NYSEG

1979 Annual Report

New Corporate Identification

Keeping up with the times, the Company has adopted a new shorthand identification for the convenience of busy customers and stockholders. The initials of the Company's name, NYSEG, have been adopted as the signature for routine business purposes. NYSEG has the benefit of being faster to say and write than is the official corporate name, which will remain unchanged. Beginning this year the Company will encourage use of the initials for all routine business purposes, from paying bills to signing of advertisements, documents and reports. The initials will also be used on Company vehicles and facilities.

Cover: *The Company's 3,000-kilowatt hydroelectric plant near the Ausable River's Rainbow Falls in the Adirondacks is one of eight such plants which operate unmanned 24 hours a day. The Company plans to increase its hydroelectric capacity by 24,000 kilowatts in the next few years at a cost of $40 million.*

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THE ANNUAL MEETING of stockholders will be held at the Corporation's General Office Building on Route 13 (Dryden Road) in the Town of Dryden, N.Y. on May 9, 1980 at 11 a.m. Formal notice of the meeting, a proxy statement and form of proxy will be sent to stockholders in early April.

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Highlights of the Year

	1979	1978	Increase	Percent
Gross operating revenues (thousands)	$ 588,211	$ 532,171	$ 56,040	11
Income before interest charges (thousands)	$ 138,169	$ 122,206	$ 15,963	13
Earnings available for common stock (thousands)	$ 73,272	$ 57,473	$ 15,799	27
Earnings per share of common stock	$2.83	$2.46	$.37	15
Allowance for funds used during construction per share of common stock	$.98	$.71	$.27	38
Dividends paid per share of common stock	$1.72	$1.68	$.04	2
Taxes per share of common stock	$3.12	$2.78	$.34	12
Electricity sales to ultimate customers (million kwh)	10,779	10,492	287	3
Gas sales (thousand dekatherms)	38,398	39,329	(931)	(2)
Cost of fuel for electric generation (thousands)	$ 142,141	$ 118,384	$ 23,757	20
Total utility plant (thousands)	$1,948,899	$1,789,549	$159,350	9
Expenditures for construction (thousands)	$ 145,928	$ 115,098	$ 30,830	27
Book value per share of common stock (average)	$21.17	$20.82	$.35	2

To the Stockholders:

C. F. Kennedy

W. P. Allen, Jr.

At first glance, 1979 earnings would indicate a particularly good year. However, it is important to recognize that, while the quantity of earnings increased, the quality did not. Allowance for Funds Used During Construction continues to be a large part of earnings. We were not successful in getting sufficient rate relief to reduce this non-cash accounting credit to earnings to more normal levels.

Operating income in 1979 was favorably affected by sales of energy to neighboring utilities under interchange agreements. Our coal-fired generating units had an unusually good year which enabled us to sell the available low-cost excess electricity.

Growth in electric unit sales was moderate and gas sales declined because of mild weather and conservation measures. Despite higher rates, we continue to add space heating customers. Almost 5,000 electric heating customers, a 10% increase in such customers, and 940 gas heating customers, about a 1% increase, were added during the year.

A proposed energy master plan for New York State is currently being reviewed by the State Energy Planning Board. The 15-year plan contemplates about a 3% a year growth in electricity consumption and about 1% a year growth for gas in the Company's service area. We believe these projections may be low, particularly if oil prices continue to rise.

But, more importantly, we object to the fact that the plan relies almost entirely on new coal-fired generating facilities and electricity imported from Quebec for future electricity supplies. We believe that nuclear power should play a larger part in the state's energy future and will continue to urge that new nuclear plants be built.

Our concern about the state's energy future also centers on the ability of investor-owned utilities to finance new plants, whether coal or nuclear. The estimated cost of the proposed Somerset generating plant is about $1,200 a kilowatt, or more than a billion dollars. This contrasts with a cost of about $300 a kilowatt for our existing plants.

It is possible to finance such a project at reasonable cost, but it requires some departure from present regulatory rate-setting procedures. We believe that after a proposed plant has received all the necessary governmental approvals, it is logical that interest or other money cost of capital furnished by investors during the construction period should be recovered currently in rates. This requires that rate-making bodies include construction work in progress in rate base or grant equivalent rate relief.

Our pending application for higher electric rates is predicated on the inclusion in rate base of $122 million of construction work in progress related to the planned Somerset project. In the last rate proceeding we made a similar request but it was denied. The Public Service Commission recently announced that it has undertaken a special study to determine the best means for financing new generating facilities and whether changes in the Commission's rate-making policies are desirable. We are participating in that study.

It is interesting to note that many economists, in both the private and public sectors, are urging that energy prices should reflect all appropriate costs. In fact, some are advocating that prices should be based on so-called marginal costs which are considerably higher than average costs. In this way consumers receive an economic signal and can justify conservation measures or use of alternate energy sources. The inclusion of construction work in progress in rate base is consistent with these economic principles and accomplishes a similar result.

Concurrent with our efforts to obtain compensatory rates, we are working hard to reduce operating costs wherever possible. For example, we are taking full advantage of new computer technology to mechanize functions formerly done by hand. In 1979 we installed a new central processing unit which increased computing capacity by three and a half times at a very modest increment in cost. Construction management, customer records and other procedures are becoming more efficient as a result of these computer applications.

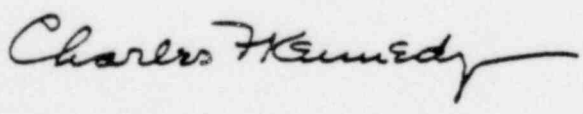
We are upgrading our existing steam-electric generating stations to obtain every kilowatt of production that is feasible. Hydroelectric potential is being similarly developed.

For natural gas we rely almost entirely on our pipeline suppliers. From the information we have, we are optimistic about prospects for improved gas supplies. Recent federal legislation permitting gradual deregulation of gas pricing has stimulated domestic exploration and will encourage Canada and Mexico to develop and export natural gas.

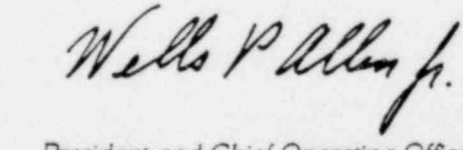
Our employees are cooperating with our endeavors to increase productivity, improve efficiency, reduce costs and develop our affirmative action program. We take this opportunity to express our gratitude for their efforts.

As we indicated at last year's Annual Meeting, the Company's ten-year dividend growth rate of 2% a year through 1978 is less than satisfactory. In 1978 and again in 1979 we raised the dividend rate about 5% so some progress is being made in this important area. We appreciate the confidence of stockholders and look forward to a continued improvement in operating results.

