and make your company financially stronger.

We are also taking steps to build the customer loyalty so vital to our success in a competitive environment. In 1995 we agreed to freeze natural gas prices and stabilize electric prices for nearly three years. As part of those agreements we have gained the opportunity to increase our earnings, but with that comes the task of managing additional risk. Given the resourcefulness, talent and commitment of our employee organization, I am confident we will master this challenge.

We are in the forefront of change — dedicated to increasing the financial strength and gaining the customer loyalty that will secure our company's future.

Financially Stronger. Last year I discussed the tough decisions we made to increase financial strength and flexibility. Today we have the highest common equity ratio (50%) and lowest debt ratio (45%) in our history. We have attained this level of strength by using our strong cash flow to repay debt and preferred stock. Furthermore, through our aggressive refinancing of securities since the beginning of 1988, we have reduced the average cost of debt and preferred stock to 7% and 5.6%, respectively, yielding an annual savings of over $70 million. In the future, we do not foresee the need to issue additional debt, other than for

refinancing purposes, since we are funding all capital requirements with internally generated funds. We will continue to build our financial strength so we can improve our credit ratings, stock value and attractiveness to investors, despite the uncertainty created by competition.

Cutting costs and improving profitability continue to be our major priorities. We have:

- Achieved savings on coal contracts of nearly $7 million over 1994,
- Continued to reduce operating costs through work simplification programs,
- Placed a 35-megawatt generating unit on long-term cold standby, while evaluating another five generating units totaling 308 megawatts on an ongoing basis for long-term cold standby, and
- Continued to make progress towards our goal of cutting $200 million from our 1994-1996 construction program.

Through these savings and other efforts, we achieved our 1995 earnings goal of $2.49 per share, a 5% increase over 1994. This was accomplished despite damage from a mid-November storm that cost us four cents per share.

While we continue to focus on improving the cost and delivery of energy to our customers, we are also delivering value to you, our shareholders. Your stock recorded one of the top utility performances in the nation by increasing 36% in 1995, a significant rebound from last year's poor performance. To meet the uncertainties of competition, our long-term goal is to maintain the common dividend payout ratio at a conservative 60% to 65% of earnings. Currently, our dividend is slightly below that range. Future dividend levels will depend on many factors including the earnings impact of industry restructuring.

During 1995 we negotiated new rate agreements...

The result is a better deal...Our customers get price stability and our shareholders get the opportunity for improved earnings.

Transforming Our Business. We are not waiting for competition — we are meeting it head on. During 1995 we negotiated new rate agreements that freeze natural gas prices and keep electric price increases near inflation through July 1998. To keep monthly prices stable, our company will no longer rely on regulatory mechanisms to cover fluctuations in coal and natural gas commodity costs or mechanisms that offset the effects of abnormal weather or economic conditions on sales. Instead, our company has the opportunity to earn above the regulated rate of return on equity if we successfully manage these risks. The result is a better deal — for both our customers and our shareholders. Our customers get price stability and our shareholders get the opportunity for improved earnings.

What makes our company confident it can take on the business risk associated with price stability? It is the sharp focus, management talent and flexibility of our organization. In January 1995 we reorganized our Electric Business Unit into a Customer Service Business Unit and a generation sector to manage those critical aspects of our business more effectively. We also created a business transformation team to ensure proper alignment of the company's resources of people, processes and technology. Our company will continue to assess and change its structure to gain an added advantage in the competitive marketplace.

Outstanding customer service is imperative in a competitive environment. Our goal is to be the preferred provider of energy. Therefore, we have committed ourselves to providing a level of service that completely satisfies our customers and builds loyalty. Once full competition arrives, customer loyalty will be defined by the availability of choices and access to value-added services. We are making excellent progress by offering our customers an array of energy products and services that are both convenient and cost-effective.

In 1995 our call center put its growing pains behind it by surpassing all performance targets, and our division personnel continue to provide quality customer service as recently demonstrated by our timely restoration of service following November's severe storms. Their combined efforts helped us to improve service quality in 1995.

Increasing sales is also critical. Our marketing people continue to work with customers by improving power delivery to homes and businesses and by offering new choices for services. Key account representatives are also negotiating long-term contracts to retain customers, encourage economic development and create new jobs.

The generation sector has been busy honing its financial and marketing skills while developing strategies to beat the competition when generation is deregulated. Their goal is to be ready to compete as a stand-alone business by January 1, 1997. Our competitive advantage in generation is that we are the most efficient and cost-effective electricity generator in New York State and one of the most competitive in the region. As a result we can effectively price and market our excess bulk power. These wholesale sales accounted for $150 million of operating revenue in 1995, an increase of 6% over 1994 that offset weakness in retail sales.

We have also completed the flue-gas desulfurization (FGD) project at our Milliken Generating Station north of Ithaca on Cayuga Lake. Milliken and Kintigh Station, which is on Lake Ontario, are the only two power plants in New York State with FGD systems. Milliken's advanced FGD technology not only cleans the air but also provides byproducts we can sell, thereby producing revenue, not waste, while maintaining very competitive production costs.

We are expanding our natural gas business. In 1995 we added two natural gas franchises and expect to add at least six more franchises this year. To manage the cost of natural gas while securing a better supply for peak usage during the winter, we are developing a gas storage facility on Seneca Lake near Watkins Glen. This $57 million project is due to be completed in time for the 1996-1997 heating season. The project will enable us to purchase natural gas when prices are low and eliminate two costly propane peaking stations used when demand for natural gas exceeds our available supply.

Operating Our Business. While business transformation and dramatic restructuring proposals have gained significant attention, we continue to increase the productivity of our core businesses by improving the efficiency and delivery of our service, while aggressively pursuing sales growth.

To increase retail electric sales, we are actively promoting the benefits of various electrotechnologies such as infrared and ultraviolet dryers, laser beam cutting and welding, and ground source heat pumps. The market acceptance of these products is growing. By offering electrotechnologies and flexible rates to certain key account customers, our electric marketing organization is creating additional sales.

Outstanding customer service is imperative in a competitive environment. Our goal is to be the preferred provider of energy...We have committed ourselves to providing a level of service that completely satisfies our customers and builds loyalty.

Natural gas sales are growing as we continue to compete for sales to customers that use other fuels. We are seeing the deployment of a wide array of new gas techn[illegible]gies throughout our service territory, including gas cooling, air compression and natu[illegible] gas vehicles. We are also effectively competing for customers outside our distribution system, where we are selling gas and capacity throughout the eastern United States. Through sales growth and cost efficiencies, natural gas earnings have risen significantly over the past four years — from a loss of two cents per share in 1991 to an earnings contribution of 33 cents per share in 1995.

Our efforts to retain and attract business have not gone unnoticed. Governor Pataki personally expressed to me his gratitude that NYSEG is helping to revive the state's economy. We are committed to eliminating utility costs as a stumbling block to business retention and expansion.

Still, mandated costs need to be reduced. We are working with state legislators to slash taxes and costly power purchases that contribute considerably to high electric rates. The recent dialogue in Albany regarding elimination of the gross receipts tax is encouraging. In Washington our petition to the Federal Energy Regulatory Commission (FERC) concerning two mandated power purchase contracts is on appeal to the United States Court of Appeals for the District of Columbia. We will continue to pursue every available opportunity to curtail or eliminate these costs that make up over one third of our electric rates.

During the past year our Corporate Strategic Planning Committee has developed a business plan, which is designed to maintain profitability while we respond to the challenges of competition. Each segment of our company has developed goals and

sub-strategies to support our corporate-wide objectives. We will continue to update our business plan as circumstances change.

In the following financial section we discuss our business accomplishments for past year. I strongly urge you to read on and discover how our company meeting the challenge of competition.

Industry Transformation. Electric industry restructuring continues. In March the FERC proposed a major rule change to facilitate the development of a competitive wholesale power market by requiring utilities to offer transmission services to any entity selling wholesale power. We heartily endorse the FERC's position in this proposed rule change that utilities are entitled to recover all legitimate and verifiable stranded costs associated with new municipal electric systems and wholesale customers. Our company, as part of a coalition of utilities, is also urging the FERC to set a national policy to ensure recovery of stranded costs if a retail power market is established. The FERC is expected to issue its final ruling later this year.

In late December, as part of the Public Service Commission's (PSC) Competitive Opportunities Proceeding, an administrative law judge and a senior PSC staff representative issued recommendations to the PSC on how best to restructure the state's electric industry. These recommendations call for competition in electric generation at the wholesale level and a commitment to retail competition as soon as a competitive wholesale market is achieved and the reliability of the power system is ensured. Stranded costs would be recovered through a non-bypassable charge on the distribution wires, which would prevent customers from avoiding the prudent costs of electric systems built under company's obligation to serve its customers. Although the recommendations are unclear as to whether all stranded costs will be recoverable, we intend to vigorously pursue our right to recover all stranded costs. We expect a PSC order shortly and will file a comprehensive response to the restructuring order as required.

We remain very active in the restructuring proceedings in Albany and Washington to protect the interests of both our customers and shareholders. The electric industry is indeed changing! We are confident we have the plans and flexibility to succeed.

Securing Our Future. In the past year we have made significant strides towards securing our future in a competitive marketplace. During the period of our new rate settlements, we will accelerate the recovery of previously deferred expenses to put us in a better position to meet and beat the competition. The new rate settlements also give us the opportunity to manage business risks in a competitive environment. For 1996 our goals are to:

- Increase net revenue through wholesale electric sales, off-system gas sales and sales of cost-effective energy services.
- Influence regulatory and legislative initiatives regarding industry restructuring and state tax policy.
- Reduce the above-market costs of existing power purchase contracts.

- Improve risk management to offset commodity price risk under the new rate settlements.
- Develop and implement new technologies to support the company's information needs.
- Achieve stand-alone generation company capability by January 1, 1997.
- Complete the $57 million Seneca Lake gas storage project by November 1,1996.

To increase earnings over the long term we must expand sales and manage our costs. The current outlook for sales growth remains limited for our core operations in New York State. Our strategies to improve earnings over the long term are to:

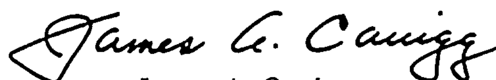
- Increase sales by expanding our market share of energy products.
- Reduce costs wherever possible.
- Develop greater rate flexibility to retain existing customers and attract new load.
- Improve customer service programs.
- Improve the earnings of our current unregulated operations and pursue other opportunities domestically and abroad.
- Search for potential mergers or acquisitions that will enhance our competitiveness, profitability and shareholder value.

The course of industry restructuring should become clearer this year. I will keep you apprised quarterly of any developments as well as our progress under the new rate settlements.

Before I close, I would like to acknowledge the retirement of Dr. Robert A. Plane, President Emeritus of Wells College in Aurora, from our board of directors after 13 years of dedicated service. His wise counsel will be missed. I would also like to welcome two new members to our board of directors: Dr. Lois B. DeFleur, President of Binghamton University, and Joseph J. Castiglia, former Vice Chairman, President and Chief Executive Officer of Pratt & Lambert United, Inc. of Buffalo. Dr. DeFleur's and Mr. Castiglia's wealth of administrative, business and community experience will indeed be assets to our board.

Ultimately, the success of any organization depends on its people. Our employee organization has responded to the impending competitive marketplace by changing the way they approach their responsibilities. We have all embraced the spirit of competition that will determine not only those companies that survive, but those that prosper as well. Clearly, our employees have taken the steps necessary to help us become financially stronger and build the customer loyalty necessary to secure our company's future.

For the Board of Directors,



James A. Carrigg
Chairman, President and Chief Executive Officer
February 15, 1996

Liquidity and Capital Resources

Competitive Conditions The electric and natural gas utility landscape is changing rapidly as energy markets become more competitive, complex and dynamic. The company is positioning itself to take maximum advantage of the industry's move to a competitive market. Regulatory changes, accounting issues, customer satisfaction, the economic climate and operational and financial flexibility will affect the company's competitive position. Those matters as well as diversified opportunities closely related to the company's core business are receiving focused attention as the company transforms itself into a successful competitor.

Regulatory Changes Regulatory issues being addressed by the Public Service Commission of the State of New York (PSC), regulators in other states and the Federal Energy Regulatory Commission (FERC) will ultimately bring about dramatic changes in the electric industry. Two significant proceedings in which orders are expected to be issued before July 1996 are discussed below: the PSC's Competitive Opportunities Proceeding and the FERC's proceeding (Mega-NOPR) relating to the development of competitive wholesale electric markets.

Competitive Opportunities Proceeding: In August 1994 the PSC instituted an investigation of issues related to a restructuring of the electric industry in New York. The overall objective of the proceeding is to identify regulatory and ratemaking practices that will assist in the transition to a more competitive electric industry designed to increase efficiency in the provision of electricity while meeting safety, environmental, affordability and service quality goals.

Transition

Manage the transition to a competitive environment

- Continue to develop NYSEG's transition plan by actively participating in regulatory and legislative proceedings
- Develop the capability to create a competitive, stand-alone, generation company

In June 1995 the PSC adopted principles to guide the transition to competition. The principles are designed to provide a framework for electric competition and address issues in eight categories related to providing electric service: resource management, customer service, reliability and safety, competitive market characteristics, regulatory issues, transition issues, economic efficiency and economic developments. In December 1995 a recommended decision (RD) was issued by an administrative law judge and a senior staff representative presiding over collaborative discussions that had been conducted throughout 1995. The RD calls for a transition to wholesale competition first with a recommendation that retail competition be added later, once a competitive market is established and reliability is ensured. The RD also recommends that the generation function be separated from the transmission and distribution functions to limit the exercise of market power. However, the RD does not recommend divestiture of the generation function. As part of the transition to competition, an independent system operator (ISO) would be established to help ensure reliable system operation. The ISO would maintain responsibility for overall system reliability even beyond the transition period.

The RD proposed that specific amounts of stranded costs be determined in individual company proceedings to commence six months after the PSC issues its order in the proceeding. It also stated that the definition of stranded costs, the method of measurement, requirements for mitigation, a preferable recovery mechanism and a standard for recovery should all be resolved on a generic basis. The RD suggested that there should be a rebuttable presumption in favor of an adjustment applied to stranded costs to account for unidentified potential mitigation efforts. It also stated that the recovery of stranded costs should involve a balancing of consumers' and stockholders' interests.

The RD made the following additional points:

- Retail competition has the potential to benefit all customers by providing greater choice among their electricity providers, as well as increased pricing and reliability options. But retail access brings with it significant risks and requires considerable caution, and should be provided only if it is in the best interests of all consumers.
- Any restructuring model should include a mechanism for recovering costs required to be spent on environmental and other public policy considerations.
- To protect all customers, transmission and distribution companies must remain obligated to serve all would-be buyers. Consumer protections currently in place for residential and nonresidential customers should remain.

The company is working closely on this matter with the Energy Association of New York State (Energy Association), which includes the company and seven other investor-owned utilities as members. In January 1996 the Energy Association filed a brief opposing certain recommendations included in the RD and filed a reply brief in February 1996. The Energy Association's support for the RD is subject to certain conditions, which include: a reasonable opportunity for all utilities to recover all expenditures and investments made to provide reliable service; the PSC not mandating retail competition; and utilities being afforded the option of remaining in the generation business, subject to the functional separation of their generation business, with separate accounting, but without mandated divestiture. The RD is subject to review by the PSC, which will ultimately accept, modify or reject it. A state-wide public involvement and information program will be held before the PSC issues an order. The PSC is expected to issue an order during the first six months of 1996.

The company's ability to compete in the present wholesale electric power market is demonstrated by the results it achieved in 1995 with wholesale electric sales. However, certain above-market [illegible] that New York utilities bear impair their ability to compete in the retail market with utilities in [illegible] states. The Energy Association has urged the State of New York to immediately implement policy changes to reduce electricity prices, changes that could be accomplished without industry restructuring. For example, policy changes could reduce costs associated with purchases from non-utility generators (NUGs), eliminate the gross receipts tax and reduce other state and local taxes.

Mega-NOPR: The FERC's Mega-NOPR has two primary purposes: to facilitate the development of competitive wholesale electric markets by opening up transmission services and to address the resulting stranded costs. The FERC is expected to issue an order in this proceeding by mid-year 1996.

If the Mega-NOPR is adopted as currently proposed, the company and other utilities with whom the company engages in transmission and wholesale power transactions would be:

- required to file open access transmission tariffs under which they would provide services, including ancillary services, to third parties on a non-discriminatory basis;
- required to charge themselves, in the context of each one's wholesale power sales, the same rate for transmission that it charges its wholesale transmission customers for the use of its system;

Growth

Profitably grow the core electric and natural gas businesses

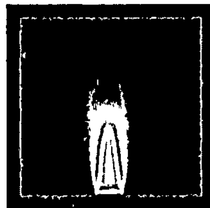
- Employ innovative marketing and sales tools to retain and attract load
- Profitably market wholesale electric and off-system gas sales

- permitted to recover legitimate and verifiable stranded costs associated with a municipality establishing its own electric system and newly created or expanded wholesale customers;
- required to comply with regulations implementing the filing of the open access tariffs and the initial rates under these tariffs; and
- required to establish an electronic bulletin board, called a real-time information network, which would provide all transmission users simultaneous access to transmission data.