For the Board of Directors,



Chairman and Chief Executive Officer



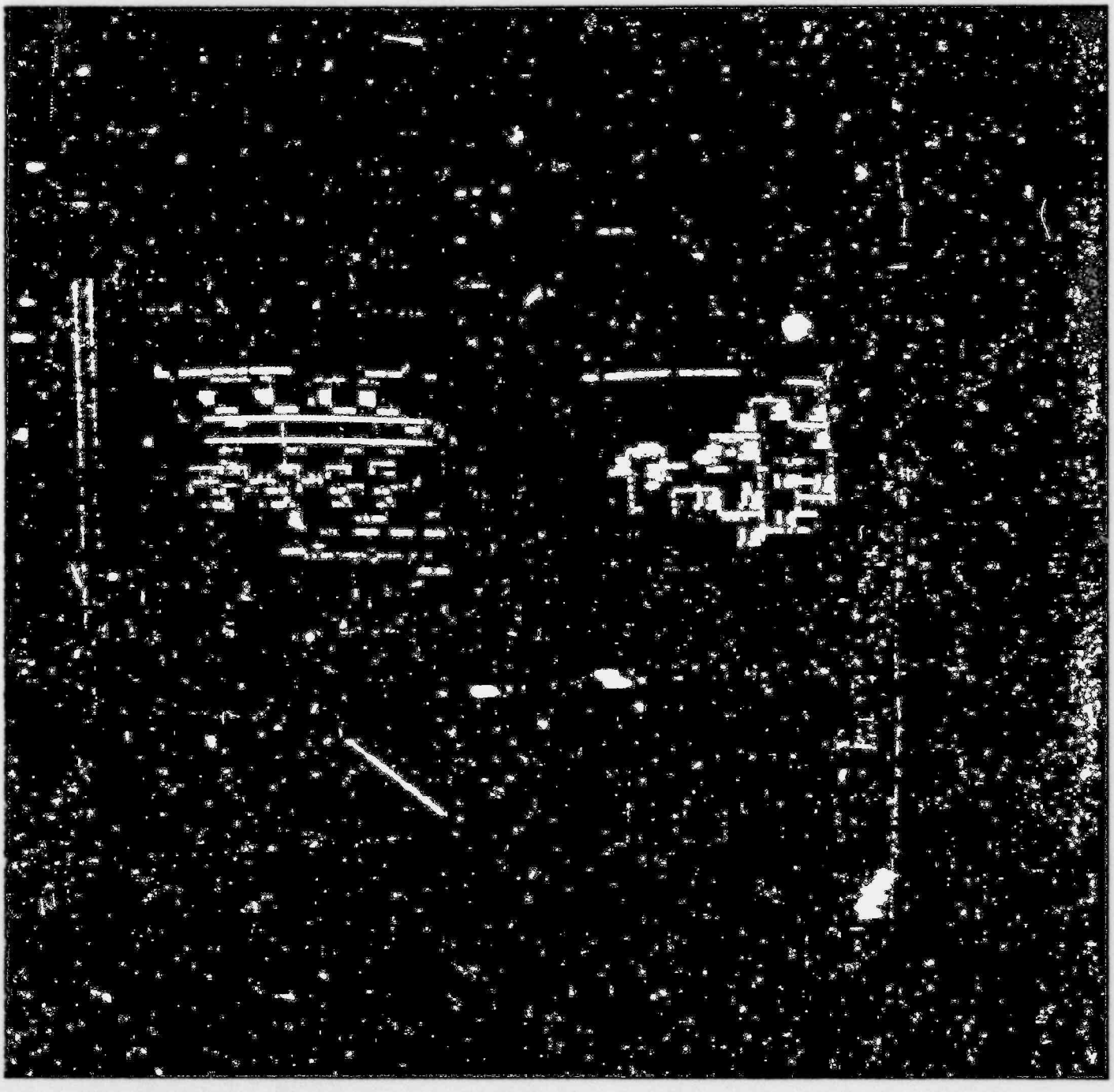
President and Chief Operating Officer

March 3, 1980

Condensed Statement of Income

	1979	1978	Increase
		Thousands of Dollars	
REVENUES			
Sales of electricity	$477,643	$433,774	$43,869
Sales of gas and miscellaneous income	110,662	98,599	12,063
Total	588,305	532,373	55,932
EXPENSES			
Wages and salaries of employees and contributions to retirement and insurance plans (exclusive of $41,664,000 in 1979 and $40,179,000 in 1978 charged to construction, etc.)	66,611	58,186	8,425
Fuel used to produce electricity	142,141	118,384	23,757
Electricity purchased and interchanged	2,626	19,059	(16,433)
Gas purchased	74,542	63,896	10,646
Other materials, services and research	57,184	54,809	2,375
Federal taxes	20,546	10,569	9,977
State and local taxes	60,165	54,461	5,704
Depreciation	43,807	41,462	2,345
Total	467,622	420,826	46,796
Income available to investors	120,683	111,547	9,136
ALLOWANCE FOR FUNDS USED DURING CONSTRUCTION	25,342	16,655	8,687
INVESTORS' SHARE			
Interest on bonds	54,970	51,918	3,052
Interest on notes payable and other	3,666	5,721	(2,055)
Dividends on preferred stock	14,117	13,090	1,027
Dividends on common stock	44,441	38,732	5,709
Total	117,194	109,461	7,733
RETAINED IN THE BUSINESS	$ 28,831	$ 18,741	$10,090

A new $6-million System Control and Data Acquisition System (SCADA) was placed in operation during the year. It will improve system reliability and monitor over 4,000 miles of electric and gas lines at lower cost than previous equipment. Among other things, SCADA will automatically collect data for determining heat content of gas purchases and transfer the information to another computer for customer billing.



General Review of the Year

Earnings and Dividends

DIVIDEND RATE INCREASED

Operating income rose $7.8 million, or 8%, over 1978. Most of the increase resulted from higher rates and greater sales of interchange power to other utilities.

Other income was sharply higher, primarily reflecting Allowance for Funds Used During Construction (AFDC) on larger amounts of construction work in progress during the year.

AFDC, in effect, subtracts the cost of new money, such as bond interest, from the income statement and charges it to capital projects under construction.

Earnings per share of $2.83 were 15% higher than in 1978. AFDC as a percent of per-share earnings was 35%, which compares with 29% in 1978.

The quarterly dividend rate on common stock was increased from 42 to 44 cents a share effective with the August 15, 1979 payment. Total dividends paid of $44.4 million increased about 15% as a result of a greater number of shares outstanding and the higher dividend rate.

The balance of earnings after dividends was $28.8 million which was added to common stock equity.

An estimated 5% of 1979 common stock dividends is a return of capital for federal income tax purposes and may be excluded from dividend income.

Dividend Reinvestment Plan

$7.2 MILLION INVESTED DURING YEAR

Participants in the Dividend Reinvestment and Stock Purchase Plan in 1979 invested $7.2 million in new shares, which compares with $3.2 million in 1978. In February 1979 the plan was revised to include a 5% discount on shares purchased with reinvested dividends and an increase in the limit on cash-payment purchases. Currently 11,000, or 16%, of stockholders are participants.

The plan permits stockholders to reinvest quarterly dividends and make cash payments of up to $5,000 per quarter for purchase of shares without brokerage or service charges. Dividends are reinvested to purchase shares at 95% of the average market price on the dividend payment date.

If you are interested in enrolling in the plan, send for further information to New York State Electric & Gas Corporation, Shareholder Services, P.O. Box 200, Ithaca, New York 14850.

Stockholders

MOST HOLDERS ARE INDIVIDUALS

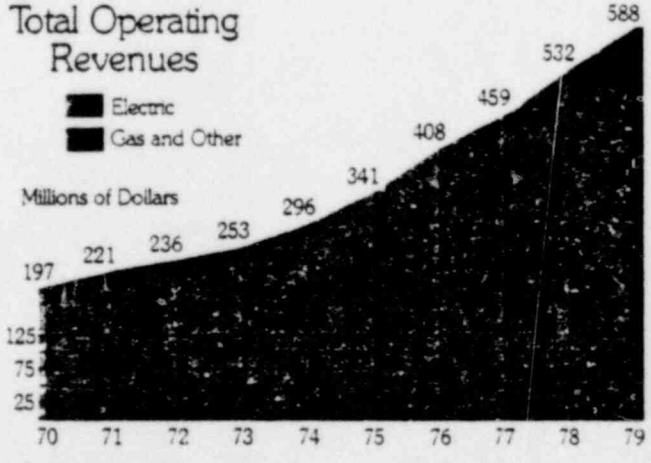
About 95% of the Company's 67,000 holders of common stock are individuals. They own 62% of the shares outstanding and have an average holding of 250 shares.

Most of the remaining shares are owned by institutions such as pension funds, banks and trusts. The largest single holder is an insurance company which owns less than 1% of outstanding shares.