Those requirements could affect the revenues received and payments made by the company in connection with its transmission and wholesale power transactions.

In July 1995 a coalition of utilities, including the company, filed joint comments that addressed legal issues raised by the Mega-NOPR. The coalition's comments support the FERC's proposal on recovery of stranded costs associated with a municipality establishing its own electric system and newly created or expanded wholesale customers. The coalition also urged the FERC to set a national policy to ensure recovery of stranded costs associated with retail wheeling, or at a minimum to accept filings to implement state-authorized stranded cost charges to reduce the risk associated with challenges to state authority to establish such charges.

Natural Gas Industry: The natural gas business has operated for two years under FERC Order 636, which requires interstate natural gas pipeline companies to offer customers unbundled, or separate, services equivalent to their former sales service. FERC Order 636 provides customers greater opportunities to obtain natural gas supply, transportation and storage. Increased choices should result in lower natural gas costs. The company has already taken advantage of several new opportunities under FERC Order 636, including flexible purchasing and delivery points, off-system sales and access to the secondary market for selling pipeline capacity when it is not needed by retail customers.



"I feel very satisfied with the decision to move to gas – in large part because of the exemplary service and response we have seen."
Albert Simone, President of the Rochester Institute of Technology, about receiving residential service in Penn Yan.

The restructuring of services required by FERC Order 636 imposed transition costs on pipelines. Those transition costs include the costs of revising natural gas supply contracts, unrecovered costs that would otherwise have been billed to pipeline customers and costs of assets needed to implement the order. FERC Order 636 allows pipelines to recover all prudently incurred costs from their customers.

The company's liability for transition costs is based on the pipelines' related filings with the FERC to recover such costs. The company has reached final resolution with all but one of its pipeline suppliers regarding transition costs and is negotiating with the one remaining pipeline supplier. The company's estimated remaining liability for transition costs was $12 million and $21 million at December 31, 1995 and 1994, respectively. A corresponding regulatory asset has been recorded by the company since the PSC has ruled that transition costs are fully recoverable from the company's customers and the costs are now included in rates.

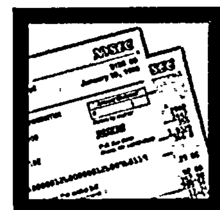
The PSC issued an Opinion and Order in December 1994 that set forth the policy framework to guide the transition and movement of New York's gas distribution industry to a more competitive marketplace in the post-FERC Order 636 environment. The PSC subsequently issued an Order on Reconsideration in August 1995 addressing petitions for rehearing or clarification of this Opinion. The company, and other utilities, recently filed restructuring tariffs in compliance with the PSC's Opinion and Order on Reconsideration. Under the company's proposed tariffs residential and small commercial customers will be eligible for transportation service through small customer aggregation programs. Consistent with the PSC's Opinion and Order on Reconsideration, the company proposed new services that would allow the company to more effectively compete for sales to larger, more sophisticated transportation customers. The company is awaiting approval of these tariff revisions.

In a separate Order, the PSC instituted a proceeding (currently in the settlement phase) to investigate gas cost incentive mechanisms and affordability guidelines. In addition, the company and other utilities have filed comments concerning key characteristics for a gas cost incentive mechanism and proposed guidelines for adoption of any such mechanisms.

Accounting Issues Effects of Regulation: The PSC's Competitive Opportunities Proceeding could affect the eligibility of the company to continue applying Statement of Financial Accounting Standards No. 71 (Statement 71), Accounting for the Effects of Certain Types of Regulation. Continued accounting under Statement 71 requires that the company's regulated operations meet all of the following three criteria:

- rates for regulated services or products provided to customers are subject to approval by an independent, third party regulator,
- the regulated rates are designed to recover the company's costs of providing regulated services or products, and
- it is reasonable to assume that rates set at levels that will recover the company's costs can be charged to and collected from customers.

If the company could no longer meet the Statement 71 criteria for all or a part of its business, the company would have to record as expense or revenue certain previously deferred items that had been recognized as assets and liabilities according to Statement 71, but that would not have been recognized as such by enterprises in general. At December 31, 1995 and 1994, the company had $690 million and $779 million, respectively, of regulatory assets, and $294 million and $337 million, respectively, of regulatory liabilities on its balance sheets (See Note 1). Although the company believes it will continue to meet the Statement 71 criteria in the near future, it cannot predict what effect a competitive marketplace or future PSC actions will have on its ability to continue to do so.



New agreements with the Public Service Commission will keep our electric price increases predictable and freeze our natural gas prices through July 1998. The fuel and gas adjustment charges, weather normalization charge and revenue decoupling mechanism no longer exist, thus eliminating major causes of fluctuation in customers' bills.

The company has other costs that are currently being recovered through rates that may not be fully recoverable in a competitive marketplace. Those costs include mandated purchases of NUG power at above-market prices and average costs for certain generating plants that may be above the market price for electricity. The inability to recover those costs may have an adverse effect on the company.

Impairment of Long-Lived Assets: In March 1995 the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 121 (Statement 121), Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of, effective for fiscal years beginning after December 15, 1995. Statement 121 requires that long-lived assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment would be recognized if the sum of the estimated future undiscounted cash flows to be generated by an asset is less than its carrying value. The amount of the impairment would be based on a comparison of book value to fair value.

Statement 121 also amends Statement 71 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. The adoption of Statement 121 will not have a material effect on the company's financial position or results of operations. However, the company cannot predict what effect a competitive marketplace or future PSC actions will have on the effect of the application of Statement 121.

Customer Satisfaction The company is continuing its efforts to deliver high-quality customer service and become a more efficient provider of electric and gas retail service in order to build customer loyalty. The Customer Service Business Unit (CSBU) was created by the company at the end of 1994 to accomplish those objectives and bring together all aspects of customer service including the customer call center, transmission and distribution operations, electric marketing sales and all division operations. Concentrating customer service in one business unit is improving that service and cutting costs. During 1995 the customer call center handled more calls more quickly than in the prior year. The number of customer representatives has increased, and improvements have also been made in training and support.

To build stronger customer relationships, the CSBU is initially concentrating on four business processes: customer billing, service connections, developing new products and collection efforts. Progress is being made toward achieving established goals.

Another way to improve customer satisfaction is by providing price stability. Electric price increases have been minimized under the company's new three-year electric rate settlement agreement at rates close to expected inflation, and gas prices were frozen under the new natural gas rate settlement agreement (See Rate Matters). The company continues to focus on improving the cost and delivery of power and natural gas to its customers while maintaining a high level of service.

In 1995 we reduced the number of complaints to the Public Service Commission by more than 50% over 1994.

Economic Climate In addition to the regulatory changes discussed earlier, a continuing challenge the company faces is New York's sluggish economy. This limits sales growth opportunities and increases the difficulty of retaining and expanding the company's industrial customer base. However, the company believes that the business outlook is brightening in New York State because of positive changes in outlook at the state government level with regard to reducing high taxes, government spending and excessive regulation.

In the meantime, the company is focusing on maintaining and improving sales through its marketing efforts. The company has developed flexible rates that allow it to negotiate long-term con[illegible] with eligible electric and natural gas customers. The contracts may cover existing load, new lo[illegible] or both. To date, 22 major electric industrial customers have signed contracts with terms ranging from three to seven years. The contracts retain more than $42 million and add another $12 million in annual revenues. Together the contracts represent about 22% of annual industrial electric revenues and about 3% of the company's total annual electric revenues.

In January 1996 the PSC approved the company's proposal to broaden eligibility for two of its flexible electric rates. Now more commercial, industrial and public authority customers are eligible for negotiated rates. Flexible rates help the company to retain customers and attract new customers to its service territory.

The company has new contracts with 12 major natural gas customers for load additions totaling $2 million in annual revenues. Each month the company develops over 275 natural gas prices to compete with the alternative fuels available.

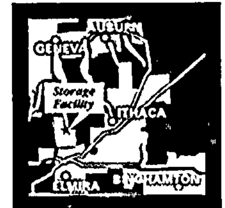
Also, the company has redesigned its economic development program to cultivate opportunities to bring new jobs to New York and the company's service territory. The program is designed to effectively assist prospective customers, joint venture partners and new customers.

Operational and Financial Flexibility The company continually reviews its strategic plans to address the challenges of competition, including ways to improve operational and financial flexibility.

Seneca Lake Storage Facility: Construction began on the company's $57 million Seneca Lake storage project in September 1995. The project consists of a natural gas storage cavern located north of Watkins Glen on the west side of Seneca Lake, a compressor station and two gas transmission pipelines. The project's primary purpose is to ensure adequate natural gas supply to customers. In addition, the project will increase supply flexibility, allow the company to retire two propane plants and reduce pipeline demand charges. The PSC issued a certificate of environmental compatibility and public need and approved construction plans for the compressor station and most of the western pipeline. The PSC is expected to issue a certificate for the eastern pipeline by mid-year 1996. The New York State Department of Environmental Conservation granted the company a conditional permit to store natural gas in the cavern. The project is scheduled to be in service for the 1996-1997 heating season.

Generation Department and Generating Unit Performance: The company's generation department is preparing for competition by developing its ability to operate as an independent business. The target date for that capability is January 1, 1997. In order to prepare for it, several tasks are being undertaken such as: assessing the requirements and abilities needed to operate in a competitive generation market; minimizing above-market investments; reducing the average costs of generation; strengthening sales and marketing capabilities; transforming to competitive business processes, technology and practices; and improving strategic business planning.

In June 1995 the company placed a 35 megawatt (MW) generating unit at its Hickling Generating Station on long-term cold standby. Two other generating units (97 MW) were placed on long-term cold standby during 1994. A generating unit on long-term cold standby at Greenidge Generating Station was operated intermittently during 1995 to take advantage of wholesale sales opportunities. The company continues to closely evaluate the performance of five other units (308 MW) to ensure that their output remains marketable and their operation economical.



Our Seneca Lake natural gas storage project, due to be completed late this year, will be a significant addition to NYSEG's supply toolbox. It is a major milestone in our effort to become a dominant regional natural gas company.

Financial Strategies: The company believes that maintaining financial integrity and flexibility is critical to success in a competitive environment. In addition to overall expense controls, the company has taken action in the past two years to maximize cash flow and improve financial flexibility, including significant cuts in capital spending and a common stock dividend reduction in October 1994. As a result, the company expects to have cash in excess of its operating and capital needs over the next several years. How this cash is utilized will depend on industry and market conditions and could include continued debt and preferred stock redemptions, additional investments in unregulated businesses or the repurchase of common stock. In September 1995 the company received PSC approval to repurchase not to exceed 4 million shares of its common stock. The company may use risk management techniques to manage commodity prices and interest rate risk.

Petition to FERC on NUGs: In February 1995 the company petitioned the FERC asking for relief from having to pay approximately $2 billion more than its avoided costs for power purchased over the life of two NUG contracts. The company believes that the overpayments under those two contracts violate the Public Utility Regulatory Policies Act of 1978.

The FERC denied the petition in April 1995 and denied the company's May 1995 request for a rehearing. On June 14, 1995, the company filed a petition with the United States Court of Appeals for the District of Columbia to review the FERC's decision.

The company continues to seek cost-effective ways to terminate or renegotiate existing NUG tracts and thus reduce the overpayment burdens under those contracts.

Diversification (See Note 11.) NGE Enterprises, Inc. (NGE), a wholly owned subsidiary, owns two unregulated businesses – EnerSoft Corporation (EnerSoft) and XENERGY, Inc. (XENERGY).

Formed in May 1993, EnerSoft develops and markets computer software and real-time information and trading systems for natural gas utilities, marketers and pipeline operators. EnerSoft, in alliance with the New York Mercantile Exchange, has developed Channel 4℠, a natural gas and pipeline capacity trading and information system for the North American market. The system was available for use on August 11, 1995.

Electronic trading of natural gas and pipeline capacity is an emerging market. The electronic trading industry is continuously developing new products and the nature of the industry and competition create a risk that certain products may not recover the cost of their development. Channel 4℠ is competing against other electronic gas trading systems, most of which are owned and operated by natural gas pipeline companies. The company believes Channel 4℠ is well positioned in features and functionality to compete with other trading systems that are available. However, sales to date have been disappointing.

Diversification

Pursue energy-related business opportunities with above average returns

- Develop a portfolio of energy services businesses
- Increase the commitment to profitable expansion and diversification into related businesses

EnerSoft has been incurring operating losses, and it is anticipated that this will continue in 1996 and 1997. Market acceptance of electronic gas trading and of the Channel 4℠ product is key to improving EnerSoft's financial performance.

XENERGY, acquired in June 1994, is an energy services, information systems and energy-consulting company providing energy services, conservation engineering and professional ser to utilities, governmental agencies and end-use energy consumers. XENERGY's 1995 revenues were lower than expected due to a soft utility demand-side management (DSM) consulting market. Revenues during the first half of 1996 are expected to be comparable to levels at the end of 1995, but are expected to improve by the end of 1996.

In order to meet the changing demands of the marketplace, XENERGY's management undertook a major reorganization in November 1995. This will better position XENERGY to take advantage of the emerging opportunities in a competitive utility industry. In addition to focusing on new revenue sources, actions were taken to reduce corporate overhead costs, including a reduction in headcount.

NGE is also exploring environmental and operating services opportunities with both domestic and foreign strategic partners in the United States and international markets. In addition, NGE is planning to form a finance subsidiary to support NGE's energy services business.

For the years ended December 31, 1995, 1994 and 1993, NGE incurred net losses of $12 million, $6 million and $1 million, respectively. The company expects that NGE will continue to incur operating losses at least through 1997. The loss in 1996 is expected to be comparable to 1995 with a slight improvement expected in 1997. As of December 31, 1995 and 1994, the company had invested approximately $54 million and $47 million, respectively, in NGE to finance its diversified investments.

Rate Matters

Electric Rate Settlement On August 1, 1995, the PSC approved a new three-year electric rate settlement agreement (electric agreement) for the period August 1, 1995 through July 31, 1998. The first year of the electric agreement replaces the final year of the electric portion of the company's previous three-year electric and natural gas rate settlement agreement. Increases in the company's average electric prices and the allowed returns on common equity under the electric agreement for the rate years effective August 1 are:

	1995	1996	1997
Price increase (millions)	$45.1	$45.3	$45.5
percent	2.9%	2.8%	2.7%
Allowed return on equity	11.1%	11.2%	11.2%

Approximately 65% of the price increase in the electric agreement is needed to cover the escalating cost of electricity the company is required to buy from NUGs and payments relating to the termination of several NUG contracts. The company estimates that NUG power purchases, excluding termination costs, will total $324 million in 1996, $333 million in 1997 and $345 million in 1998 (See Note 9).

To assure price predictability and stability, the fuel adjustment clause, the revenue decoupling mechanism and most other true-up mechanisms were eliminated in the electric agreement. The production cost incentive was eliminated, effective January 1, 1994. Only the service quality incentive and an earnings performance incentive remain under the electric agreement. Over the term of the electric agreement, the company will amortize approximately $150 million of regulatory assets. The electric agreement is subject to the order that will be issued by the PSC in the Competitive Opportunities Proceeding.

Natural Gas Rate Settlement On December 13, 1995, the PSC authorized a new natural gas rate settlement agreement (gas agreement) that freezes natural gas prices from December 15, 1995, until July 31, 1998. The natural gas rates approved in the gas agreement made permanent until July 31, 1998, a 3.2% increase, less an adjustment of about $1 million. That increase became effective August 1, 1995, the final year of the gas portion of the previous three-year electric and natural gas rate settlement agreement.

"By freezing prices for thirty-two months, we are providing natural gas to residential heating customers at the lowest prices in New York State."

Mike German, Senior Vice President, Gas Business Unit

An earnings sharing mechanism in the gas agreement provides that the average of the earned equity returns (exclusive of service quality awards or penalties) will be determined for the three years, and half of the three-year average of net earnings in excess of 14%, if any, will be shared with customers.

The gas agreement eliminates the gas adjustment clause and the weather normalization clause. Those were used to collect from or refund to customers amounts resulting from changes in the cost of natural gas purchased and the effect of unusually warm or cold weather on natural gas sales.

Environmental Matters (See Notes 9 and 10.)

The company continually assesses actions that may need to be taken to comply with changing environmental laws and regulations. Any additional compliance programs will require changes in the company's operations and facilities and increase the cost of electric and natural gas service. Historically, rate recovery has been authorized for environmental compliance costs.