Rates

HIGHER ELECTRIC AND GAS RATES PENDING

In August 1979 the Company applied to the Public Service Commission (PSC) for higher rates that would increase electric revenues by $79.7 million, or 17%, and gas revenues by $8.4 million, or 8%, based on sales volumes in the twelve months ended March 31, 1979. The proposed rates are predicated on a 14.8% return on common stock equity, normalization of the federal income tax effect related to capitalized pension costs and taxes, and inclusion in rate base of projected test-year investment



in the Somerset Generating Station of $122 million.

Hearings are being held and a recommended decision by the presiding administrative law judge is expected in April or May. The PSC is required to render its decision by late July.

A temporary rate increase request of $10.3 million annually has been recommended for disapproval by the law judge.

In April 1979 the PSC approved an electric rate increase of $28 million, or 6%, and a gas rate increase of $3 million, or 3%. These increases resulted from a request, made almost a year earlier, for $90 million in higher electric rates and $6 million in higher gas rates. Most of the disallowed revenues stemmed from the PSC's refusal to include construction work in progress (CWIP) in rate base. In lieu of CWIP in rate base, the Commission permitted added revenues equal to the federal income tax effect on the interest portion of AFDC. A return on common equity of 13.8% was allowed. The new rates went into effect on May 1 and increased 1979 revenues by about $16 million.

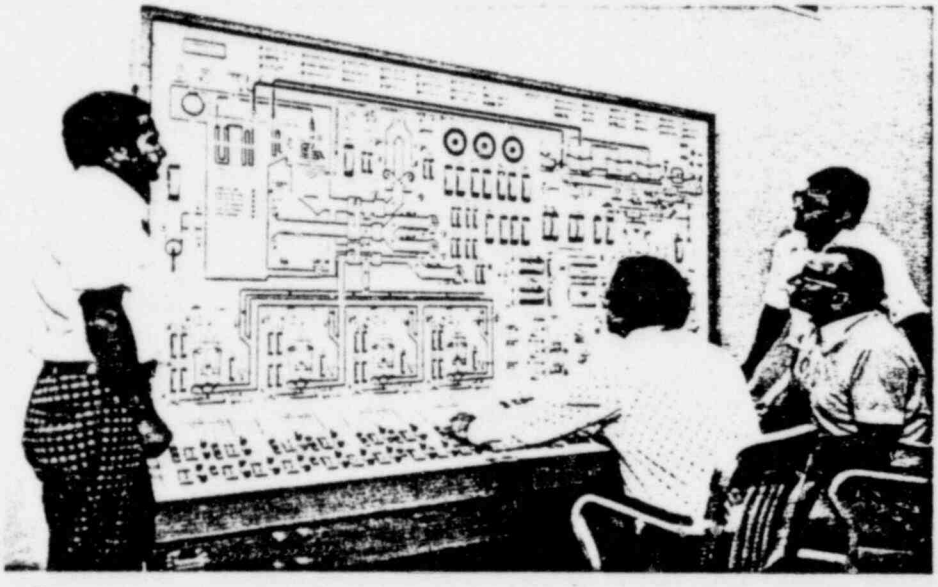
Generating Company

PSC REJECTS ESPRI, LOOKS AT FINANCING PLANS

After four years of study and public hearings, the PSC in 1979 rejected a proposal of the state's major electric utilities to form a generating company, Empire State Power Resources, Inc., or ESPRI. The company would have financed and built new large-scale generating facilities on a statewide basis.

Notwithstanding the recommendation of the administrative law judge in a 113-page recommended decision that the proposal be approved, the PSC contended that ESPRI's financial advantages were overstated. The Commission also objected to the fact that ESPRI's rates would be subject to federal rather than state control.

In its decision the PSC indicated it would investigate the possibility of adopting rate-making policy changes that would provide financial benefits equivalent to those in the ESPRI proposal. Among the benefits mentioned were the inclusion of CWIP in rate base and greater normalization of income tax benefits. A PSC study is now under way and the state's electric utilities are required to submit 15-year financing plans. The study is planned for completion by the end of 1980.



Training to insure safe and efficient service receives high priority. A new simulator (above) of a power plant's boiler control panel is used to improve proficiency of power plant operators. The capabilities of a new line truck are demonstrated (right) to workers in Binghamton.

Somerset Project

BOARD OF DIRECTORS LIMITS EXPENDITURES

As the result of the disappointing rate decision in April 1979, the Board of Directors approved only limited work on an 850,000-kilowatt coal-fired generating station planned for construction on a state-approved site near Somerset in western New York. Construction of the plant was scheduled to begin last fall but was postponed until Spring 1980 because of problems in reaching a project agreement with construction trades contractors and unions.

The Board's action was taken so that large expenditures would not be made until there were some assurances that the PSC will adopt rate-making policies which will allow the financing necessary to complete the project.

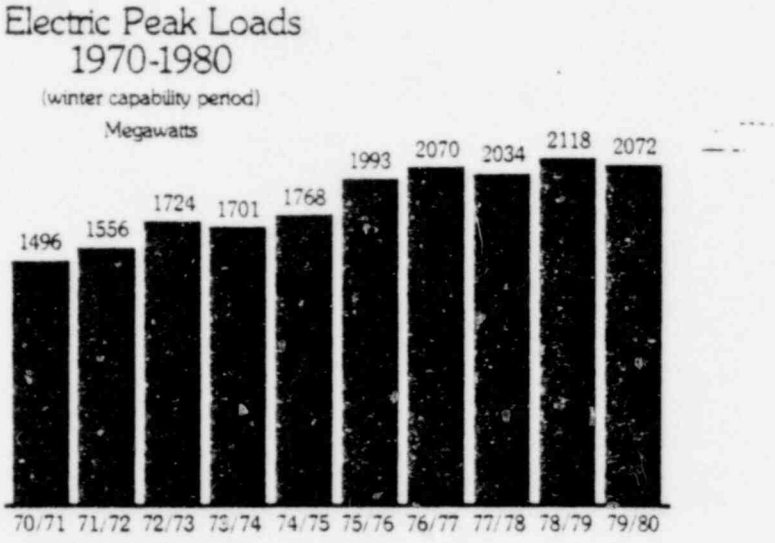
The Board limited expenditures on the project to $25 million in the period September 1, 1979 to May 31, 1980. Postponement of site preparation has kept expenditures well within that limit. Total expenditures on the project through the end of 1979 are about $50 million, including AFDC.