The Clean Air Act Amendments of 1990 (1990 Amendments) contain provisions that limit emissions of sulfur dioxide and nitrogen oxides and require emissions monitoring. Construction of an innovative flue gas desulfurization system and a nitrogen oxide reduction system at the company's Milliken Generating Station was completed in 1995 to comply with the sulfur dioxide and nitr oxide emissions limitations. The company plans to reduce its annual sulfur dioxide emissions an amount that will allow it to meet its established sulfur dioxide levels. The established levels represent a 49% reduction from approximately 138,000 tons in 1989 to 71,000 tons by the year 2000, and will remain at 71,000 tons thereafter.

The U.S. Environmental Protection Agency (EPA) allocates annual emissions allowances to each of the company's coal-fired generating stations based on statutory emissions limits. An emissions allowance represents an authorization to emit, during or after a specified calendar year, one ton of sulfur dioxide. During Phase I (which began on January 1, 1995), the company estimates that it will have allowances in excess of the affected coal-fired generating stations' actual emissions. The company's present strategy is to bank the allowances for use in later years. By using a banking strategy, it is estimated that Phase II (begins January 1, 2000) allowance requirements will be met through the year 2004 by utilizing the allowances banked during Phase I, together with the company's Phase II annual emissions allowances. The strategy could be modified should market or business conditions change.

In addition to the annual emissions allowances allocated to the company by the EPA, the company has received all of its extension reserve allowances issued by the EPA to utilities electing to build scrubbers in Phase I, as a result of a pooling agreement that it entered into with other utilities who were also eligible to receive some of those extension reserve allowances.

In 1995 Milliken Generating Station began operating its advanced system for removing sulfur dioxide from combustion gas.

Financial Review

Net Cash Provided by Operating Activities In 1995 cash provided by operating activities increased by $1 million, up less than 1% from 1994. Cash provided by net income in 1995 was $9 million hi than in 1994, but this increase was nearly offset by cash used for working capital items.

Cash provided by operating activities in 1994 increased $38 million, up 9% from 1993. Higher net income in 1994 added $22 million and a reduction in cash used for working capital items added $16 million to cash provided by operating activities.

Net Cash Used in Investing Activities Cash used in investing activities decreased $56 million, or 26%, in 1995 and decreased $86 million, or 28%, in 1994. The changes were primarily due to reductions in utility plant capital expenditures.

Capital expenditures for the company's core electric and natural gas businesses, including nuclear fuel and the allowance for funds used during construction (AFDC), totaled $164 million in 1995, $248 million in 1994 and $268 million in 1993. For 1995 and 1994 those expenditures were primarily for the extension of service, necessary facility improvements and compliance with the 1990 Amendments and other environmental requirements. Most of the expenditures in 1993 were for the extension of service and for improvements at existing facilities. The company received $6 million, $24 million and $23 million from governmental and other sources in 1995, 1994 and 1993 respectively, to partially offset expenditures for compliance with the 1990 Amendments. Approximately $5 million is expected to be received from governmental and other sources in 1996 to partially offset such expenditures.

Capital expenditures projected for 1996, 1997 and 1998 total $215 million, $200 million and $168 million, respectively (see Note 9). Those expenditures are expected to be financed entirely with internally generated funds. The company forecasts that its current reserve margin, coupled with efficient use of energy and purchases of NUG power, eliminates the need for additional generating capacity until after the year 2007.

Information on the company's estimated sources and uses of funds for the years 1996 through 1998 follows. The estimates are subject to periodic review and revision. Actual capital expenditures may change to accommodate additional regulatory requirements and the company's continued focus on minimizing capital expenditures.

(Millions)	1996	1997	1998	Total
Sources of funds				
Internal funds	$288	$295	$306	$889
Long-term financing	–	–	–	–
Total	**$288**	**$295**	**$306**	**$889**
Uses of funds				
Capital expenditures				
Cash	$211	$195	$163	$569
AFDC*	4	5	5	14
Total capital expenditures	**215**	**200**	**168**	**583**
Retirement of securities and sinking fund obligations	129	73	53	255
Reduction of short-term debt	(12)	40	120	148
Working capital, deferrals and other	(44)	(18)	(35)	(97)
Total	**$288**	**$295**	**$306**	**$889**
Percentage of capital expenditures funded from operations	154%	157%	203%	169%

*...ce for funds used during construction.

Financial

Strengthen the financial condition of the company

- Provide flexibility and a stronger financial base for the transition to a market-based environment
- Manage capital expenditures in our regulated and unregulated businesses by focusing on high-return projects and meeting customer demand

Net Cash Used in Financing Activities In 1995 cash used in financing activities increased $87 million, up 40% compared to 1994. The company issued significantly less debt in 1995 than in 1994, since the amount of refundings and redemptions was higher in 1994. Although the amounts of debt redeemed and dividends paid were lower in 1995 than in 1994, more cash provided by operating activities was used for those items in 1995.

Cash used in financing activities in 1994 increased $106 million, up 96% from 1993. That change reflects a reduction of cash provided from the issuance of preferred stock and the use of cash provided by operating activities to reduce debt levels.

The company's long-term goal is to maintain a common stock dividend payout ratio of 60% to 65%. The current dividend is slightly under that range. Future dividends will depend on many factors, including the earnings impact of industry restructuring. The company can give no assurance as to future dividend levels.

Since 1987 the company has reduced its debt from 62% to 45% of total capital and has raised its common stock equity from 33% to 48%, at December 31, 1995. The common stock equity ratio improved in 1995 primarily as a result of retained earnings and the redemption and repurchase of $54 million of first mortgage bonds. In February 1996 the common stock equity ratio rose to 5[illegible] as a result of a preferred stock redemption and a first mortgage bond redemption. The comp[illegible] is committed to improving its financial strength and achieving an 'A' bond rating.

The company's financing activities during 1995 consisted of two issuances of tax-exempt pollution control revenue bonds totaling $37 million. The proceeds were used to redeem $37 million of higher coupon tax-exempt pollution control revenue bonds. The company also redeemed $23 million and repurchased $31 million of 9 7/8% Series first mortgage bonds due February 2020.

The company reduced its embedded cost of long-term debt to 7% at the end of 1995, and has refinanced more than $1.6 billion in long-term debt since the beginning of 1988. On January 1, 1996, the company redeemed, at a premium, $100 million of 8.95% preferred stock through the issuance of commercial paper. The embedded cost of preferred stock was reduced to 5.6% primarily as a result of the redemption. As a result of those efforts, annual interest expense and preferred stock dividends have been reduced by over $70 million since the beginning of 1988. Unless interest rates fall further it will be difficult to improve from those levels; however, all opportunities will be pursued aggressively.

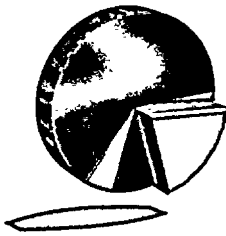
The company uses short-term, unsecured notes, usually commercial paper, to finance certain refundings and for other corporate purposes. There was $29 million and $152 million of commercial paper outstanding at December 31, 1995 and 1994, respectively, at weighted average interest rates of 6.1% and 5.8%, respectively.

The company also has a revolving credit agreement with certain banks that provides for borrowing up to $200 million until July 31, 1997. There were no amounts outstanding under this agreement at December 31, 1995 and 1994.

Sources of Electricity – 1995

Generation and Purchases - kwh

Source	%
Coal	64%
NUG	20%
Power Authority & other	9%
Nuclear	6%
Hydro	1%



Results of Operations

	1995	1994	1993	1995 over 1994 Change	1994 over 1993 Change
(Thousands, except per share amounts)					
Operating revenues	$2,009,541	$1,898,855	$1,800,149	6%	5%
Operating income	$337,363	$322,684	$300,656	5%	7%
Earnings available for common stock	$177,969	$168,698	$145,390	5%	16%
Average shares outstanding	71,503	71,254	69,990	–%	2%
Earnings per share	$2.49	$2.37	$2.08	5%	14%
Earnings per share excluding one-time charges	$2.49	$2.49	$2.33	–%	7%
Dividends per share	$1.40	$2.00	$2.18	(30%)	(8%)

Earnings per Share

Earnings per share for 1995 were 12 cents higher than in 1994, an increase of 5%. In 1994, earnings per share increased 29 cents, 14% higher than 1993's earnings. However, certain one-time [illegible]es that were recorded in 1994 and 1993 should be excluded to better compare earnings per [illegible]. Those charges are the 1993 production-cost penalty that lowered 1994 earnings by 12 cents per share and the corporate restructuring that reduced 1993 earnings by 25 cents per share (see Note 6). Without the one-time charges there was no change in earnings per share comparing 1995 and 1994 and there was a 16 cent increase comparing 1994 and 1993. The earnings per share explanations that follow exclude those one-time charges.

Higher operating income added six cents to earnings per share in 1995. Higher electric and natural gas prices contributed eight cents to that increase and higher profits on wholesale electric sales added five cents. In addition, the company's efforts to control operating costs helped increase earnings by two cents per share. Those increases were partly offset by a nine cent decrease in earnings per share because of higher maintenance expenses, which includes storm-related costs.

In addition to that six cent increase, lower interest charges in 1995, primarily due to the refinancing and retirement of debt, contributed six cents to earnings per share. Those increases were offset by an 11 cent charge to earnings per share resulting from a decrease in other income and deductions, mostly due to higher losses incurred by the company's diversified operations.

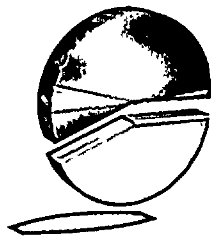
In 1994 higher operating income increased earnings per share by 18 cents. That increase resulted from a combination of factors. Lower operating and maintenance expenses due to cost controls and a reduction in the workforce increased earnings by 26 cents per share. Earnings per share also rose in 1994 because lower electric retail sales in 1993, before the effective date of the modified revenue decoupling mechanism (RDM), reduced 1993 earnings by nine cents per share. Those increases were partially offset by a reduction in DSM rewards that lowered earnings per [illegible] by 13 cents.

A [illegible]ecrease in other income and deductions, primarily due to losses incurred by the company's diversified operations, reduced 1994 earnings by five cents per share. Lower interest charges in 1994, primarily due to the refinancing and retirement of debt, added five cents to earnings per share, offsetting the decrease.

Cost of Electricity – 1995

Production and Purchased Power

Coal	45%
NUG	44%
Power Authority & other	5%
Nuclear	5%
Hydro & other	1%



Interest Expense

Interest expense (before the reduction for allowance for borrowed funds used during construction) decreased $9 million in 1995 and decreased $6 million in 1994. The decreases in both years were primarily due to the refinancing and retirement of certain issues of long-term debt.

Dividends per Share

Dividends per share decreased 30% in 1995 compared to 1994, because the board of directors reduced the quarterly common stock dividend from 55 cents per share to 35 cents per share in October 1994 and dividends remained at 35 cents per share throughout 1995. Dividends per share decreased 8% in 1994 compared to 1993, because of the October 1994 dividend reduction.

Operating Results for the Electric Business Segment

(Thousands)	1995	1994	1993	1995 over 1994 Change	1994 over 1993 Change
Retail sales – kilowatt-hours (kwh)	13,092,563	13,147,631	13,088,175	–%	–%
Operating revenues	$1,708,297	$1,600,075	$1,527,362	7%	5%
Operating expenses	$1,407,686	$1,306,871	$1,250,000	8%	5%
Operating income	$300,611	$293,204	$277,362	3%	6%

In 1995 electric retail sales decreased slightly compared to 1994 sales as a result of the sluggish economy in the company's service territory. Although there were significant differences in the weather during 1995 compared to 1994, the overall impact on sales was minimal. Electric retail sales for 1994 were flat compared to 1993 sales.

Operating Revenues: Electric operating revenues for 1995 were $108 million higher than 1994 revenues. Revenues rose $87 million because of increases in electric prices, due to changes in rates effective in August 1995 and 1994, primarily to accommodate increased mandated purchases of NUG power. An increase in sales of electricity to others added $9 million to revenues. Electric revenues for 1994 were reduced by $13 million because of the 1993 production-cost penalty that was recorded in the second quarter of 1994.

Hadco Corporation, manufacturer of printed circuit boards, will expand its Owego plant and create 300 new jobs. NYSEG's competitive electric price for plant expansions helped Hadco decide to expand here instead of elsewhere.

The principal reason for the $73 million increase in 1994 electric operating revenues was the increases in electric prices effective in September 1993 and August 1994 that added $69 million to revenues. The price increases were caused primarily by an increase in mandated purchases of NUG power and by higher federal taxes. The modified RDM increased revenues by $18 million since actual electric sales in 1994 were below the levels forecasted in the company's rate agreement. Higher costs of NUG power, which were billed to customers in part through the fuel adjustment clause, boosted 1994 revenues by $16 million. An increase in sales of electricity to others added $16 million to 1994 revenues due to an increase in interchange sales volume. Those increases were partially offset by a $14 million decrease in DSM rewards, a $15 million decrease in DSM lost revenues recorded and the $13 million reduction in revenues from the 1993 production-cost penalty.

Operating Expenses: The $101 million increase in electric operating expenses in 1995 is primarily attributable to an increase of $76 million in electricity purchased, mostly due to NUG purchases. Higher federal taxes, the result of higher pretax book income, added $16 million to expenses. In addition, maintenance expenses rose $10 million and include storm-related costs.

Electric operating expenses increased by $57 million in 1994 principally because of an $80 million increase in electricity purchased, primarily for NUG purchases. Federal income taxes rose $17 million in 1994, the result of higher pretax book income. Increased gross receipts and school taxes added another $7 million to expenses. Depreciation expense rose $12 million, compared to 1993. Those increases were partially offset by decreases of $15 million in operating expenses that were mainly due to cost controls and the workforce reduction, and $14 million in fuel used in electric generation (due to reduced generation). Also, expenses were $21 million lower in 1994 because of the restructuring charge recorded in the fourth quarter of 1993.

Operating Results for the Natural Gas Business Segment

	1995	1994	1993	1995 over 1994 Change	1994 over 1993 Change
(Thousands)					
Deliveries – dekatherms (dth)	58,535	58,624	58,046	–%	1%
Operating revenues	$301,244	$298,780	$272,787	1%	10%
Operating expenses	$264,492	$269,300	$249,493	(2%)	8%
Operating income	$36,752	$29,480	$23,294	25%	27%

Natural gas deliveries for 1995 were almost equal to 1994 deliveries. The sluggish economy in the company's service territory continues to impact sales, which were below expectations. There were significant differences in the weather during 1995 compared to 1994, but the overall impact on sales for the year was minimal. Natural gas deliveries for 1994 were 1% higher than 1993 deliveries due to the addition of new customers, including several large-volume customers.

Operating Revenues: In 1995 natural gas operating revenues increased $2 million, compared to 1994 revenues, primarily as a result of higher natural gas prices that added $3 million to revenues. Changes in rates effective in August 1995 and 1994 were the primary reason for the higher natural gas prices.

Natural gas earnings have risen significantly – to 33 cents a share in 1995 from a loss of two cents a share in 1991.

The leading cause for the $26 million increase in 1994 natural gas operating revenues was higher costs of natural gas (billed to customers) that added $16 million to revenues. In addition, rate changes effective in September 1993 and August 1994 added $7 million to revenues. However, the company had a weather normalization mechanism, $1 million of revenues attributable to weather was returned to customers in 1994.

Operating Expenses: The $5 million reduction in natural gas operating expenses in 1995 is due to a combination of factors. Natural gas purchased decreased $12 million mainly because of lower commodity prices. That decrease was partially offset by higher federal income taxes, primarily due to higher pretax book income that added $3 million, and higher depreciation and distribution operation expenses that each added $1 million to operating expenses.

Natural gas operating expenses rose $20 million in 1994, mainly due to a $20 million increase in natural gas purchased, mostly because of higher commodity prices. Higher federal income taxes, due to higher pretax book income, added $4 million to operating expenses. Increased gross receipts and school taxes added another $1 million to expenses. Depreciation expense rose $2 million compared to 1993. Those increases were partially offset by a $5 million decrease because of the restructuring charge recorded in 1993 and a $1 million decrease in marketing expenses due to improved operations.

Consolidated Balance Sheets

December 31	1995	1994
(Thousands)		
Assets		
Utility Plant, at Original Cost		
Electric	$5,090,044	$4,916,960
Natural gas	445,256	414,929
Common	140,686	143,366
	5,675,986	5,475,255
Less accumulated depreciation	1,791,625	1,642,653
Net Utility Plant in Service	3,884,361	3,832,602
Construction work in progress	79,229	154,723
Total Utility Plant	3,963,590	3,987,325
Other Property and Investments, Net	99,633	103,920
Current Assets		
Cash and cash equivalents	11,433	22,322
Special deposits	5,785	7,591
Accounts receivable, net	195,834	155,665
Fuel, at average cost	33,682	49,934
Materials and supplies, at average cost	44,809	47,843
Prepayments	31,371	30,441
Accumulated deferred federal income tax benefits, net	7,594	11,457
Total Current Assets	330,508	3[illegible]
Regulatory and Other Assets		
Regulatory assets		
Unfunded future federal income taxes	323,446	363,151
Unamortized debt expense	85,023	88,559
Demand-side management program costs	74,824	72,849
Other regulatory assets	206,736	254,446
Total regulatory assets	690,029	779,005
Other assets	30,571	35,182
Total Regulatory and Other Assets	720,600	814,187
Total Assets	$5,114,331	$5,230,685

The notes on pages 29 through 42 are an integral part of the financial statements.