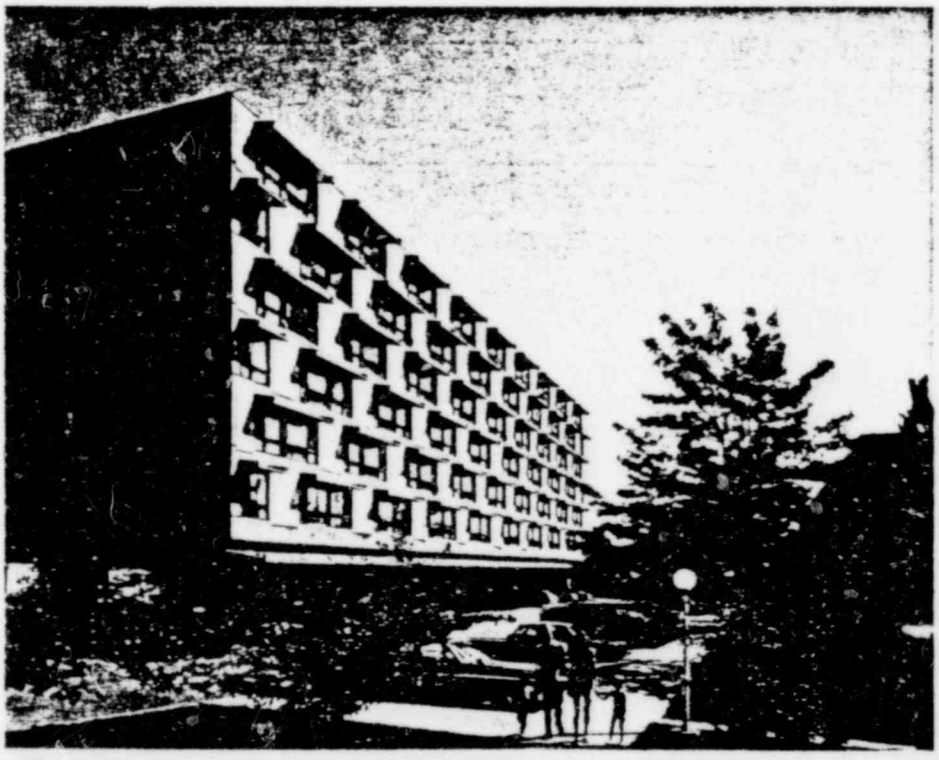
Power Supply

CONSERVATION AND WEATHER DAMPEN DEMAND

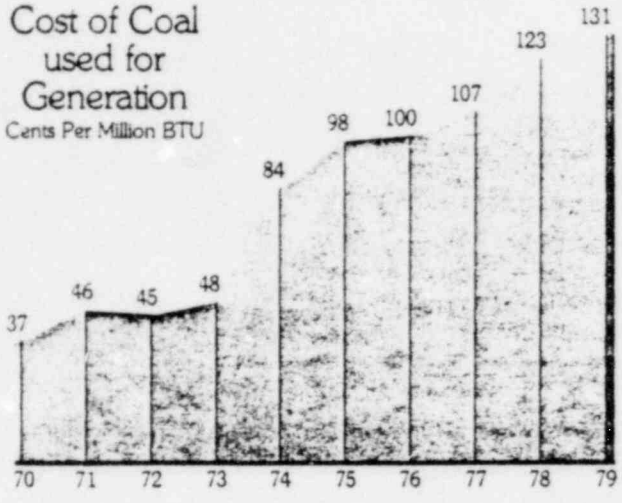
Customer energy conservation and milder-than-normal winter weather kept peak demand for electricity in the 1979-80 winter below the previous year. A peak load of 2,072,000 kilowatts (kw) was set in December, which compares with 2,118,000 kw in the 1978-79 winter.

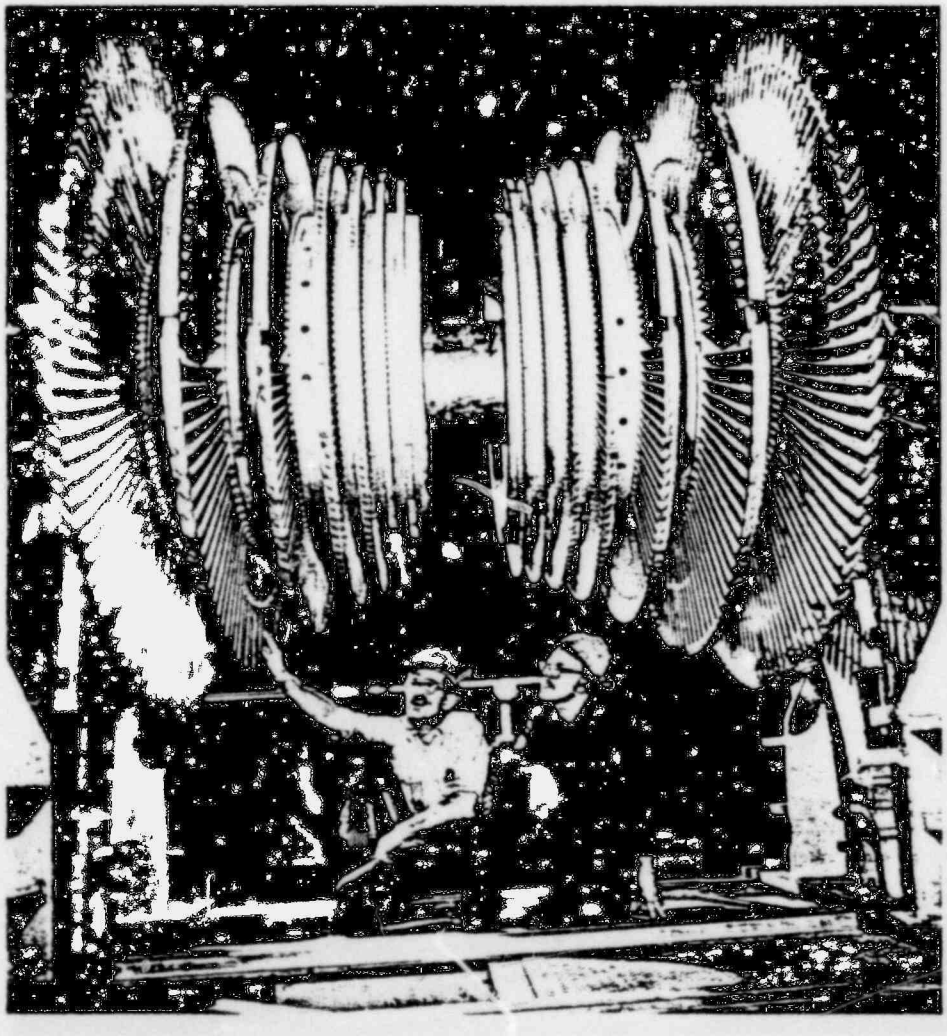
Power supply capability to meet peak loads is currently 2,666,000 kw. This is composed of 1,786,000 kw of generating capacity, most of which is coal-fired; 680,000 kw of purchases from the New York State Power Authority, and 200,000 kw of short-term purchases from neighboring utilities. Most of the purchases from the Power Authority are from the Niagara River hydroelectric project, made under a contract expiring in 1990, and the Blenheim-Gilboa pumped storage project, made under a contract expiring in 2002.





High mortgage interest rates have dampened new-home construction activity. However, multiple dwelling apartment units like those shown here continue to be popular.





Improvements at Milliken Generating Station have increased the capacity of one of its generating units from 144,000 to 153,000 kilowatts. As the cost of new generating facilities soars, such upgradings become economically feasible. In a recent national survey Milliken ranked in the top 20 most efficient fossil-fueled generating plants in the nation.

Future Power Supply

STATE CIRCULATES ENERGY PLAN

Under legislation approved in 1978, the State Energy Office (SEO) has drafted a 15-year master plan for energy supply in the state. A series of hearings were held in late 1979 soliciting public comment on the plan. It is currently being reviewed by a five-member Energy Planning Board composed of the heads of state agencies, including the SEO, and appointees of the state legislature. The final plan is expected to be released shortly. Its findings with respect to load forecasts will be binding on state agencies concerned with energy matters.

The plan, as presently constituted, relies almost entirely on new coal-fired generating facilities and electricity imported from Quebec for future power supplies through 1995. It projects statewide growth in electricity demand at slightly under 2% a year which compares with 2.5% growth estimated by the state's utility companies. For the Company's service area, the plan projects 3% annual growth in kilowatt-hour sales and about 1% a year growth in unit gas sales.

The proposed plan does not provide for construction of new nuclear generating facilities, including the planned New Haven and Jamesport projects, in which the Company is a one-half owner with Long Island Lighting Company (LILCO). The New Haven site is located upstate near Oswego and Jamesport, on eastern Long Island.

In October 1979 the New York State Board on Electric Generation Siting and the Environment (Siting Board) dismissed the New Haven siting application on the basis that ownership of the facility was not reasonably certain. A petition for rehearing is pending. In the case of Jamesport, the Siting Board denied the utilities' application for a nuclear plant but indicated approval of a coal-fired facility. It is the Company's intention to

continue to pursue construction of either nuclear or coal-fired plants at these sites.