Our call center is handling many more calls and answering them more quickly and efficiently than ever before. With great support from our field organization, we are exceeding 11 of 12 standards of customer service performance.

Consolidated Balance Sheets

December 31	1995	1994
ds)		
lization and Liabilities		
Capitalization		
Common stock equity		
Common stock ($6.66 2/3 par value, 90,000,000 shares authorized and 71,502,827 shares issued and outstanding at December 31, 1995 and 1994)	$476,686	$476,686
Capital in excess of par value	842,442	841,624
Retained earnings	424,412	346,547
Total common stock equity	1,743,540	1,664,857
Preferred stock redeemable solely at the option of the company	140,500	140,500
Preferred stock subject to mandatory redemption requirements	25,000	125,000
Long-term debt	1,581,448	1,651,081
Total Capitalization	3,490,488	3,581,438
Current Liabilities		
Current portion of long-term debt	37,003	36,231
Current portion of preferred stock	100,000	–
Commercial paper	28,620	151,900
Accounts payable and accrued liabilities	117,637	107,356
Interest accrued	24,093	25,132
Taxes accrued	22,231	12,414
Other	68,027	82,547
Total Current Liabilities	397,611	415,580
Regulatory and Other Liabilities		
Regulatory liabilities		
eferred income taxes - unfunded future federal income taxes	128,643	143,285
eferred income taxes	108,605	114,111
Other regulatory liabilities	56,729	79,479
Total regulatory liabilities	293,977	336,875
Other liabilities		
Accumulated deferred investment tax credit	126,032	132,440
Deferred income taxes - other	617,452	580,939
Other postretirement benefits	75,683	54,994
Liability for environmental restoration	31,800	33,600
Other	81,288	94,819
Total other liabilities	932,255	896,792
Total Regulatory and Other Liabilities	1,226,232	1,233,667
Commitments and Contingencies	–	–
Total Capitalization and Liabilities	$5,114,331	$5,230,685

The notes on pages 29 through 42 are an integral part of the financial statements.

In February 1996 we raised our common equity to 50% and reduced our debt to 45% of total capital. This is our strongest equity position in our history.

Consolidated Statements of Income

Year Ended December 31	1995	1994	1993
(Thousands, except per share amounts)			
Operating Revenues			
Electric	$1,708,297	$1,600,075	$1,527,362
Natural gas	301,244	298,780	272,787
Total Operating Revenues	2,009,541	1,898,855	1,800,149
Operating Expenses			
Fuel used in electric generation	229,759	231,648	245,283
Electricity purchased	318,440	242,352	161,967
Natural gas purchased	149,789	161,627	141,635
Other operating expenses	326,922	328,961	349,177
Restructuring expenses	–	–	26,000
Maintenance	116,807	106,637	111,757
Depreciation and amortization	184,770	178,326	164,568
Federal income taxes	134,781	115,891	94,144
Other taxes	210,910	210,729	204,962
Total Operating Expenses	1,672,178	1,576,171	1,499,493
Operating Income	337,363	322,684	300,656
Other Income and Deductions	(11,106)	1,053	6,471
Income Before Interest Charges	326,257	323,737	307,127
Interest Charges			
Interest on long-term debt	115,687	126,083	134,330
Other interest	15,232	13,642	11,120
Allowance for borrowed funds used during construction	(1,352)	(3,633)	(4,351)
Interest Charges, Net	129,567	136,092	141,099
Net Income	196,690	187,645	166,028
Preferred Stock Dividends	18,721	18,947	[illegible]
Earnings Available for Common Stock	$177,969	$168,698	$14[illegible]
Earnings Per Share	$2.49	$2.37	$2.08
Average Shares Outstanding	71,503	71,254	69,990

The notes on pages 29 through 42 are an integral part of the financial statements.

1995 Revenue Dollar

Where it came from

Residential	45¢
Commercial	23¢
Industrial	13¢
Street lighting and other	11¢
Other electric utilities	8¢

Consolidated Statements of Cash Flows

Year Ended December 31	1995	1994	1993
ds)			
ting Activities			
Net income	$196,690	$187,645	$166,028
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	184,770	178,326	164,568
Deferred fuel and purchased gas	15,022	(1,944)	(10,671)
Federal income taxes and investment tax credits deferred, net	52,362	37,910	51,098
Restructuring expenses	–	–	26,000
Changes in current operating assets and liabilities:			
Accounts receivable excluding accounts receivable sold	(40,169)	25,921	(23,703)
Accounts receivable sold	–	–	13,800
Prepayments	(930)	(349)	7,805
Inventory	19,286	5,924	16,013
Accounts payable and accrued liabilities	10,281	(4,125)	15,485
Taxes accrued	9,817	(6,377)	4,671
Interest accrued	(1,039)	(6,216)	(6,342)
Other, net	5,741	33,663	(12,562)
Net Cash Provided by Operating Activities	451,831	450,378	412,190
Investing Activities			
Utility plant capital expenditures	(163,401)	(246,536)	(265,109)
Proceeds received from governmental and other sources	5,621	23,915	22,808
Expenditures for other property and investments	(3,145)	(34,482)	(16,975)
Funds restricted for capital expenditures	1,324	41,113	(42,437)
Net Cash Used in Investing Activities	(159,601)	(215,990)	(301,713)
Financing Activities			
ance of pollution control notes and first mortgage bonds	37,000	275,000	217,362
olving credit agreement, net	–	(50,000)	50,000
Sale of common stock	–	23,386	38,334
Sale of preferred stock	–	–	97,762
Repayment of pollution control notes, first mortgage bonds and preferred stock, including premiums	(92,395)	(497,450)	(326,091)
Changes in funds set aside for preferred stock and first mortgage bond repayments	–	95,000	(8,904)
Long-term notes, net	(5,504)	(2,290)	8,393
Commercial paper, net	(123,280)	101,700	(13,900)
Dividends on common and preferred stock	(118,940)	(161,676)	(173,137)
Net Cash Used in Financing Activities	(303,119)	(216,330)	(110,181)
Net (Decrease) Increase in Cash and Cash Equivalents	(10,889)	18,058	296
Cash and Cash Equivalents, Beginning of Year	22,322	4,264	3,968
Cash and Cash Equivalents, End of Year	$11,433	$22,322	$4,264

The notes on pages 29 through 42 are an integral part of the financial statements.

1995 Revenue Dollar

Where it went

Purchased electricity & gas	23¢
Taxes	16¢
Other materials and services	13¢
Employee wages & benefits	11¢
Fuel	11¢
Depreciation & amortization	9¢
Interest to bondholders, etc.	7¢
Dividends – common stock	5¢
Retained in the business	4¢
Dividends – preferred stock	1¢

Financials

Consolidated Statements of Changes in Common Stock Equity

(Thousands, except shares and per share amounts)

	Common Stock $6.66 2/3 Par Value Shares	Amount	Capital in Excess of Par Value	Retained Earnings	To[illegible]
Balance, January 1, 1993	69,439,397	$462,929	$796,505	$327,040	$1,586,474
Net income				166,028	166,028
Cash dividends declared:					
Preferred stock (at serial rates)					
Redeemable - optional				(11,085)	(11,085)
- mandatory				(9,553)	(9,553)
Common stock ($2.18 per share)				(152,316)	(152,316)
Issuance of stock:					
Dividend reinvestment and stock purchase plan	1,156,588	7,711	30,699		38,410
Amortization of capital stock issue expense			(2,261)		(2,261)
Balance, December 31, 1993	70,595,985	470,640	824,943	320,114	1,615,697
Net income				187,645	187,645
Cash dividends declared:					
Preferred stock (at serial rates)					
Redeemable - optional				(8,419)	(8,419)
- mandatory				(10,528)	(10,528)
Common stock ($2.00 per share)				(142,265)	(142,265)
Issuance of stock:					
Dividend reinvestment and stock purchase plan	906,842	6,046	17,450		23,496
Amortization of capital stock issue expense			(769)		(769)
Balance, December 31, 1994	71,502,827	476,686	841,624	346,547	1,6[illegible]
Net income				196,690	19[illegible]
Cash dividends declared:					
Preferred stock (at serial rates)					
Redeemable - optional				(8,196)	(8,196)
- mandatory				(10,525)	(10,525)
Common stock ($1.40 per share)				(100,104)	(100,104)
Amortization of capital stock issue expense			818		818
Balance, December 31, 1995	71,502,827	$476,686	$842,442	$424,412	$1,743,540

The notes on pages 29 through 42 are an integral part of the financial statements.

Earnings rose to $2.49 a share — hitting our target of a 5% increase over 1994.

Significant Accounting Policies

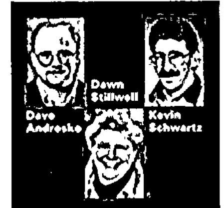
Principles of consolidation The consolidated financial statements include the company's wholly-owned subsidiaries, Somerset Railroad Corporation (SRC) and NGE Enterprises, Inc. (NGE).

Estimates Preparation of the consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Utility plant The cost of repairs and minor replacements is charged to the appropriate operating expense accounts. The cost of renewals and betterments, including indirect costs, is capitalized. The original cost of utility plant retired or otherwise disposed of and the cost of removal less salvage are charged to accumulated depreciation.

Depreciation and amortization Depreciation expense is determined using straight-line rates, based on the average service lives of groups of depreciable property in service. Depreciation accruals were equivalent to 3.5%, 3.5% and 3.4%, of average depreciable property for 1995, 1994 and 1993, respectively. Amortization expense includes the amortization of certain deferred charges authorized by the Public Service Commission of the State of New York (PSC).

Accounts receivable The company has an agreement that expires in November 2000 to sell, with limited recourse, undivided percentage interests in certain of its accounts receivable from customers. The agreement allows the company to receive up to $152 million from the sale of such assets. At December 31, 1995 and 1994, accounts receivable on the consolidated balance sheets are shown net of $152 million of interests in accounts receivable sold. All fees associated with the program are included in other income and deductions on the consolidated statements of income and amounted to approximately $10 million, $7 million and $6 million in 1995, 1994 and 1993, respectively. Accounts receivable on the consolidated balance sheets is also shown net of an allowance for doubtful accounts of $7 million at December 31, 1995 and 1994. Bad debt expense was $18 million, $20 million and $15 million in 1995, 1994 and 1993, respectively.



We are proud of our employees who won outstanding citizenship awards in the past year by saving people from injury or death: Dave Androsko in Auburn, Dawn Stillwell in Ithaca and Kevin Schwartz in Liberty.

Income taxes The company files a consolidated federal income tax return with SRC and NGE. Deferred income taxes are provided on all temporary differences between financial statement basis and taxable income in accordance with Statement of Financial Accounting Standards No. 109 (Statement 109), Accounting for Income Taxes. Investment tax credits, which reduce federal income taxes currently payable, are deferred and amortized over the estimated lives of the applicable property.

Regulatory assets and liabilities Pursuant to Statement of Financial Accounting Standards No. 71 (Statement 71), Accounting for the Effects of Certain Types of Regulation, the company capitalizes, as regulatory assets, incurred costs that are expected to be recovered in future electric and natural gas rates. The company also records as regulatory liabilities, obligations to customers to refund previously collected revenue or to spend revenue collected from customers on future costs.

Unfunded future federal income taxes and deferred income taxes are amortized as the related temporary differences reverse. Unamortized debt expense is amortized over the lives of the related debt issues. The other regulatory assets and other regulatory liabilities are amortized over various periods as provided by the company's rate settlement agreements. The company is earning a return on all regulatory assets for which the company has spent funds.

The company's regulatory assets and liabilities consisted of the following:

December 31	1995 Assets	1995 Liabilities	1994 Assets	1994 Liabilities
(Thousands)				
Unfunded future federal income taxes	$323,446	$128,643	$363,151	$14[illegible]
Deferred income taxes	–	108,605	–	114,111
Unamortized debt expense	85,023	–	88,559	–
Demand-side management program costs	74,824	–	72,849	–
Non-utility generator (NUG) termination agreements	43,847	–	44,079	–
Environmental remediation costs	31,763	–	32,801	–
Other postretirement benefits	21,179	–	10,383	–
Other	109,947	56,729	167,183	79,479
Total	$690,029	$293,977	$779,005	$336,875

If the company could no longer meet the criteria of Statement 71 for all or a part of its business, the company would have to record as expense or revenue all or a portion of its regulatory assets and liabilities.

Consolidated Statements of Cash Flows The company considers all highly liquid investments with a maturity or put date of three months or less when acquired to be cash equivalents. Those investments are included in cash and cash equivalents on the consolidated balance sheets.

Total income taxes paid were $55 million, $69 million and $27 million for the years ended December 31, 1995, 1994 and 1993, respectively.

Interest paid, net of amounts capitalized, was $118 million, $132 million and $138 million for the years ended December 31, 1995, 1994 and 1993, respectively.

Reclassifications Certain amounts have been reclassified on the consolidated financial statem[illegible] to conform with the 1995 presentation.

Notes

NYSEG is pressing hard for the phase-out of the state gross receipts tax. Utilities are taxed on all the revenues they take in, while other businesses are taxed only on their net income. In 1995 NYSEG customers paid $84 million but would have paid only $37 million under a tax on net income.

2 Income Taxes

Year ended December 31	1995	1994	1993
(Thousands)			
Charged to operations			
Current	$94,896	$88,623	$34,989
Deferred, net			
Accelerated depreciation	49,133	51,736	49,580
Unbilled revenues	4,192	(3,913)	5,073
Revenue decoupling mechanism	(4,608)	6,870	–
Alternative minimum tax (AMT) credit	3,479	(4,744)	(3,194)
Demand-side management	21	(9,048)	13,479
NUG termination agreement	(330)	(1,313)	6,208
Nine Mile No. 2 litigation proceeds	1,269	(520)	4,756
Restructuring expenses	–	–	(6,965)
Transmission facility agreement	3,482	(2,719)	(7,778)
Miscellaneous	(16,725)	(9,049)	(7,646)
Investment tax credit (ITC)	(28)	(32)	5,642
	134,781	115,891	94,144
Included in other income			
Amortization of deferred ITC	(6,380)	(6,006)	(8,892)
Miscellaneous	(12,537)	(7,424)	[illegible]
Total	$115,864	$102,461	[illegible]

NYSEG

The company's effective tax rate differed from the statutory rate of 35% due to the following:

Year ended December 31	1995	1994	1993
(Thousands)			
Tax expense at statutory rate	$109,396	$101,537	$88,684
Depreciation not normalized	19,774	18,552	16,984
ITC amortization	(6,186)	(6,006)	(8,892)
Revenue Reconciliation Act of 1993, net	1,455	(3,736)	(631)
Research & Development credit	(5,547)	(1,352)	(5,139)
Cost of removal	(3,772)	(5,462)	(4,921)
Other, net	744	(1,072)	(335)
Total	$115,864	$102,461	$85,750

The company's deferred tax assets and liabilities consist of the following:

December 31	1995	1994
(Thousands)		
Current Deferred Taxes	$(7,594)	$(11,457)
Noncurrent Deferred Taxes		
Depreciation	756,386	740,961
Unfunded future federal income taxes	128,643	143,285
Deferred ITC (net of Statement 109)	80,868	86,205
AMT credit	(380)	(16,716)
Other	12,363	14,829
Total noncurrent deferred taxes	977,880	968,564
Total deferred taxes	970,286	957,107
Valuation allowance	2,852	2,211
Net deferred tax liabilities	$973,138	$959,318

The company has recorded unfunded future federal income taxes and a corresponding receivable from customers of approximately $323 million and $363 million as of December 31, 1995 and 1994, respectively, primarily representing the cumulative amount of federal income taxes on temporary depreciation differences, which were previously flowed through to customers. Those amounts, including the tax effect of the future revenue requirements, are being amortized over the life of the related depreciable assets concurrent with their recovery in rates.

The company has less than $1 million of AMT credits that do not expire.

"The reason I'm staying in New York is the cooperation I got from NYSEG and the (Broome County) IDA."