At the end of 1979 the Company's share of expenditures on the New Haven project was $38 million and Jamesport about $60 million. In addition, the Company might incur contract termination charges, related to Jamesport nuclear, of up to $27 million. If these projects are not permitted to progress and are cancelled, the Company would seek regulatory approval to recoup the expenditures through electric rates over a period of years. Expenditures pertaining to sites suitable for future generating facilities would remain in utility plant asset accounts.

The Company is an 18% participant in Nine Mile Point 2, a 1,090,000-kw nuclear plant being built by Niagara Mohawk Power Corporation near Oswego, New York. Work on this project was recently slowed to permit further study of technical and regulatory requirements including reevaluation of geologic design criteria. Its in-service date has been rescheduled from 1984 to 1986. The Company's share of expenditures through 1979, including nuclear fuel, amounted to $142 million.

1979 Construction

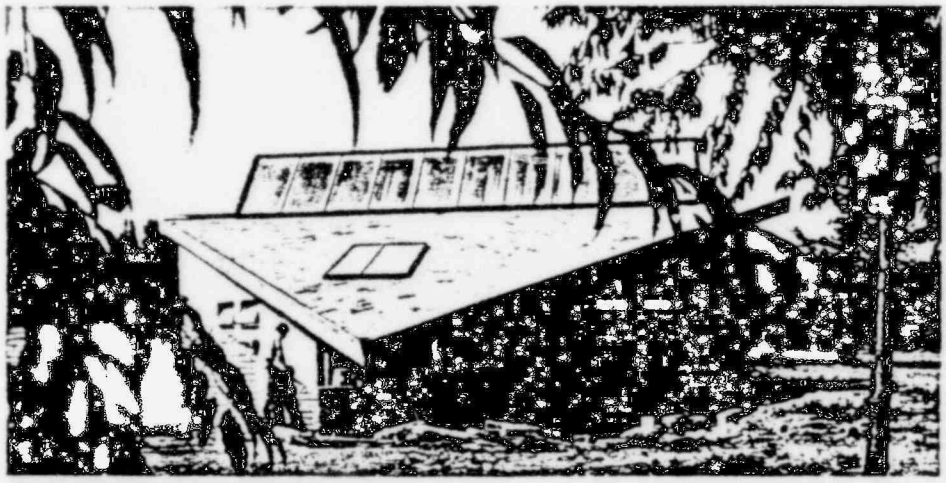
OUTLAYS TOTAL $171 MILLION

Construction expenditures in 1979 totaled $171 million of which about 90% was for electric facilities. The remainder was expended for gas and common facilities.

The largest single expenditure was $39 million for the Company's share of Nine Mile Point 2 generating station.

Engineering and other preliminary expenditures for the Somerset project required $13 million.

About $100 million was spent for electric and gas system improvements, including projects for raising operating efficiency such as converting electric distribution circuits to higher voltage operation. This includes about $40 million for minor projects, each $25 thousand or less.



Research is an important part of Company activities. Rain and snow samples are being collected at Company sites near Albany (shown above) and Corning as part of a nationwide study of acid rain. Solar space heating equipment has been installed with Company advice in a new home near Buffalo (above, right). Market services representatives assist in a solar development project at Miner Institute, an agricultural research organization located near Plattsburgh (right).

Future Construction

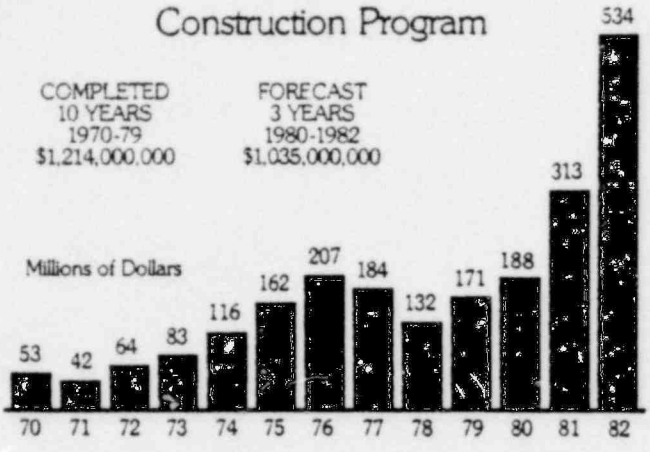
CONSTRUCTION PROGRAM TENTATIVELY SET

Assuming the Somerset and Jamesport projects are allowed to proceed, construction expenditures for the years 1980 through 1982 are estimated at $1,035 million. About half this amount, or $530 million, is budgeted for Somerset.

Other large outlays include $140 million for the Company's share of Nine Mile Point 2 and $22 million for the Company's share of the Jamesport project.

Expenditures for new hydroelectric generating facilities total $40 million in the three-year period.

The remaining $303 million is allocated for general improvement of electric and gas systems, facilities to serve new customers, and projects designed to increase operating efficiency.



A new gas service line is installed at a home near Elmira. Existing customers' conservation efforts have reduced consumption, which makes more gas available for new customers.

Financing

CASH REQUIREMENTS TOTAL $184 MILLION

Cash requirements in 1979 were $184 million, of which $146 million was for construction. The balance was used for additional working capital needs of $18 million, retirement of $10 million of 2.80% first mortgage bonds which matured December 1, and a $10-million reduction in short-term debt.

These requirements were met with $125 million from outside sources and $59 million of internally-generated funds. The internal funds constituted about 40% of construction outlays.

Security sales during the year included a private placement of $20 million of 8.25% sinking fund preferred stock, a public sale of $50 million of 12⅛% first mortgage bonds due 1986, and $7 million of common stock sold through the dividend reinvestment plan.

The Company also raised $19 million through the sale of participations in mine development loans previously made to the coal companies supplying Homer City Generating Station.

About $29 million was received from LILCO as contribution for its one-half share of the New Haven project.

It is estimated that $107 million will be required from outside sources in 1980 to finance construction.

Management Audit

SECOND PHASE OF REVIEW INITIATED

A management consulting firm, Theodore Barry and Associates (TB&A), completed the first phase of a management audit for the PSC in 1979. In general, TB&A found the Company "soundly managed" and recommended that further study be undertaken in a second phase, which might result in certain capital and operating expense savings in eleven specific areas.

After review of the findings, the PSC authorized the firm to proceed in four of the eleven areas. The four provide for developing programs to improve utilization of transmission and distribution personnel, further enhance quality and effectiveness of customer services, evaluate cost controls for construction of the Somerset project, and improve formal maintenance planning and labor utilization at existing generating stations.

Duration of these projects is expected to vary from about two months to more than two years. Consultant fees and expenses, which are paid by the Company, are expected to aggregate over $800,000 for the two-phase study.

Research and Development

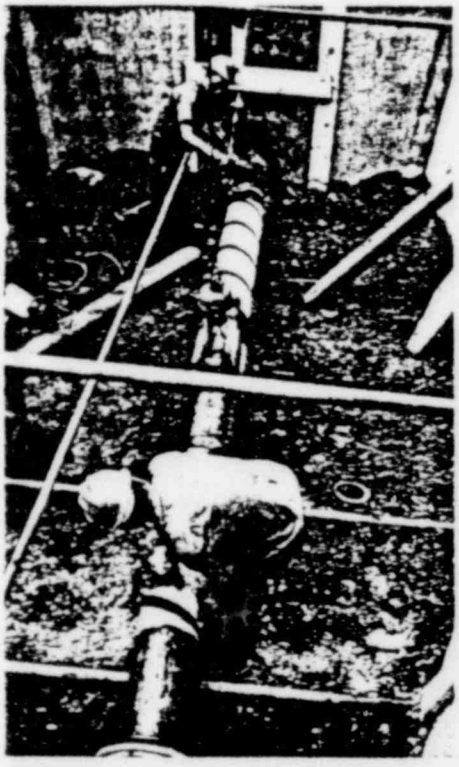
EXPENDITURES EXCEED $4 MILLION

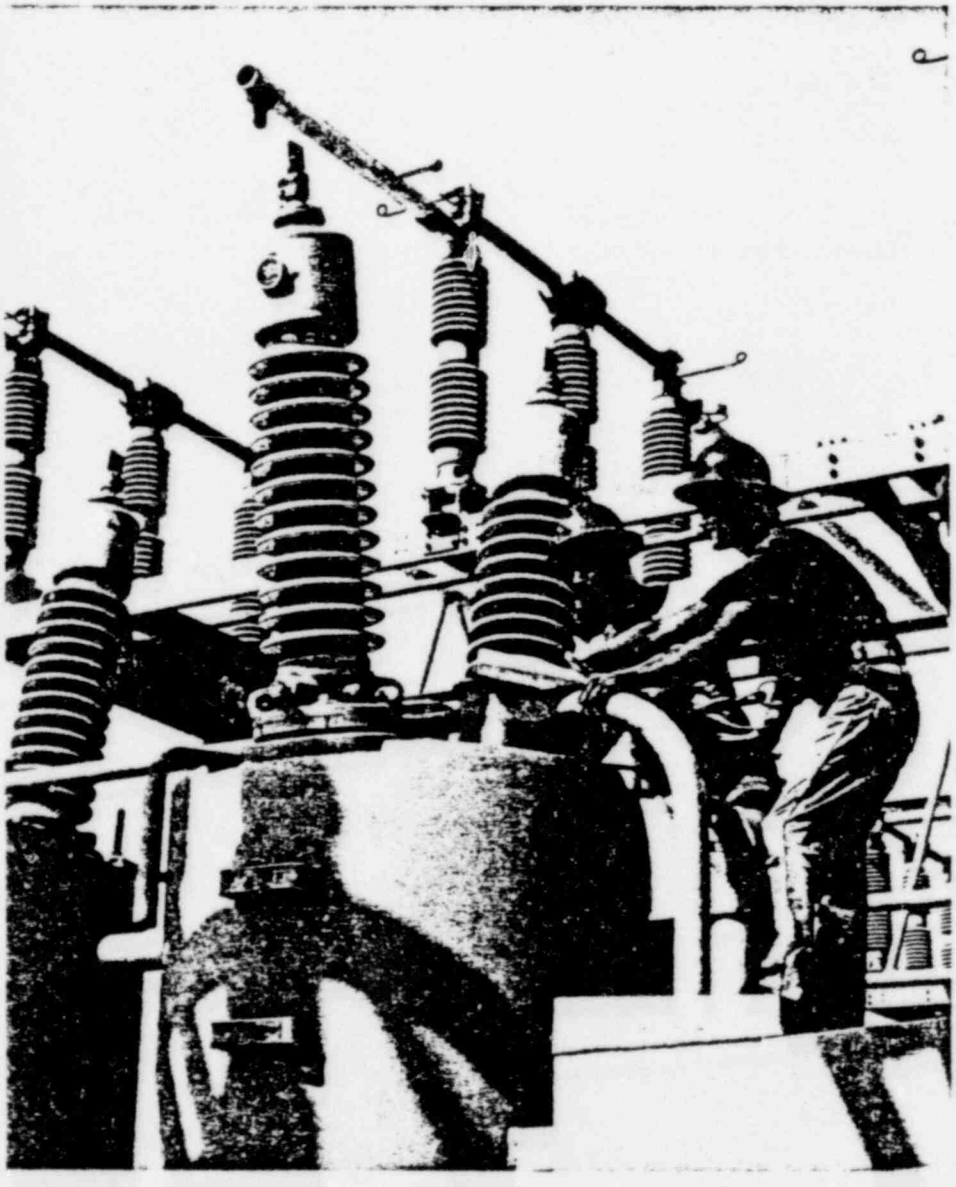
Spending on research and development rose 9% to $4.1 million in 1979.

Contributions by the Company to national and state research organizations accounted for 80% of this expenditure. The Electric Power Research Institute (EPRI), which is supported by the nation's private and publicly-owned utilities, received $1.6 million. EPRI budgeted $202 million in 1979 for research in such areas as fossil fuel systems, advanced technology, nuclear power, overhead and underground transmission, energy analysis and environmental assessment.

Empire State Electric Energy Research Corporation (ESEERCO), which is financed by the state's major electric utilities, was paid $784,000 by the Company in 1979. ESEERCO spent $6.1 million during the year for 39 projects ranging from geologic studies and flue gas desulphurization to laser fusion and wind energy. In addition, $887,000 was spent for the Company's share of the research program of the State Energy Research and Development Authority.

The remaining Company outlays were devoted to internal research for such projects as solar water heating and extending lives of wooden poles. A major effort is being undertaken with others to improve coal-cleaning techniques at a test facility being constructed near the Homer City Generating Station.





Construction work on electric and gas systems improvements, including environmental protection, required $100 million of capital expenditures in 1979. Above, a section of gas transmission line is replaced near Geneva. At the right, a new $13-million substation is being completed. It will serve growing electricity demands in southeastern New York.

Energy Conservation

MORE RESOURCES DEDICATED TO PROGRAM

An increased effort to promote energy conservation in the service area was undertaken in 1979. Free energy audits will be conducted for low-income families and the existing program for assisting customers will be strengthened. Twenty-one conservation representatives were recently hired to augment market services forces.

The Company also promotes conservation through talks to community organizations, schools and senior citizen groups; through consultations with builders, developers, building material suppliers, insulation and heating contractors; through displays at trade shows, fairs and energy exhibitions; through counseling of community agencies which disburse federal and state conservation funds to low-income families, and through distribution of conservation materials.

Energy conservation in the home is being actively promoted through bill enclosures, booklets, newspaper and radio advertising; through shopping mall displays (left), and through energy audits conducted at customers' homes (above) by market services representatives.

Environmental Protection

EFFORTS PROGRESS ALONG BROAD FRONT

Many of the Company's operations are affected by environmental considerations. As a result, efforts to minimize adverse environmental effects are a key part of operating procedures and engineering design.

For example, in the disposal of ash created by burning of coal, the Company studies prospective disposal sites in detail and consults with state and local governmental authorities. When a site is chosen, extensive preparation occurs, often including installation of waterproof liners to prevent seepage. The fly ash is deposited in alternate layers with soil, and the site is eventually restored to its original condition. In addition to disposal techniques, the Company studies ways to use fly ash in road-building and other construction.

Monitoring of air and water quality at generating stations continues to be an important activity. Major expenditures have been made in recent years at these stations for modern equipment to remove dust particles and recondition waste water. The Company is also cooperating in a nationwide study of acid rain by collecting precipitation samples.

Building electric and gas lines requires considerable attention to environmental aspects. Efforts are made to blend facilities with the landscape and minimize the impact of construction.

During 1979 it is estimated that $28 million of new capital was expended for environmental protection.