John Guyn, President, Southern Tier Plastics, Binghamton

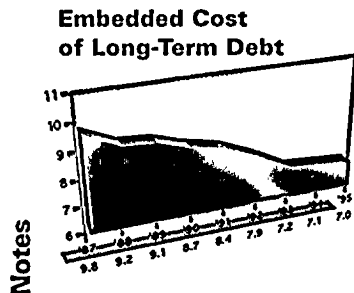
3 Long-Term Debt

At December 31, 1995 and 1994, long-term debt was (Thousands):

First mortgage bonds

Series	Due	Amount 1995	Amount 1994
5 5/8%	Jan. 1, 1997	$25,000	$25,000
6 1/4%	Sept. 1, 1997	25,000	25,000
6 1/2%	Sept. 1, 1998	30,000	30,000
7 5/8%	Nov. 1, 2001	50,000	50,000
6 3/4%	Oct. 15, 2002	150,000	150,000
7 1/4%	June 1, 2006	–	12,000
6 7/8%	Dec. 1, 2006	–	25,000
8 5/8%	Nov. 1, 2007	37,000	37,000
9 7/8%	Feb. 1, 2020	46,000	100,000
9 7/8%	May 1, 2020	100,000	100,000
9 7/8%	Nov. 1, 2020	100,000	100,000
8 7/8%	Nov. 1, 2021	150,000	150,000
8.30 %	Dec. 15, 2022	100,000	100,000
7.55 %	Apr. 1, 2023	50,000	50,000
7.45 %	July 15, 2023	100,000	100,000
Total first mortgage bonds		963,000	1,054,000

Embedded Cost of Long-Term Debt



Pollution control notes

Interest Rate	Maturity Date	Interest Rate Adjustment Date	Letter of Credit Expiration Date	Amount 1995	Amount 1994
6.0%	June 1, 2006	–	–	12,000	–
5.90%	Dec. 1, 2006	–	–	25,000	–
4.65% (1)	Mar. 15, 2015	Mar. 15, 1996	Mar. 31, 1997	60,000	[illegible]
3.85% (1)	Oct. 15, 2015	Oct. 15, 1996	Oct. 31, 1997	30,000	[illegible]
3.65% (1)	Dec. 1, 2015	Dec. 1, 1996	Dec. 15, 1997	42,000	[illegible]
6.15%	July 1, 2026	–	–	65,000	65,000
5.95%	Dec. 1, 2027	–	–	34,000	34,000
5.70%	Dec. 1, 2028	–	–	70,000	70,000
Var. % (2)	Feb. 1, 2029	Various	Feb. 23, 1997	37,500	37,500
Var. % (2)	June 1, 2029	Various	June 15, 1997	63,500	63,500
Var. % (2)	Oct. 1, 2029	Various	Oct. 25, 1997	74,000	74,000
6.05%	Apr. 1, 2034	–	–	100,000	100,000
Total pollution control notes				613,000	576,000
Long-term notes due December 31, 1998				31,000	34,000
Various long-term notes				5,501	11,806
Obligations under capital leases				14,799	21,423
Unamortized premium and discount on debt, net				(8,849)	(9,917)
				1,618,451	1,687,312
Less: debt due within one year – included in current liabilities				37,003	36,231
Total				$1,581,448	$1,651,081

At December 31, 1995, long-term debt and capital lease payments that will become due during the next five years are:

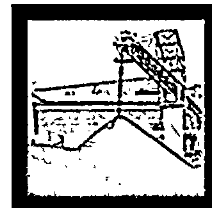
1996	1997	1998	1999	2000
		(Thousands)		
$37,003	$53,887	$62,314	$774	$322

The company's mortgage provides for a sinking and improvement fund. The provision requires the company to make an annual cash deposit with the Trustee equivalent to 1% of the principal amount of all bonds delivered and authenticated by the Trustee prior to January 1 of that year (excluding any bonds issued on the basis of the retirement of bonds). The company satisfied the requirement by depositing $23 million in cash in both 1995 and 1996. The funds were used to redeem, at par, $23 million of 9 7/8% Series first mortgage bonds, due February 2020.

The company's first mortgage bond indenture constitutes a direct first mortgage lien on substantially all utility plant.

(1) Adjustable rate pollution control notes totaling the principal amount of $132 million were issued to secure like amounts of tax-exempt adjustable rate pollution control revenue bonds (Adjustable Rate Revenue Bonds) issued by a governmental authority. The Adjustable Rate Revenue Bonds bear interest at the rate indicated through the date preceding the interest rate adjustment date. The adjustable rate pollution control notes bear interest at the same rate as the Adjustable Rate Revenue Bonds. On the interest rate adjustment date and annually thereafter, the interest rate will be adjusted, not to exceed a rate of 15%, or at the option of the company, subject to certain conditions, a fixed rate of interest, not to exceed 18%, may become effective. Bond owners may elect, subject to certain conditions, to have their Adjustable Rate Revenue Bonds purchased by the Trustee.

(2) Multi-mode pollution control notes totaling the principal amount of $175 million were issued to secure like amounts of tax-exempt multi-mode pollution control refunding revenue bonds (Multi-mode Revenue Bonds) issued by a governmental authority. The Multi-mode Revenue Bonds have a structure that enables the company to optimize the use of short-term rates by allowing for the interest rates to be based on a daily rate, a weekly rate, a commercial paper rate or an auction rate. The structure also provides flexibility to convert the interest rates to term rates or fixed rates, in the event that it is in the company's best interest to do so. The multi-mode pollution control notes bear interest at the same rates as the Multi-mode Revenue Bonds. Bond owners may elect, while the Multi-mode Revenue Bonds bear interest at a daily rate or a weekly rate, to have their Multi-mode Revenue Bonds purchased by the Registrar and Paying Agent. The maturity date of the Multi-mode Revenue Bonds due February 1, 2029, June 1, 2029, and October 1, 2029, can be extended, subject to certain conditions, to a date not later than February 1, 2034, June 1, 2034, and April 1, 2034, respectively. At December 31, 1995, the multi-mode pollution control notes bore interest at the daily rate. The weighted average interest rate for all three series was 3.7%, excluding letter of credit fees, for the year ended December 31, 1995.



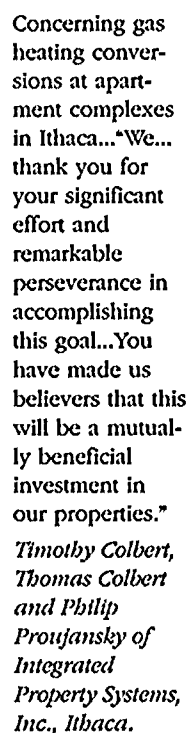
In 1995 we saved nearly $7 million over 1994 on coal contracts and continued to reduce operating costs through work simplification programs.

The company has irrevocable letters of credit that expire on the letter of credit expiration dates and that the company anticipates being able to extend if the interest rate on the related Adjustable Rate Revenue Bonds and Multi-mode Revenue Bonds is not converted to a fixed interest rate. Those letters of credit support certain payments required to be made on the Adjustable Rate Revenue Bonds and Multi-mode Revenue Bonds. If the company is unable to extend the letter of credit that is related to a particular series of Adjustable Rate Revenue Bonds, that series will have to be redeemed unless a fixed rate of interest becomes effective. Multi-mode Revenue Bonds are subject to mandatory purchase upon any change in the interest rate mode and in certain other circumstances. Payments made under the letters of credit in connection with purchases of Adjustable Rate Revenue Bonds and Multi-mode Revenue Bonds are repaid with the proceeds from the remarketing of such Bonds. To the extent the proceeds are not sufficient, the company is required to reimburse the bank that issued the letter of credit.

4 Preferred Stock

At December 31, 1995 and 1994, serial cumulative preferred stock was:

Series	Par Value Per Share	Redeemable Prior to	Redeemable Per Share	Shares Authorized and Outstanding (1)	Amount 1995	Amount 1994
(Thousands)						
Redeemable solely at the option of the company:						
3.75%	$100		$104.00	150,000	$15,000	$15,000
4 1/2% (1949)	100		103.75	40,000	4,000	4,000
4.15%	100		101.00	40,000	4,000	4,000
4.40%	100		102.00	75,000	7,500	7,500
4.15% (1954)	100		102.00	50,000	5,000	5,000
6.48%	100		102.00	300,000	30,000	30,000
7.40% (2)	25	12/1/98	26.85	1,000,000	25,000	25,000
		Thereafter	25.00			
Adjustable Rate (3)	25	12/1/98	27.50	2,000,000	50,000	50,000
		Thereafter	25.00			
Total					$140,500	$140,500
Subject to mandatory redemption requirements:						
6.30% (4)	100	1/1/97	104.41	250,000	$25,000	$25,000
8.95% (5)	25	1/1/97	26.49	4,000,000	100,000	100,000
Total					$125,000	$125,000



Notes

Concerning gas heating conversions at apartment complexes in Ithaca..."We... thank you for your significant effort and remarkable perseverance in accomplishing this goal...You have made us believers that this will be a mutually beneficial investment in our properties."
Timothy Colbert, Thomas Colbert and Philip Proujansky of Integrated Property Systems, Inc., Ithaca.

At December 31, 1995, preferred stock redemptions and annual redeemable preferred stock sinking fund requirements for the next five years are $100 million in 1996 and zero in the years 1997 through 2000.

(1) At December 31, 1995, and after giving effect to the redemption referred to in (5) below, there were 1,550,000 shares of $100 par value preferred stock, 7,800,000 shares of $25 par value preferred stock and 1,000,000 shares of $100 par value preference stock authorized but unissued.

(2) The company is restricted in its ability to redeem this Series prior to December 1, 1998.

(3) The payment on this Series, for April 1, 1996, is at an annual rate of 5.03% and subsequent payments can vary from an annual rate of 4% to 10%, based on a formula included in the company's Certificate of Incorporation. The company is restricted in its ability to redeem this Series prior to December 1, 1998.

(4) On January 1 in each year 2004 through 2008, the company must redeem 12,500 shares at par, and on January 1, 2009, the company must redeem the balance of the shares at par. This Series is redeemable at the option of the company at $104.41 per share prior to January 1, 1997. The $104.41 price will be reduced annually by 63 cents for the years ending 1997 through 2002; thereafter, the redemption price is $100.00. The company is restricted in its ability to redeem this Series prior to January 1, 2004.

(5) Redeemed January 1, 1996.

Dividend Limitations: After dividends on all outstanding preferred stock have been paid, or declared, and funds set apart for their payment, the common stock is entitled to cash dividends as may be declared by the board of directors out of retained earnings accumulated since December 31, 1946. Common stock dividends are limited if common stock equity (48% at December 31, 1995) [illegible] below 25% of total capitalization, as defined in the company's Certificate of Incorporation. Dividends on common stock cannot be paid unless sinking fund requirements of the preferred stock are met. The company has not been restricted in the payment of dividends on common stock by these provisions. Retained earnings accumulated since December 31, 1946, were approximately $424 million and $347 million as of December 31, 1995 and 1994, respectively.

5 Bank Loans and Other Borrowings

The company has a revolving credit agreement with certain banks that provides for borrowing up to $200 million to July 31, 1997. At the option of the company, the interest rate on borrowings is related to the prime rate, the London Interbank Offered Rate (LIBOR) or the interest rate applicable to certain certificates of deposit. The agreement also provides for the payment of a commitment fee that can fluctuate from .10% to .25% depending upon the ratings of the company's first mortgage bonds. The commitment fee was .125% at December 31, 1995 and .1875% at December 31, 1994 and 1993.

The revolving credit agreement does not require compensating balances. The company did not have any outstanding loans under the revolving credit agreement at December 31, 1995 or 1994.

The company uses short-term unsecured notes, usually commercial paper, to finance certain refundings and for other corporate purposes. The weighted average interest rates on commercial paper balances at December 31, 1995, 1994 and 1993 were 6.1%, 5.8% and 3.5%, respectively.

NYSEG and Buffalo Paperboard have worked together to increase energy efficiency, recycling and employment in New York.

David Sholk, controller, Buffalo Paperboard Corp.

Notes

6 Restructuring

In the fourth quarter of 1993 the company recorded a $26 million charge for a corporate restructuring that reorganized the way the company delivers services to its electric and natural gas customers beginning in March 1994. As part of the restructuring, 384 employees accepted a voluntary early retirement program and another 258 employees were involuntarily severed for a total workforce reduction of 642. The $26 million restructuring charge, which included $20 million for the early retirement program, reduced 1993 earnings available for common stock by approximately $17 million or 25 cents per share.

7 Retirement Benefits

Pensions The company has a noncontributory retirement annuity plan that covers substantially all employees. Benefits are based principally on the employee's length of service and compensation for the five highest paid consecutive years during the last 10 years of service. It is the company's policy to fund pension costs accrued each year to the extent deductible for federal income tax purposes.

Effective January 1, 1993, the retirement benefit plans for hourly and salaried employees were combined into one plan. Combining the two plans did not affect benefit levels.

Net pension benefit included the following components:

Year ended December 31	1995	1994	1993
(Thousands)			
Service cost: Benefits earned during the year	$16,391	$17,637	$[illegible]
Interest cost on projected benefit obligation	45,400	43,328	4[illegible]
Actual return on plan assets	(185,816)	(17,409)	(77,129)
Net amortization and deferral	111,209	(48,824)	12,989
Net pension (benefit)	$(12,816)	$(5,268)	$(5,742)

The funded status of the plan was:

December 31	1995	1994
(Thousands)		
Actuarial present value of accumulated benefit obligation:		
Vested	$450,857	$410,732
Nonvested	53,837	38,176
Total	$504,694	$448,908
Fair value of plan assets	$(888,190)	$(733,661)
Actuarial present value of projected benefit obligation (PBO)	661,138	597,398
Plan assets in excess of PBO	(227,052)	(136,263)
Unrecognized net transition asset	59,136	66,374
Unrecognized net gain	178,927	92,851
Unrecognized prior service cost	(9,931)	(9,066)
Net pension liability	$1,080	$13,89[illegible]
Assumptions used to determine actuarial valuations:		
Discount rate used to determine PBO	7.0%	[illegible]
Rate of compensation increase used to determine PBO	4.75%	5.5%
Long-term rate of return on plan assets for net pension benefit	8.0%	8.0%

Notes

People

Be a workforce that wins in a competitive energy market

- Enhance the relationship with all employees to maximize mutual benefits and opportunities
- Develop the human resources systems necessary to create "competitive advantage" within NYSEG's culture

Plan assets primarily consist of domestic and international equity securities; U.S. agency, corporate and Treasury bonds; and cash equivalents.

Postretirement benefits other than pensions The company has postretirement benefit plans, such as a comprehensive health insurance plan and a prescription drug plan, that provide certain benefits for retired employees and their dependents. Substantially all of the company's employees who retire under the company's pension plan may become eligible for those benefits at retirement. The postretirement benefit plans were unfunded as of December 31, 1995 and 1994.

In January 1993 the company adopted Statement of Financial Accounting Standards No. 106 (Statement 106), Employers' Accounting for Postretirement Benefits Other Than Pensions, which requires the company to accrue a liability for estimated future postretirement benefits during an employee's working career rather than recognize an expense when benefits are paid. At the time of adoption, the actuarially determined accumulated postretirement benefit obligation (APBO) was $207 million. The company elected to recognize the APBO over 20 years.

In September 1993 the PSC issued a Statement of Policy concerning the accounting and ratemaking treatment for pensions and postretirement benefits other than pensions (PSC Policy). The PSC Policy was effective January 1993, adopted Statement 106 for accounting and ratemaking purpos- nd complies with generally accepted accounting principles.

net periodic postretirement benefits cost other than pensions recognized on the income statements for 1995, 1994 and 1993 (below) represent the portion of Statement 106 costs that the company has been allowed to collect from its customers. The company has deferred $21 million and $10 million of Statement 106 costs as of December 31, 1995 and 1994, respectively. The company expects to recover any deferred Statement 106 amounts by the year 2000.

Net postretirement benefits cost other than pensions included the following components:

Year ended December 31	1995	1994	1993
(Thousands)			
Service cost: Benefits accumulated during the year	$5,412	$7,050	$6,888
Interest cost on accumulated postretirement benefit obligation	15,228	15,903	16,304
Amortization of transition obligation over 20 years	10,330	10,330	10,330
Amortization of (gain) loss	(4,575)	2	–
Deferral for future recovery	(7,742)	(18,757)	(22,095)
Net periodic postretirement benefits cost	$18,653	$14,528	$11,427

The status of the plans for postretirement benefits other than pensions, as reflected in the company's consolidated balance sheets, was as follows:

mber 31	1995	1994
nds)		
Accumulated postretirement benefit obligation (APBO):		
Retired employees	$114,383	$112,311
Fully eligible active plan participants	15,214	7,774
Other active plan employees	106,689	92,464
Total APBO	236,286	212,549
Less unrecognized transition obligation	175,608	185,937
Less unrecognized net gain	(15,005)	(28,382)
Accrued postretirement liability	$75,683	$54,994

A 10% annual rate of increase in the per capita costs of covered health care benefits was assumed for 1996, gradually decreasing to 5% by the year 2003. Increasing the assumed health care cost trend rates by 1% in each year would increase the APBO as of January 1, 1996, by $39 million and increase the aggregate of the service cost and interest cost components of the net postretirement benefits cost for 1995 by $4 million. Discount rates of 7% and 7.75% were used to determine the APBO in 1995 and 1994, respectively.

8 Jointly-Owned Generating Stations

Nine Mile Point Unit 2 The company has an undivided 18% interest in the output and costs of the Nine Mile Point nuclear generating unit No. 2 (NMP2), which is operated by Niagara Mohawk Power Corporation (Niagara Mohawk). Ownership of NMP2 is shared with Niagara Mohawk 41%, Island Lighting Company 18%, Rochester Gas and Electric Corporation 14% and Central

Productivity

Reduce the cost of doing business

- Maximize productivity through benchmarking and continuous process improvement
- Aggressively control operating expenses

Hudson Gas & Electric Corporation 9%. The company's share of the rated capability is 206,000 kilowatts. The company's net utility plant investment, excluding nuclear fuel, was approximately $625 million and $638 million, at December 31, 1995 and 1994, respectively. The accumulated provision for depreciation was approximately $129 million and $120 million, at December 31, 1995 and 1994, respectively. The company's share of operating expenses is included in the c[illegible]idated statements of income.

Nuclear insurance Niagara Mohawk maintains public liability and property insurance for NMP2. The company reimburses Niagara Mohawk for its 18% share of those costs.

The public liability limit for a nuclear incident is approximately $8.3 billion. Should losses stemming from a nuclear incident exceed the commercially available public liability insurance, each licensee of a nuclear facility would be liable for up to $76 million per incident, payable at a rate not to exceed $10 million per year. The company's maximum liability for its 18% interest in NMP2 would be approximately $14 million per incident. The $76 million assessment is subject to periodic inflation indexing and a 5% surcharge should funds prove insufficient to pay claims associated with a nuclear incident. The Price-Anderson Act also requires indemnification for precautionary evacuations whether or not a nuclear incident actually occurs.

Niagara Mohawk has procured property insurance for NMP2 aggregating approximately $2.8 billion through the Nuclear Insurance Pools and the Nuclear Electric Insurance Limited (NEIL). In addition, the company has purchased NEIL insurance coverage for the extra expense incurred in purchasing replacement power during prolonged accidental outages. Under NEIL programs, should losses resulting from an incident at a member facility exceed the accumulated reserves of NEIL, each member, including the company, would be liable for its share of the deficiency. The company's maximum liability per incident under the property damage and replacement power coverages is approximately $3 million.

Notes

Visit NYSEG on the Internet:

http://www.nyseg.com

Nuclear plant decommissioning costs In December 1995 Niagara Mohawk advised the co[illegible]ny that a new decommissioning study for NMP2 (study) had been completed. The study's esti[illegible] of the cost to decommission NMP2 is significantly higher than previous estimates, primarily due to the inclusion of additional categories of costs such as fuel dry storage and property taxes. Based on the results of the study, the company's 18% share of the cost to decommission NMP2 is $145 million in 1996 dollars ($422 million in 2026 when NMP2's operating license will expire). The estimated annual contribution needed to cover the company's share of costs as outlined in the study is approximately $4 million.

The company's estimated liability for decommissioning NMP2 using the Nuclear Regulatory Commission's (NRC) minimum funding requirement is approximately $78 million in 1996 dollars. The company's electric rates currently include an annual allowance for decommissioning of $2 million which approximates the NRC's minimum funding requirement. Decommissioning costs are charged to depreciation and amortization expense and are recovered over the expected life of the plant. The company expects to use the new study in the future as a basis for increasing the amount recoverable in rates for decommissioning and believes that any increase in decommissioning costs will ultimately be recovered in rates.

The company has established a Qualified Fund under applicable provisions of the federal tax law and to comply with NRC funding regulations. The balance in the fund, including reinvested earnings, was approximately $9 million and $7 million at December 31, 1995 and 1994, respectively. Those amounts are included on the consolidated balance sheets in other property and investments, net. The related liability for decommissioning is included in other liabilities – other. At December 31, 1995, the external trust fund investments were classified as available-for-sale, and their carrying value approximated fair value.

In 1996 the Financial Accounting Standards Board is expected to issue an exposure draft, Accounting for Liabilities Related to Closure and Removal of Long-Lived Assets. The exposure draft is expected to require companies to fully recognize the estimated decommissioning costs based on discounted cash flows of future liabilities. Using the new study, the estimated liability the company would have to recognize on its balance sheet to comply with the expected exposure draft guidelines is approximately $70 million.

Homer City The company has an undivided 50% interest in the output and costs of the Homer City Generating Station, which is comprised of three generating units. The station is owned with Pennsylvania Electric Company, which operates the facility. The company's share of the rated capability is 944,000 kilowatts and its net utility plant investment was approximately $276 million and $265 million at December 31, 1995 and 1994, respectively. The accumulated provision for depreciation was approximately $168 million and $153 million, at December 31, 1995 and 1994, respectively. The company's share of operating expenses is included in the consolidated statements of income.

9 Commitments

Capital expenditures The company has substantial commitments in connection with its capital expenditure program and estimates that expenditures for 1996, 1997 and 1998 will approximate $215 million, $200 million and $168 million, respectively. The program is subject to periodic review and revision. Actual capital expenditures may change to reflect the imposition of additional regulatory requirements and the company's continued focus on minimizing capital expenditures. Capital expenditures will be primarily for extension of service, necessary improvements at existing facilities, the natural gas storage project, compliance with the Clean Air Act Amendments of 1990 (1990 Amendments) and other environmental requirements.

The 1990 Amendments will result in expenditures of approximately $187 million, on a present value basis, over a 25-year period, for all capital and operating and maintenance expenses related to the reduction of sulfur dioxide and nitrogen oxides at several of the company's coal-fired generating stations, of which $115 million had been incurred as of December 31, 1995. The cost to comply with the 1990 Amendments could be significantly higher as a result of proposed U.S. Environmental Protection Agency (EPA) regulations regarding nitrogen oxide emissions. In addition, as a result of solid waste disposal legislation and regulations in Pennsylvania, the company will incur approximately $24 million, on a present value basis, of additional costs over the next 30 years at the Homer City Generating Station. The majority of those costs will be incurred to install synthetic lining at the present ash disposal area.

EnerSoft, a software development subsidiary of NGE Enterprises, Inc., joined with the New York Mercantile Exchange, to launch Channel 4™, a computer network for trading natural gas supply and pipeline capacity.

Non-utility generator power purchase contracts During 1995, 1994 and 1993 the company expensed approximately $284 million, $214 million and $138 million, respectively, for NUG power, including termination costs. The company estimates that NUG power purchases, excluding termination costs, will total $324 million in 1996, $333 million in 1997 and $345 million in 1998.

10 Environmental Liability

The company has been notified by the EPA and the New York State Department of Environmental Conservation (NYSDEC), as appropriate, that it is among the potentially responsible parties (PRPs) who may be liable to pay for costs incurred to remediate certain hazardous substances at nine waste sites, not including the company's inactive gas manufacturing sites, which are discussed below. With respect to the nine sites, seven sites are included in the New York State Registry of Inactive Hazardous Waste Sites (New York State Registry) and two of the sites are also included on the National Priorities list.

Any liability may be joint and several for certain of those sites. The company has recorded a liability of $1 million related to six of the nine sites, which is reflected in the company's consolidated balance sheets at December 31, 1995. However, the company has notified the EPA and the NYSDEC, as appropriate, that it has no responsibility at two of the six sites. The ultimate cost to remediate the sites may be significantly more than the estimated amount and will be dependent on such factors as the remedial action plan selected, the extent of site contamination and the portion attributed to the company. For two of the three remaining sites, the company believes it has no responsibility and has notified the EPA and the NYSDEC, as appropriate. The company has already incurred expenditures related to the remediation at the one remaining site.

A regulatory asset of $2 million has also been recorded, of which $1 million relates to costs that have already been incurred. Since the PSC has allowed the company to recover in rates remediation costs for certain of the sites, there is a reasonable basis to conclude that the company will be permitted to recover in rates any remediation costs that it may incur for the nine sites.

The estimated liability of $1 million was derived by multiplying the total estimated cost to clean up a particular site by the related company contribution factor. The estimated liability is not discounted and does not include any unasserted claims. Estimates of the total cleanup costs were determined by using information related to a particular site, such as investigations performed to date at a site, or from the data released by a regulatory agency. In addition, the estimate was based on currently available facts, existing technology and presently enacted laws and regulations. The contribution factor is calculated using either the company's percentage share of the total PRPs named, which assumes all PRPs will contribute equally, or the company's estimated percentage share of the total hazardous wastes disposed of at a particular site, or by using a 1% contribution factor for those sites at which it believes that it has contributed a minimal amount of hazardous wastes. The company has notified its former and current insurance carriers that it seeks to recover from them certain of the cleanup costs. However, the company is unable to predict the amount of insurance recoveries, if any, that it may obtain.

Notes

NYSEG converted four Cornell University cargo vans to run on compressed gas. "We think we can lower our maintenance costs on certain vehicles while simultaneously helping the environment with a cleaner-burning fuel," said Harold D. Craft, Jr., Cornell's vice president for facilities and campus services.

The company has liability at eight inactive gas manufacturing sites listed in the New York State Registry. In March 1994 the company entered into an Order on Consent with the NYSDEC requiring the company to investigate and, where necessary, remediate 33 of the company's 38 known inactive gas manufacturing sites. The company has a program to investigate and perform necessary remediation at its known inactive gas manufacturing sites. Expenditures through the year 2009 are estimated at $31 million, including the impact of the Order on Consent. That estimate was determined by using the company's experience and knowledge related to the sites as a result of the investigation and remediation that the company has performed to date. It could change materially based on facts and circumstances derived from site investigations, changes in required remedial action, changes in technology relating to remedial alternatives and changes in presently enacted laws and regulations. The liability to investigate and perform remediation, as necessary, at the known inactive gas manufacturing sites, is reflected in the company's consolidated balance sheets at December 31, 1995 and 1994 in the amounts of $31 million and $33 million, respectively. The company also has recorded a corresponding regulatory asset, since it expects to recover such expenditures in rates, as the company has previously been allowed by the PSC to recover such costs in rates. The company has notified its former and current insurance carriers that it seeks to recover from them certain of the cleanup costs. However, the company is unable to predict the amount of insurance recoveries, if any, that it may obtain.

11 Diversified Operations

In April 1992 the PSC issued an order allowing the company to invest up to 5% of its consolidated capitalization (approximately $175 million at December 31, 1995) in one or more subsidiaries that may engage or invest in energy-related or environmental-services businesses and provide related services.

The company has been making investments in unregulated companies through its wholly owned subsidiary, NGE Enterprises, Inc. (NGE). NGE owns two unregulated businesses – EnerSoft Corporation and XENERGY, Inc.

As of December 31, 1995 and 1994, the company had invested approximately $54 million and $47 million, respectively, in NGE to finance its diversified investments. The majority of the investment is included in other property and investments, net on the consolidated balance sheets. NGE's total liabilities and capitalization at December 31, 1995 and 1994 was approximately $48 million and $52 million, respectively. For the years ended December 31, 1995, 1994 and 1993, NGE incurred net losses of $12 million, $6 million and $1 million, respectively, which are included in other income and deductions on the consolidated statements of income.

12 Fair Value of Financial Instruments

Certain of the company's financial instruments had carrying amounts and estimated fair values (based on the quoted market prices for the same or similar issues of the same remaining maturities) as follows:

December 31	1995	1995	1994	1994
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
(In thousands)				
Preferred stock subject to mandatory redemption requirements	$125,000	$130,085	$125,000	$127,875
First mortgage bonds	$954,151	$1,025,696	$1,044,083	$1,010,239
Pollution control notes	$613,000	$617,446	$576,000	$484,005

NYSEG and its subsidiary, NGE Enterprises, Inc., are exploring new business ventures overseas.

The carrying amount for the following items approximates estimated fair value because of the short maturity (within one year) of those instruments: cash and cash equivalents, commercial paper and interest accrued.

Special deposits include restricted funds that are set aside for preferred stock and long-term debt redemptions, and also include restricted funds that are used to finance a portion of the costs incurred in the construction of certain solid waste disposal and other related facilities. The carrying amount approximates fair value because the special deposits have been invested in securities with a short-term maturity (within one year).

13 Industry Segment Information

Certain information pertaining to the electric and natural gas operations of the company follows:

(Thousands)	1995 Electric	1995 Natural Gas	1994 Electric	1994 Natural Gas	1993 Electric	19[illegible] Nat[illegible] Gas
Operating Revenues	$1,708,297	$301,244	$1,600,075	$298,780	$1,527,362	$272,787
Income before income taxes	$421,328	$50,816	$397,747	$40,828	$364,406	$30,394
Depreciation and amortization	$172,831	$11,939	$167,484	$10,842	$155,231	$9,337
Capital expenditures	$113,539	$45,142	$183,910	$40,396	$208,576	$36,453
Identifiable assets*	$4,525,541	$493,537	$4,631,511	$486,075	$4,627,905	$458,596

*Assets used in electric, natural gas and unregulated operations not included above were $95,253, $113,099 and $201,457 at December 31, 1995, 1994, and 1993, respectively. They consist primarily of cash and cash equivalents, special deposits, prepayments and subsidiaries' assets.

14 Quarterly Financial Information (Unaudited)

XENERGY, an NGE Enterprises, Inc. subsidiary, is positioning itself to become a one-stop energy services provider in a deregulated marketplace.

Quarter ended (Thousands, except per share amounts)	March 31	June 30	Sept. 30	Dec. 31
	1995	1995	1995	1995
Operating revenues	$571,910	$439,916	$464,694	$533,021
Operating income	$110,756	$60,893	$76,600	$89,114
Net income	$75,584	$24,630	$43,503	$52,973
Earnings available for common stock	$70,825	$19,914	$38,878	$48,35[illegible]
Earnings per share	$.99	$.28	$.54	$.[illegible]
Dividends per share	$.35	$.35	$.35	$.35
Average shares outstanding	71,503	71,503	71,503	71,503
Common stock price*				
High	$21.75	$24.00	$26.75	$26.38
Low	$19.00	$21.25	$22.50	$24.75
	1994	1994	1994	1994
Operating revenues	$565,167	$388,639 (1)	$432,451	$512,598
Operating income	$119,990	$47,784	$63,351	$91,559
Net income	$84,693	$12,395 (1)	$30,953	$59,604
Earnings available for common stock	$79,834	$7,745	$26,251	$54,868
Earnings per share	$1.13	$.11 (1)	$.37	$.77
Dividends per share	$.55	$.55	$.55	$.35
Average shares outstanding	70,801	71,214	71,490	71,503
Common stock price*				
High	$30.50	$27.88	$25.88	$19.75
Low	$26.50	$23.25	$18.38	$17.75

(1) Second quarter 1994 results include the company's change in estimate for the 1993 production cost penalty of $13 million or 12 cents per share.

* The company's common stock is listed on the New York Stock Exchange. The number of shareholders of record at December 31, 1995, was 50,576.

Report of Management

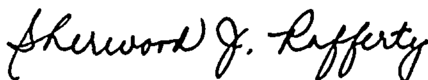
The company's management is responsible for the preparation, integrity and reliability of the consolidated financial statements, notes and other information in this Annual Report. The consolidated financial statements have been prepared in accordance with generally accepted accounting principles and include estimates that are based upon management's judgment and the best available information. Other financial information contained in this report was prepared on a basis consistent with that of the consolidated financial statements.

The company maintains a system of internal controls designed to provide reasonable assurance to the company's management and board of directors regarding the preparation of reliable published financial statements and the safeguarding of assets against loss or unauthorized use. The system contains self-monitoring mechanisms and actions are taken to correct deficiencies as they are identified. Even an effective internal control system, no matter how well designed, has inherent limitations – including the possibility of the circumvention or overriding of controls – and therefore can provide only reasonable assurance with respect to financial statement preparation and the safeguarding of assets. Further, because of changes in conditions, internal control system effectiveness may vary over time.

The company maintains an internal audit department that independently assesses the effectiveness of the internal controls. In addition, the company's independent accountants, Coopers & Lybrand L.L.P., have considered the company's internal control structure to the extent they considered necessary in expressing an opinion on the consolidated financial statements. Management is responsive to the recommendations of its internal audit department and Coopers & Lybrand L.L.P. concerning internal controls and corrective measures are taken when considered appropriate. The board of directors oversees the company's financial reporting through its audit committee. The committee, which is comprised entirely of outside directors, meets regularly with management, the internal auditor and Coopers & Lybrand L.L.P. to discuss auditing, internal control and financial reporting matters. Both the internal auditor and independent accountants have direct access to the audit committee, independent of management.

The company assessed its internal control system as of December 31, 1995, in relation to criteria for effective internal control over financial reporting and the safeguarding of assets described in "Internal Control - Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, the company believes that, as of December 31, 1995, its system of internal control over financial reporting and over the safeguarding of assets against loss or unauthorized use met those criteria.