Electric Operations

KWH SALES UP 3% FOR THIRD CONSECUTIVE YEAR

Kilowatt-hour sales increased 3% in 1979 which is the same rate of increase recorded in 1977 and 1978. Revenues were up 10%, reflecting a May 1979 rate

The Revenue Dollar—1979

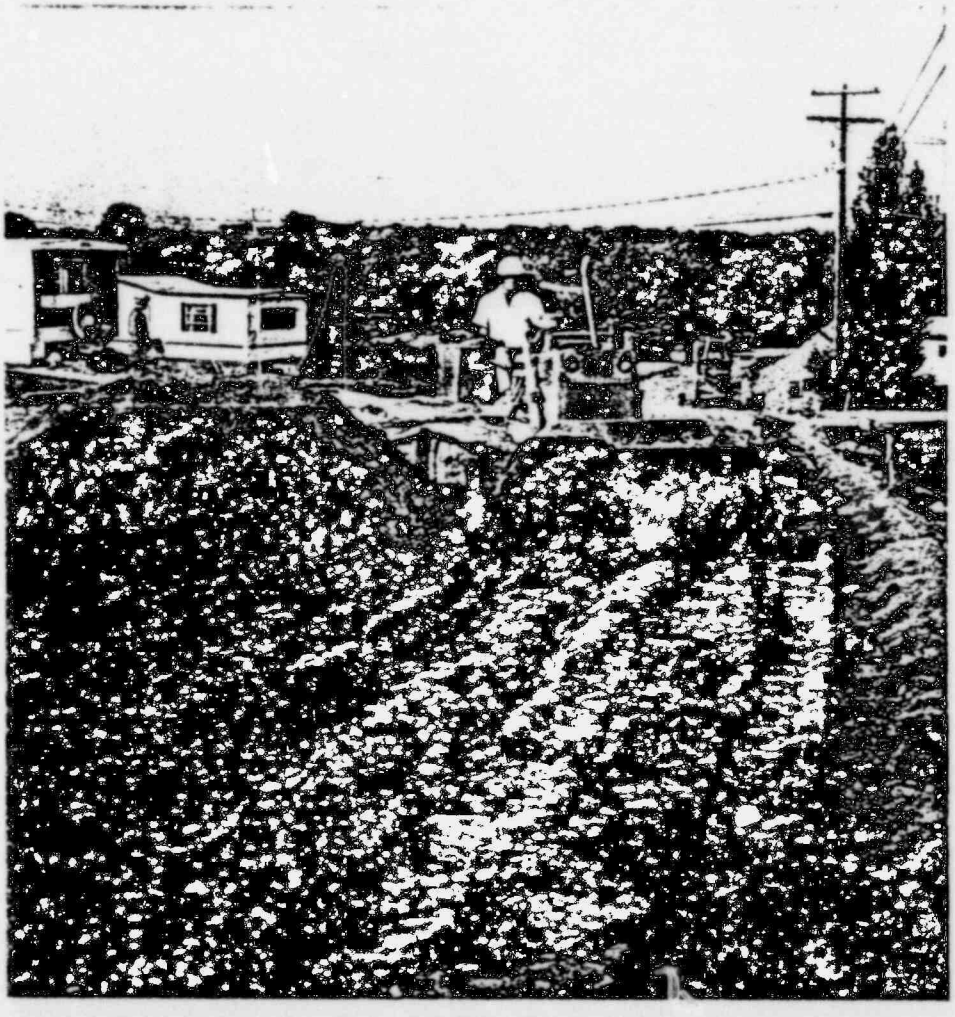
WHERE IT CAME FROM:

Residential	45.9¢
Commercial	22.8
Industrial	20.0
Street Lighting and Other	11.3

81%	ELECTRICITY
19	GAS
100%	

WHERE IT WENT:

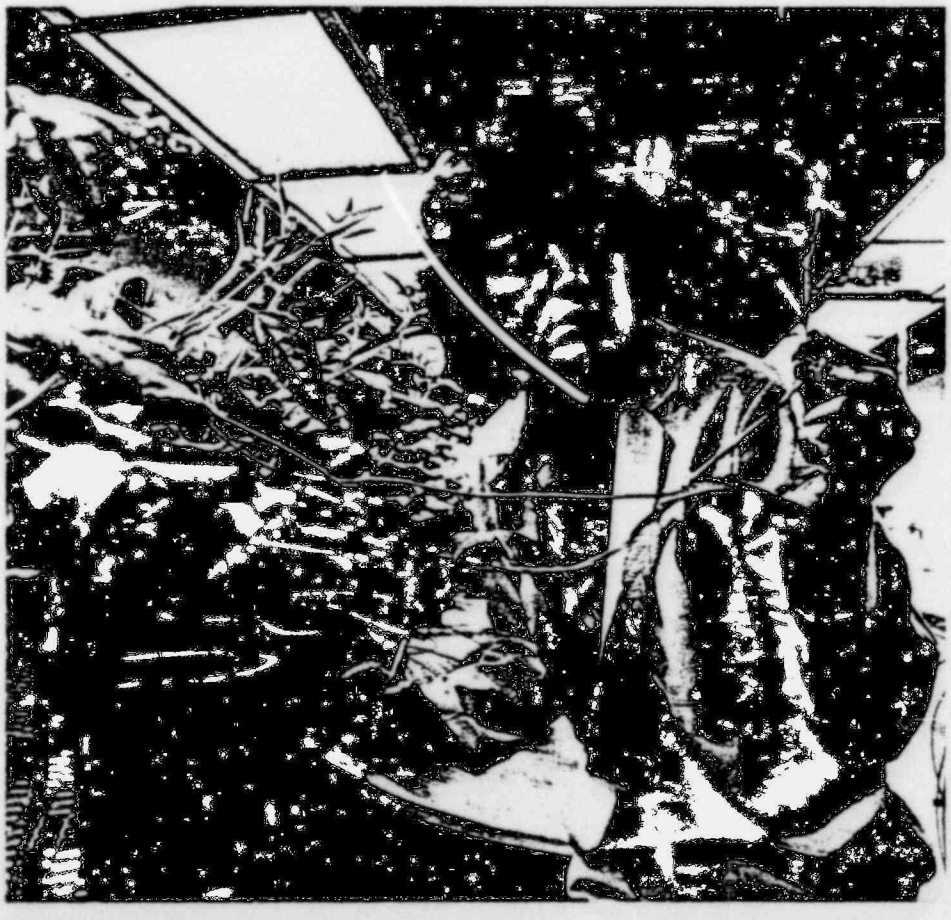
Fuel	23.2¢
Taxes	13.2
Wages to Employees, including Benefits	10.8
Gas and Electricity Purchased	12.6
Interest to Bond Holders, etc.	9.6
Other Materials and Services	9.3
Depreciation	7.1
Dividends — Common Stock	7.2
Dividends — Preferred Stock	2.3
Retained in the Business	4.7



Fly ash left after burning coal at a generating station forms part of the base of a new road to a former gravel pit which is being used for ash disposal. Road building and land reclamation are two constructive uses of fly ash.

INDUSTRIAL ELECTRIC REVENUES

	1979 (thousands)	Percent of total
Stone, clay and glass products	$ 13,277	14.1%
Machinery, except electrical	10,130	10.8
Transportation equipment	8,778	9.4
Primary metal industries	8,091	8.6
Electrical machinery and supplies	7,402	7.9
Fabricated metal products	7,264	7.7
Food and kindred products	6,689	7.1
Rubber and plastic products	6,037	6.4
Chemicals and allied products	3,558	3.8
Paper and allied products	3,020	3.2
Instruments and related products	2,644	2.8
Nonmetal mining, excluding fuels	2,287	2.4
Printing and publishing	2,214	2.4
Wood products, except furniture	1,703	1.8
Petroleum and refining	1,120	1.2
Leather and leather products	1,060	1.1
Textile mill products	939	1.0
Metal mining	887	1.0
Furniture and fixtures	871	.9
Miscellaneous industries	1,793	1.9
Unclassified (under 50 kw demand)	4,249	4.5
Total	$ 94,013	100.0%
Total electric revenues	$477,643	



A new $10-million plant research facility owned by Boyce Thompson Institute recently went into operation at Cornell University in Ithaca. Cornell is one of the Company's largest customers and has increased electricity and gas consumption in recent years.

increase and higher fuel costs included in customer billings.

The increase in sales stemmed primarily from greater industrial customer usage. Residential and commercial consumption is affected more by weather, which was milder than in 1978, and by energy conservation efforts.