James A. Carrigg
Chairman, President and Chief Executive Officer



Sherwood J. Rafferty
Senior Vice President and Chief Financial Officer

Gary J. Turton
President and Controller (Chief Accounting Officer)

Technology
Identify and deploy beneficial new technologies

■ Implement an Information Technology (IT) plan to support:

- The information needs of the business
- Improved customer service
- Improved billing options
- Enhanced service options to meet specific customer needs

Report of Independent Accountants

Coopers & Lybrand | Coopers & Lybrand L.L.P. | a professional services firm

To the Stockholders and Board of Directors,
New York State Electric & Gas Corporation and Subsidiaries
Ithaca, New York

We have audited the accompanying consolidated balance sheets of New York State Electric & Gas Corporation and Subsidiaries as of December 31, 1995 and 1994, and the related consolidated statements of income, changes in common stock equity and cash flows for each of the three years in the period ended December 31, 1995. 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 in accordance with generally accepted auditing standards. Those standards 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. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of New York State Electric & Gas Corporation and Subsidiaries at December 31, 1995 and 1994, and the consolidated 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.

As discussed in Note 7 to the consolidated financial statements, the company and subsidiaries changed its method of accounting for postretirement benefits other than pensions in 1993.

Coopers & Lybrand L.L.P.

New York, New York
January 26, 1996

Service

Ensure high quality customer service, reliability, and safety

- Continue cost-effective improvements in the current performance standards of customer service, reliability and safety
- Implement customer-driven service programs

Allowance for funds used during construction (AFDC): the cost of money used to finance a [illegible] which is added to construction costs and recovered over the life of the asset.

Allowed return on common equity: the cost of common equity as determined by the PSC.

Book value per share: common stock equity divided by the number of common shares outstanding at the end of the period.

Btu (British thermal unit): the quantity of heat required to raise the temperature of one pound of water by one degree fahrenheit at sea level.

Common equity: the value of common stockholders' investment in a company along with retained earnings.

Dekatherm: a measure of heating value equal to one million Btu. 1,000 cubic feet of natural gas (one mcf) equals approximately one dekatherm.

Demand-side management (DSM): the planning and implementation of programs designed to help electric customers conserve energy.

Earnings available for common stock: earnings after recognizing all expenses and preferred dividends.

Earnings per share: earnings available for common stock for a given period divided by the average number of shares outstanding for the period.

Embedded cost of long-term debt: the average interest rate on long-term debt outstanding.

Load factor: the average load of an electric or natural gas distribution system compared to its maximum load capability for a certain period of time, expressed as a percentage.

Market-to-book ratio: an indication of the market's perception of a stock's value. A ratio of over 100 indicates that the market believes the stock is worth more than its book value.

Net income: earnings after all expenses are recognized but before preferred dividends are recognized.

Non-utility generator (NUG): a non-traditional power generator that is also known as an independent power producer.

Price/earnings (P/E) ratio: a measurement of the market's perception of a company's growth potential. The higher the P/E ratio, the more potential the market believes there is for growth.

Retained earnings: the portion of earnings that has been reinvested in the business and not paid out as dividends.

Return on common equity: the rate of return actually earned on common equity calculated by dividing earnings available for common stock by average common equity (may not be the same as allowed return on equity).

Stranded costs: costs that utilities may be unable to recover as the industry enters a less-regulated, competitive environment.

Transition costs: stranded costs plus incremental costs incurred as a utility enters a less-regulated, competitive environment.

Transportation gas: natural gas purchased directly from a supplier by an end user and transported, for a fee, by a local distribution company, such as the company.

Unbilled revenues: the estimated revenues attributable to energy that has been delivered to the company's customers but for which the metered amount has not yet been billed to the customers.

Watt: one ampere of electric current under one volt of pressure (one kilowatt is 1,000 watts; one kilowatt-hour is one kilowatt used for one hour, and one megawatt is 1,000 kilowatts or one million watts).

Acronyms:

AFDC - Allowance for Funds used During Construction

APBO - Accumulated Postretirement Benefit Obligation

CSBU - Customer Service Business Unit

DSM - Demand-side Management

EPA - U.S. Environmental Protection Agency

FERC - Federal Energy Regulatory Commission

ISO - Independent System Operator

NEIL - Nuclear Electric Insurance Limited

NOPR - Notice of Proposed Rulemaking

NRC - Nuclear Regulatory Commission

NUG - Non-utility Generator

NYSDEC - New York State Department of Environmental Conservation

PRP - Potentially Responsible Party

PSC - Public Service Commission of the State of New York

RDM - Revenue Decoupling Mechanism

Selected Financial Data and Operating Statistics

(Thousands, except per share amounts)	1995	1994	1993	1992	1991	1990	1985
Operating Revenues							
Electric	$1,708,297	$1,600,075	$1,527,362	$1,451,525	$1,367,936	$1,334,509	$1,051,579
Natural gas	301,244	298,780	272,787	240,164	187,879	162,271	190,201
Total Operating Revenues	2,009,541	1,898,855	1,800,149	1,691,689	1,555,815	1,496,780	1,241,780
Operating Expenses							
Fuel used in electric generation	229,759	231,648	245,283	262,531	274,877	274,245	280,397
Electricity purchased	318,440	242,352	161,967	95,026	45,808	34,613	35,984
Natural gas purchased	149,789	161,627	141,635	126,815	99,528	88,589	129,809
Other operating expenses	326,922	328,961	349,177	318,680	279,364	268,829	167,923
Restructuring expenses	–	–	26,000	–	–	–	–
Maintenance	116,807	106,637	111,757	102,500	110,131	106,665	81,591
Depreciation and amortization	184,770	178,326	164,568	158,977	152,380	147,659	98,085
Federal income taxes	134,781	115,891	94,144	102,456	94,447	89,577	96,651
Other taxes	210,910	210,729	204,962	200,941	178,185	158,770	113,587
Total Operating Expenses	1,672,178	1,576,171	1,499,493	1,367,926	1,234,720	1,168,947	1,004,027
Operating Income	337,363	322,684	300,656	323,763	321,095	327,833	237,753
Other Income and Deductions	(11,106)	1,053	6,471	12,036	6,076	(1,508)	136,339
Income Before Interest Charges	326,257	323,737	307,127	335,799	327,171	326,325	374,092
Interest Charges							
Interest on long-term debt	115,687	126,083	134,330	145,822	151,649	158,209	178,985
Other interest	15,232	13,642	11,120	9,566	11,877	15,181	12,263
Allowance for borrowed funds used during construction	(1,352)	(3,633)	(4,351)	(3,557)	(4,998)	(5,078)	(25,589)
Interest Charges, Net	129,567	136,092	141,099	151,831	158,528	168,312	165,659
Net Income	196,690	187,645 (1)	166,028 (2)	183,968	168,643	158,013	2[illegible]
Preferred Stock Dividends	18,721	18,947	20,638	20,995	20,330	12,662	[illegible]
Earnings Available for Common Stock	177,969	168,698 (1)	145,390 (2)	162,973	148,313	145,351	183,207
Common Stock Dividends	100,104	142,265	152,316	144,621	131,875	121,302	132,018
Retained Earnings Increase (Decrease)	$77,865	$26,433	$(6,926)	$18,352	$16,438	$24,049	$51,189
Average Number of Shares of Common Stock Outstanding	71,503	71,254	69,990	67,972	62,906	58,678	53,013
Earnings Per Share	$2.49	$2.37 (1)	$2.08 (2)	$2.40	$2.36	$2.48	$3.46
Dividends Paid Per Share	$1.40	$2.00	$2.18	$2.14	$2.10	$2.06	$2.50
Book Value Per Share of Common Stock (Year End)	$24.38	$23.28	$22.89	$22.85	$22.16	$21.85	$24.65
AFDC and Non-cash Return	$4,821	$7,974	$8,003	$6,482	$7,541	$5,776	$122,719
Capital Expenditures	$158,681	$224,306	$245,029	$245,618	$245,883	$210,725	$332,001
Total Assets	$5,114,331	$5,230,685	$5,287,958	$5,077,916	$4,924,836	$4,737,431	$3,976,619
Long-term Obligations, Capital Leases and Redeemable Preferred Stock	$1,606,448	$1,776,081	$1,755,629	$1,883,927	$1,897,465	$1,766,457	$1,836,076

(1) Reflects the effect of the 1993 production-cost penalty that decreased net income and earnings available for common stock by $8 million and decreased earnings per share by 12 cents.
(2) Reflects the effect of restructuring expenses that decreased net income and earnings available for common stock by $17 million and decreased earnings per share by 25 cents.

Financial Statistics

	1995	1994	1993	1992	1991	1990	1985
ial Statistics							
rn on average common stock equity – percent	**10.4**	10.3	10.1 (1)	10.6	10.7	11.4	14.3
Percentage of AFDC and non-cash return to total earnings	**2.7**	4.7	5.5	4.0	5.1	4.0	67.0
Mortgage bond interest – times earned	**4.0**	3.5	3.0	3.1	3.0	2.9	2.9
Interest charges and preferred dividends – times earned	**2.2**	2.1	1.9	1.9	1.8	1.8	1.8
Market value per share of common stock (year end)	**$25.88**	$19.00	$30.75	$32.50	$29.00	$26.00	$28.63
Dividend payout ratio (percent)	**56.2**	84.4	104.8	89.2	89.0	83.1	72.3
Price earnings ratio (year end)	**10.4**	8.0	14.8	13.5	12.3	10.5	8.3
Property, Plant and Equipment (includes construction work in progress) (Thousands)							
Electric	**$5,125,336**	$5,027,137	$4,887,125	$4,694,073	$4,537,356	$4,367,913	$3,828,220
Natural gas	**472,056**	431,202	393,945	361,630	336,199	222,125	154,675
Common	**157,823**	171,639	180,532	205,345	189,135	175,703	72,494
Total	**$5,755,215**	$5,629,978	$5,461,602	$5,261,048	$5,062,690	$4,765,741	$4,055,389
Accumulated Depreciation	**$1,791,625**	$1,642,653	$1,541,456	$1,427,793	$1,309,829	$1,174,651	$687,472
Capitalization (includes current maturities) (Thousands)							
Long-term debt	**$1,618,451**	$1,687,312	$1,868,338	$1,891,036	$1,825,918	$1,815,686	$1,803,469
ferred stock	**265,500**	265,500	360,500	269,050	270,700	172,350	252,620
mon stock equity	**1,743,540**	1,664,857	1,615,697	1,586,474	1,405,147	1,364,344	1,331,231
Total Capitalization	**$3,627,491**	$3,617,669	$3,844,535	$3,746,560	$3,501,765	$3,352,380	$3,387,320
Capitalization Ratios (percent)							
Long-term debt	**44.6**	46.7	48.6	50.5	52.2	54.2	53.2
Preferred stock	**7.3**	7.3	9.4	7.2	7.7	5.1	7.5
Common stock equity	**48.1**	46.0	42.0	42.3	40.1	40.7	39.3
Number of Shareholders of Record							
Common stock	**50,576**	56,279	58,990	61,183	59,593	60,585	79,013
Preferred stock	**1,297**	1,329	3,632	3,829	3,943	4,068	6,364
Payroll (including pensions, etc.) (Thousands)							
Charged to operations	**$213,846**	$194,769	$197,023 (2)	$181,245	$163,421	$148,007	$118,711
Charged to construction and other accounts	**63,084**	69,048	85,929	89,463	82,455	72,761	57,075
Total	**$276,930**	$263,817	$282,952	$270,708	$245,876	$220,768	$175,786
Number of employees (year end)	**4,117**	4,192	4,746	4,888	4,842	4,599	4,360

(1) The return on equity for 1993 excludes restructuring expenses.
(2) Payroll charged to operations for 1993 excludes restructuring expenses.

Electric Sales Statistics

	1995	1994	1993	1992	1991	1990	1985
Kilowatt-Hour (kwh) Sales (Millions)							
Residential	5,286	5,399	5,423	5,472	5,297	5,319	[illegible]
Commercial	3,405	3,315	3,298	3,283	3,285	3,235	2,678
Industrial	3,010	2,997	2,950	3,082	3,068	3,175	2,811
Other	1,392	1,437	1,417	1,457	1,457	1,468	1,301
Total Retail	13,093	13,148	13,088	13,294	13,107	13,197	11,405
Other electric utilities	7,636	6,827	6,233	6,003	5,066	4,750	5,021
Total	20,729	19,975	19,321	19,297	18,173	17,947	16,426
Operating Revenues (Thousands)							
Residential	$725,299	$679,124	$635,155	$601,042	$553,056	$521,688	$401,345
Commercial	395,076	366,854	333,674	314,272	293,197	267,598	201,654
Industrial	247,576	245,218	228,215	225,832	207,933	196,016	160,089
Other	158,568	153,888	138,320	133,819	124,575	116,352	93,180
Total Retail	1,526,519	1,445,084	1,335,364	1,274,965	1,178,761	1,101,654	856,268
Other electric utilities	150,444	141,902	147,175	143,414	131,412	145,104	171,073
Unbilled revenue recognition, net	–	–	2,257	(427)	35,333	42,995	–
Other operating revenues	31,334	13,089	42,566	33,573	22,430	44,756	24,238
Total Operating Revenues	$1,708,297	$1,600,075	$1,527,362	$1,451,525	$1,367,936	$1,334,509	$1,051,579
Operating Revenues Per kwh (Cents)							
Residential	13.72	12.58	11.71	10.98	10.44	9.81	8.70
Commercial	11.60	11.07	10.12	9.57	8.93	8.27	7.53
Industrial	8.23	8.18	7.74	7.33	6.78	6.17	5.70
Other	11.39	10.71	9.76	9.18	8.55	7.93	7.16
Total retail	11.66	10.99	10.20	9.59	8.99	8.35	7.51
Other electric utilities	1.97	2.08	2.36	2.39	2.59	3.05	3.41
Number of Customers (Year End)							
Residential	714,547	710,112	703,503	699,387	692,922	685,898	[illegible]
Commercial	76,157	75,575	73,727	72,463	71,463	70,802	63,324
Industrial (1)	2,037	1,532	1,542	1,508	1,506	1,498	1,387
Other	11,325	11,366	11,091	11,073	10,907	10,825	10,391
Total	804,066	798,585	789,863	784,431	776,798	769,023	703,966
Electric Operation and Maintenance Expenses (Thousands)							
Production	$654,146	$581,898	$533,858	$470,235	$437,201	$426,590	$389,249
Transmission	34,167	34,777	32,734	31,623	30,462	30,118	23,450
Distribution	71,672	64,337	69,322	64,428	62,763	58,876	46,120
Customer accounting	37,477	40,283	35,559	31,180	28,861	26,861	18,255
Customer service	24,675	25,546	34,749	31,390	24,345	27,625	7,005
Administrative and general	110,677	106,015	124,462 (2)	94,349	75,812	81,815	55,868
Total	$932,814	$852,856	$830,684	$723,205	$659,444	$651,885	$539,947

(1) The change in 1995 is primarily due to a reclassification of certain commercial and industrial customers.
(2) Includes restructuring expenses of $21 million.

Electric Generation Statistics

	1995	1994	1993	1992	1991	1990	1985
System Capability (Megawatts)							
Coal	2,226	2,278	2,394	2,415	2,412	2,414	2,366
Nuclear	206	189	189	188	196	194	–
Hydro	61	69	67	70	70	68	64
Internal combustion	7	7	7	8	8	7	7
Total Generating Capability	2,500	2,543	2,657	2,681	2,686	2,683	2,437
Purchased – Power Authority	517	514	486	489	488	487	621
– NUG	595	594	362	347	110	–	–
– Other	–	–	–	–	–	53	–
Less: Firm sales	(118)	(367)	(311)	(8)	–	–	–
Total System Capability	3,494	3,284	3,194	3,509	3,284	3,223	3,058
System Capability (Percent)							
Coal	63	69	75	69	74	75	78
Nuclear	6	6	6	5	6	6	–
Hydro	2	2	2	2	2	2	2
Total Generating Capability	71	77	83	76	82	83	80
Purchased – Power Authority	15	16	15	14	15	15	20
– NUG	17	18	12	10	3	–	–
– Other	–	–	–	–	–	2	–
Less: Firm sales	(3)	(11)	(10)	–	–	–	–
Total System Capability	100	100	100	100	100	100	100
Production Statistics							
Annual load factor (percent)	69.9	70.2	66.7	67.0	68.9	69.4	64.4
Coal burned (thousands of net tons)	5,532	5,524	5,918	6,478	6,310	6,395	6,051
Coal heat value (Btu per lb.)	12,671	12,695	12,674	12,668	12,610	12,510	12,309
Btu per kwh generated (net)	9,870	9,897	9,997	9,902	9,898	9,936	10,093
Kilowatt-Hour (kwh) Production, Net (Millions)							
Generated:							
Coal	14,296	14,338	15,131	16,709	16,157	16,211	14,769
Nuclear	1,306	1,509	1,295	922	1,180	743	–
Hydro	240	321	309	301	258	356	242
Total Generated	15,842	16,168	16,735	17,932	17,595	17,310	15,011
Purchased – Power Authority	1,849	1,700	1,617	1,635	1,667	1,607	2,315
– NUG	4,413	3,601	2,472	1,260	473	124	20
– Other, net	155	14	78	(10)	(130)	223	471
Total	22,259	21,483	20,902	20,817	19,605	19,264	17,817
Production Expenses (Thousands)							
Generated	$335,706	$339,546	$371,891	$375,209	$391,393	$391,977	$353,265
Purchased – Power Authority	26,079	21,478	16,713	15,661	14,668	13,534	22,380
– NUG	283,913	214,010	137,791	71,260	30,028	7,700	1,090
– Other	8,448	6,864	7,463	8,105	1,112	13,379	12,514
Total	$654,146	$581,898	$533,858	$470,235	$437,201	$426,590	$389,249
Cost Per kwh (Mills)							
Generated	21.19	21.00	22.22	20.92	22.24	22.64	23.53
Purchased – Power Authority	14.10	12.63	10.34	9.58	8.80	8.42	9.67
– NUG	64.34	59.43	55.74	56.56	63.48	62.10	54.50
– Other	18.57	23.51	20.62	21.39	21.67	30.41	21.39
Operating expense (excluding production)	12.52	12.61	14.20	12.15	11.34	11.70	8.46
Total	41.91	39.70	39.74	34.74	33.64	33.84	30.31

Natural Gas Sales Statistics

	1995	1994	1993	1992	1991	1990	1985
Dekatherm (dth) Sales (Thousands) (1)							
Residential	**23,512**	24,662	25,080	24,913	18,115	14,809	[illegible]
Commercial	**10,540**	10,611	10,640	10,796	8,054	6,532	[illegible]
Industrial	**2,587**	2,180	1,820	1,689	1,788	2,023	7,790
Other	**2,463**	2,038	1,805	1,959	1,917	2,151	3,547
Total Retail	**39,102**	39,491	39,345	39,357	29,874	25,515	32,381
Transportation of customer-owned natural gas	**19,433**	19,133	18,701	17,009	12,530	8,157	1,926
Total	**58,535**	58,624	58,046	56,366	42,404	33,672	34,307
Operating Revenues (Thousands) (1)							
Residential	**$181,697**	$185,073	$170,734	$152,325	$111,106	$94,531	$88,677
Commercial	**75,178**	72,360	66,648	59,939	43,969	37,852	42,952
Industrial	**11,310**	11,542	9,602	8,092	8,640	10,267	37,734
Other	**14,584**	12,997	10,943	10,762	10,243	11,574	18,808
Total Retail	**282,769**	281,972	257,927	231,118	173,958	154,224	188,171
Transportation of customer-owned natural gas	**13,718**	12,791	12,091	11,639	9,571	7,169	921
Unbilled revenue recognition, net	**1,700**	3,768	2,686	(3,626)	3,770	853	–
Other natural gas revenue	**3,057**	249	83	1,033	580	25	1,109
Subtotal	**18,475**	16,808	14,860	9,046	13,921	8,047	2,030
Total Operating Revenues	**$301,244**	$298,780	$272,787	$240,164	$187,879	$162,271	$190,201
Operating Revenues per dth							
Residential	**$7.73**	$7.50	$6.81	$6.11	$6.13	$6.38	$6.50
Commercial	**7.13**	6.82	6.26	5.55	5.46	5.79	5.81
Industrial	**4.37**	5.29	5.28	4.79	4.83	5.08	4.84
Other	**5.92**	6.38	6.06	5.49	5.34	5.38	5.30
Total retail	**7.23**	7.14	6.56	5.87	5.82	6.04	5.81
Transportation	**0.71**	0.67	0.65	0.68	0.76	0.88	0.48
Number of Customers (Year End) (1)							
Residential with house heating	**192,390**	189,482	185,117	182,795	178,625	117,429	[illegible]
Residential without house heating	**13,834**	13,409	12,943	13,181	12,906	8,360	[illegible]
Commercial with space heating	**24,341**	24,130	23,327	23,165	23,023	16,843	16,074
Commercial without space heating	**1,747**	1,746	2,281	2,282	2,241	1,548	1,406
Industrial	**389**	383	394	390	386	334	413
Transportation of customer-owned natural gas	**535**	441	444	389	342	277	21
Other	**1,726**	1,709	1,693	1,657	1,557	1,246	1,158
Total	**234,962**	231,300	226,199	223,859	219,080	146,037	131,882
Natural Gas Operation and Maintenance Expenses (Thousands)							
Production	**$149,802**	$161,768	$142,229	$126,984	$101,458	$88,901	$130,269
Transmission and distribution	**22,659**	21,067	20,712	19,938	18,491	13,982	10,224
Customer accounting	**11,019**	11,848	10,959	9,233	8,046	5,765	3,977
Customer service	**4,630**	5,992	6,972	8,152	6,533	5,942	1,779
Administrative and general	**20,793**	17,694	24,263 (2)	18,040	15,735	6,464	9,508
Total	**$208,903**	$218,369	$205,135	$182,347	$150,263	$121,054	$155,757

(1) The increase in 1991 is primarily due to the acquisition of Columbia Gas of New York, Inc.
(2) Includes restructuring expenses of $5 million.

Board of Directors

James A. Carrigg, a director since [illegible] is Chairman, President and Chief [illegible]ive Officer of the corporation. He is a [illegible]ctor and former President of Empire State Electric Energy Research Corporation of New York City and Chairman of the Board of Trustees of Broome Community College in Binghamton, New York.

Alison P. Casarett, a director since 1979, is Dean Emeritus at Cornell University in Ithaca, New York. She is Emeritus Professor of Radiation Biology at the New York State College of Veterinary Medicine of Cornell University. She was Special Assistant to the President of Cornell University from 1993 to 1995. Prior to that time she was Dean of The Graduate School at Cornell University.

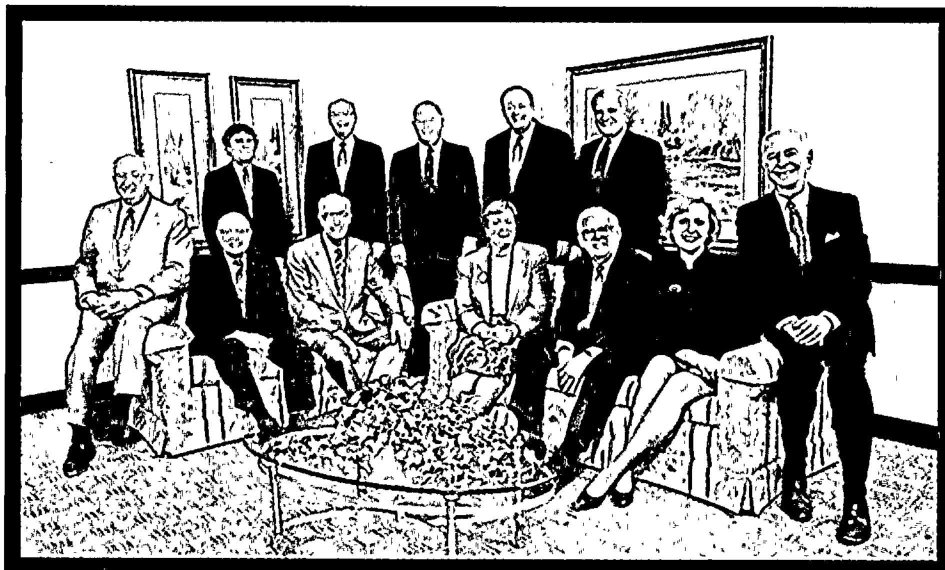
Joseph J. Castiglia, a director since November 1995, is former Vice Chairman, President and Chief Executive Officer of Pratt & Lambert United, Inc., a paint and specialty chemicals company in Buffalo, New York. He is Chairman of the Buffalo Branch of the Federal Reserve Bank of New York and Chairman of the Buffalo Alliance for Education, both in Buffalo, New York.

[illegible]. DeFleur, a director since [illegible]r 1995, is President of the State University of New York at Binghamton in Binghamton, New York. Before that she was Provost at the University of Missouri-Columbia. She is Chairperson of the National Association of State Universities and Land Grant Colleges in Washington, D.C.

Everett A. Gilmour, a director since 1980, is Chairman of the Board of The National Bank and Trust Company of Norwich and N.B.T. Bancorp, Inc., both in Norwich, New York.

Paul L. Gioia, a director since 1991, is a partner at LeBoeuf, Lamb, Greene & MacRae, attorneys at law in Albany, New York. He was a Senior Vice President of First Albany Corporation from 1987 to 1993 and was former Chairman of the Public Service Commission of the State of New York.

John M. Keeler, a director since 1989, is Managing Partner of Hinman, Howard & Kattell, attorneys at law in Binghamton, New York. He is former Chairman of The Harpur Forum of Binghamton University Fo[illegible]tion, and former President of [illegible] Broome County Bar Association a[illegible]ome County United Way in Binghamton, New York.



Back row standing: Paul L. Gioia, John M. Keeler, David R. Newcomb, Ben E. Lynch, Joseph J. Castiglia *Front row sitting:* Everett A. Gilmour, Allen E. Kintigh, Charles W. Stuart, Alison P. Casarett, Alton G. Marshall, Lois B. DeFleur, James A. Carrigg

Allen E. Kintigh, a director since 1987, is President of Royal Equipment, Inc. in Vestal, New York. He was President and Chief Operating Officer of the corporation from 1988 through 1990 and Executive Vice President from 1987 until 1988.

Ben E. Lynch, a director since 1987, is President of Winchester Optical Company and former Chairman of the Arnot-Ogden Medical Center, both in Elmira, New York. He is former President of Horseheads Board of Education in Horseheads, New York.

Alton G. Marshall, a director since 1971, is President of Alton G. Marshall Associates, Inc., a real estate investment company in New York, New York. He is also Governor of The Real Estate Board of New York, Inc. in New York, New York, and was Chairman and Chief Executive Officer of Lincoln Savings Bank, FSB, in Brooklyn, New York, from 1984 through 1990.

David R. Newcomb, a director since 1979, is former President and Chief Executive Officer of Buffalo Forge Company, a manufacturer of heating, ventilation and air conditioning equipment in Buffalo, New York.

Charles W. Stuart, a director since 1971, is Chairman and Chief Executive Officer of C.W. Stuart & Co., Inc, an interstate trucking concern in Newark, New York. He is former Chairman of the Board of C.H. Stuart, Inc., in Newark, New York.

Committees of the Board
Chairperson listed first

***Audit:** Lynch, Castiglia, Gioia, Keeler*

***Corporate Diversification:** Gioia, Carrigg, Castiglia, Gilmour, Lynch*

***Executive:** Carrigg, Gilmour, Kintigh, Marshall, Newcomb, Stuart*

***Executive Compensation and Succession:** Gilmour, Casarett, Lynch, Marshall, Newcomb*

***Nominating:** Marshall, Casarett, Gilmour, Newcomb*

***Pension:** Keeler, DeFleur, Kintigh, Stuart*

***Public Affairs:** Casarett, DeFleur, Gioia, Keeler, Kintigh*

Mr. Carrigg is an ex officio member of the pension and public affairs committees.

Officers

Ages and years of service as of January 1, 1996, in parentheses

James A. Carrigg (62, 37)
has been Chairman, President and Chief Executive Officer since 1991. He was Chairman and Chief Executive Officer from 1988.

Jack H. Roskoz (57, 33)
has been Executive Vice President since 1995. He was Senior Vice President - Electric Business Unit from 1990.

Michael I. German (45, 1)
has been Senior Vice President - Gas Business Unit since 1994. He was previously Senior Vice President of the American Gas Association in Arlington, Virginia.

Gerald E. Putman (45, 25)
has been Senior Vice President - Customer Service Business Unit since 1995. He was Vice President - Fuel Supply and Operations Services from 1993.

Sherwood J. Rafferty (48, 15)
has been Senior Vice President and Chief Financial Officer since February 1996. He was Vice President, Treasurer and Chief Financial Officer from 1990.

John J. Bodkin (50, 27)
has been Vice President - Support Services since 1994. He was Vice President - Electric Transmission and Distribution from 1991.

Thomas F. Dorazio (38, 13)
has been Vice President - Information Services since January 1996. He was Assistant to the Executive Vice President from 1994.

Daniel W. Farley (40, 14)
has been Vice President and Secretary since May 1991. He was Secretary from 1987.

Roy Hogben (56,38)
has been Assistant Controller since 1988. He is currently serving as Director - Australian Business Development in Brisbane, Australia.

Robert D. Kump (34, 9)
has been Treasurer since February 1996. He was Director - Financial Services from 1995.

William G. McCann (48, 26)
has been Vice President - Consumer Services since 1994. He was Vice President - East Region earlier in 1994.

Patricia A. Orzell (53, 34)
has been Assistant Secretary since 1992. She was Executive Secretary to the Chairman, President and Chief Executive Officer from 1989.

Robert T. Pochily (46, 24)
has been Assistant Treasurer since 1983. He was Department Head - Treasury Operations from 1982.

Susan T. Schattschneider (42, 13)
has been Assistant Controller since 1994. She was Manager - Financial Accounting from 1990.

Jeffrey K. Smith (47, 25)
has been Vice President - Generation since 1995. He was Executive Assistant to the Chairman, President and Chief Executive Officer from 1994.

Irene M. Stillings (56, 19)
has been Vice President - Electric Marketing and Sales since 1991. She was Assistant Vice President - Consumer Services and Communications from 1989.

Ralph R. Tedesco (42, 17)
has been Vice President - Strategic Growth Business Unit since 1994. He was Executive Assistant to the Chairman, President and Chief Executive Officer from 1992.

Teresa M. Turner (45, 20)
has been Executive Assistant to the Chairman, President and Chief Executive Officer since 1995. She was Manager - Research & Development from 1991.

Gary J. Turton (48, 23)
has been Vice President and Controller (Chief Accounting Officer) since February 1996. He was Controller (Chief Accounting Officer) from 1994.

Dennis R. Urgento (48, 24)
has been Vice President - Customer Engineering and Delivery since 1994. He was Vice President - West Region earlier in 1994.

Denis E. Wickham (46, 23)
has been Vice President - Electric Resource Planning since January 1991. He was Assistant to Senior Vice President from 1987.

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Investor Information

Binghamton Executive Offices
Vestal Parkway East
P.O. Box 3607
Binghamton, NY 13902-3607
(607) 729-2551

Kirkwood Executive Offices
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P.O. Box 5224
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Ithaca Executive Offices
Ithaca-Dryden Road
P.O. Box 3287
Ithaca, NY 14852-3287
(607) 347-4131

General Counsel
Huber Lawrence & Abell
605 Third Avenue
New York, NY 10158

Independent Accountants
Coopers & Lybrand L.L.P.
1301 Avenue of the Americas
New York, NY 10019

Transfer Agent and Registrar
To present certificates for transfer (certified or registered mail is recommended) or for stock transfer instructions, write to:

Chemical Mellon Shareholder Services, L.L.C.
P.O. Box 590
Ridgefield Park, NJ 07660

Please contact NYSEG Shareholder Services with questions regarding:

- dividend payments or lost dividend checks
- direct deposit of dividends
- our dividend reinvestment and stock purchase plan
- replacement of lost certificates
- a change of address
- report requests
- our annual meeting of stockholders

Shareholder Services
Shareholder Services representatives are available between 8 a.m. and 4:30 p.m. (Eastern Time) on regular business days at 1-800-225-5643. Or you may write to:

New York State Electric & Gas Corporation
Attention: Shareholder Services
P.O. Box 3200
Ithaca, NY 14852-3200

The Shareholder Connection
1-800-225-5643
NYSEG investor information at your fingertips.

This service provides quick access to timely dividend and news release information 24 hours a day, seven days a week.

Internet Address
Internet: http://www.NYSEG.com

You may also obtain a free copy of Form 10-K, which is filed each year with the Securities and Exchange Commission, by contacting Shareholder Services at the telephone or address above.

Trading Symbol
The trading symbol for our common stock which is listed on the New York Stock Exchange is NGE.

Securities Listed on the New York Stock Exchange:

- Common Stock
- 3.75% Preferred Stock
- 7.40% Preferred Stock ($25 par value)
- Adjustable Rate Preferred Stock ($25 par value)
- 7 5/8% First Mortgage Bonds
- 8 5/8% First Mortgage Bonds

Annual Meeting
Friday, May 10, 1996, at 10:30 a.m.
Heritage Country Club and Conference Center
4301 Watson Boulevard
Johnson City, NY

Formal notices of the meeting, a proxy statement and form of proxy will be mailed to stockholders in early April.

New York State Electric & Gas Corporation is an equal opportunity employer.
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