Percent increases by major category were as follows:

	Kwh Sales	Revenues
Residential	1%	9%
Commercial	.1	8
Industrial	8	16
Total	3%	10%

Operation and maintenance expense, excluding production costs, increased $10.5 million, or 15%. Production costs were only 4% higher largely because of greater sales of energy to other utilities on interchange at higher prices and reduced outlays for generating plant maintenance. Average fuel cost per million Btu was $1.31, or 7% higher than in 1978.

Gas Operations

GAS SALES DECLINE 2%

Unit sales of gas were off 2% from 1978 while revenues increased 13%. Weather and customer conservation were largely responsible for the decline. It was partially offset by the addition of 940 new space heating customers.

Percent changes by customer category were as follows:

	Dekatherm Sales	Revenues
Residential	-6%	7%
Commercial	-6	10
Industrial	8	29
Total	-2%	13%

Since liquefied natural gas (LNG) is becoming a larger part of gas supplies, some pipeline suppliers are selling gas on the basis of its heat content rather

than volume. LNG has more heat value per cubic foot than regular natural gas. As a result, sales units in some areas are now billed and recorded in dekatherms (dth) rather than thousand cubic feet (mcf).

Operating expenses in 1979, excluding purchased gas cost, increased 9%. Purchased gas expense was 17% higher. On a per-unit basis, purchased gas cost $1.94 per dth which compares to $1.62 per dth in 1978.

Management

SEVERAL SENIOR EMPLOYEES PROMOTED

During 1979 several employees were elected to positions of greater responsibility. Raymond A. Perine, formerly assistant vice president-gas operations, was elected vice president-gas operations, and Bernard M. Rider, formerly chief planning engineer, was elected vice president-electrical engineering and planning.

Richard W. Page was elected assistant vice president-computer services; Lynn L. Sweetland, assistant vice president-industrial development; Vincent W. Rider, assistant vice president-operations and generation services, and Michael J. Ray, assistant vice president-project engineering and construction.

Francis X. Carney, formerly assistant vice president-mechanical engineering, became assistant vice president-research and development, succeeding Albert D. Tuttle, who retired February 1, 1980.

A. P. Casarett

D. R. Newcomb

E. A. Gilmour

Board of Directors

THREE NEW DIRECTORS ELECTED

Three new directors have been elected since the last Annual Report. They are: Alison P. Casarett, dean of Cornell University's Graduate School; David R. Newcomb, president, Buffalo Forge Company, and Everett A. Gilmour, president, The National Bank and Trust Company of Norwich.

Dr. Casarett is a graduate of St. Lawrence University and received a doctorate in radiation biology from the University of Rochester. She has been associated with Cornell since 1963.

Mr. Newcomb is active in civic affairs in western New York and serves as a director of Pratt & Lambert, Inc. and Utica Mutual Insurance Company. He is a Cornell University graduate with a degree in administrative engineering.

Mr. Gilmour has been associated with the Norwich bank since 1947 and is a director of Morton-Norwich Products, Inc. and a number of upstate firms. He is a graduate of the Stonier School of Banking at Rutgers University and the School of Financial Public Relations at Northwestern University.

Resigning from the Board after 20 years of valued service was Robert B. Adam, president, Adam, Meldrum & Anderson Company, Inc., a western New York department store. Mr. Adam left to devote more time to his expanding business.

Small and medium-sized industries are typical of the service area's industrial economy. The area has a skilled work force which benefits from a wide range of educational institutions. In 1979 industrial consumption of electricity and gas each increased 8% over the previous year.

Balance Sheet

	December 31	
	1979	1978
ASSETS	*Thousands of Dollars*	
UTILITY PLANT, at original cost (Note 1):		
Electric	$1,390,292	$1,325,609
Gas	118,653	115,577
Common	39,761	39,058
	1,548,706	1,480,244
Less, Accumulated depreciation	411,742	376,933
Net utility plant in service	1,136,964	1,103,311
Construction work in progress	400,193	309,305
	1,537,157	1,412,616
OTHER INVESTMENTS (Note 4)	22,979	48,453
CURRENT ASSETS:		
Cash	5,585	4,550
Special deposits	11,530	10,915
Accounts receivable	63,557	53,606
Fuel, at average cost	33,314	18,907
Materials and supplies, at average cost	20,824	16,272
Prepayments	9,811	8,802
	144,621	113,052
DEFERRED CHARGES (Note 1):		
Fuel costs deferred	17,874	14,059
Unamortized debt expense	7,003	6,654
Other	7,889	8,591
	32,766	29,304
	$1,737,523	$1,603,425
CAPITALIZATION AND LIABILITIES		
CAPITALIZATION:		
Capital stock and retained earnings:		
Preferred stock redeemable solely at the option of the Company	$ 115,500	$ 115,500
Preferred stock subject to mandatory redemption requirements	80,787	60,875
Common stock equity:		
Common stock	174,190	171,166
Capital in excess of par value	185,590	181,375
Capital stock expense	(4,727)	(4,614)
Retained earnings	214,310	185,479
Total common stock equity	569,363	533,406
Long-term debt	768,164	711,347
Total	1,533,814	1,421,128
CURRENT LIABILITIES:		
Long-term debt, due within one year	12,507	10,000
Notes payable (Note 5)	25,500	35,300
Accounts payable	14,513	34,751
Dividends payable on preferred stock	3,684	3,272
Pensions accrued	12,600	11,750
Taxes accrued	21,291	17,251
Interest accrued	17,135	16,862
Other	19,926	17,289
	157,156	146,475
DEFERRED CREDITS:		
Accumulated deferred investment tax credit (Note 3)	21,808	10,762
Other	1,601	1,760
	23,409	12,522
ACCUMULATED DEFERRED FEDERAL INCOME TAX (Note 3)	23,144	23,300
	$1,737,523	$1,603,425

The accompanying notes shown on pages 22 through 26 are an integral part of the financial statements.

Statement of Income

	Years Ended December 31	
	1979	1978
	Thousands of Dollars	
OPERATING REVENUES:		
Electric	$477,643	$433,774
Gas	110,568	98,397
Total	588,211	532,171
OPERATING EXPENSES:		
Operation—fuel (Note 1)	142,141	118,384
—other	83,226	74,465
Electricity purchased and interchanged	2,626	19,059
Gas purchased	74,542	63,896
Maintenance	40,569	38,529
Depreciation	43,807	41,462
Federal income tax (Note 3)	27,163	16,350
Other taxes (Note 6)	63,362	57,064
Total	477,436	429,209
OPERATING INCOME	110,775	102,962
OTHER INCOME AND DEDUCTIONS:		
Allowance for other funds used during construction (Note 1)	17,486	10,659
Federal income tax credit (Note 3)	9,815	8,383
Other, net	93	202
Income before interest charges	138,169	122,206
INTEREST CHARGES:		
Interest on long-term debt	55,347	52,337
Other interest	3,289	5,302
Allowance for borrowed funds used during construction (Note 1)	(7,856)	(5,996)
Interest charges — net	50,780	51,643
NET INCOME	87,389	70,563
PREFERRED STOCK DIVIDENDS	14,117	13,090
EARNINGS AVAILABLE FOR COMMON STOCK	$73,272	$ 57,473
EARNINGS PER SHARE	$2.83	$2.46
AVERAGE NUMBER OF SHARES OUTSTANDING	25,886,419	23,392,883

Statement of Retained Earnings

	Years Ended December 31	
	1979	1978
	Thousands of Dollars	
Balance, beginning of year	$185,479	$166,738
Add, Net income	87,389	70,563
	272,868	237,301
Deduct, Dividends on capital stock:		
Preferred stock	14,117	13,090
Common stock ($1.72 a share in 1979 and $1.68 in 1978)	44,441	38,732
	58,558	51,822
Balance, end of year	$214,310	$185,479

The accompanying notes shown on pages 22 through 26 are an integral part of the financial statements.

Statement of Changes in Financial Position

	Years Ended December 31	
	1979	1978
	Thousands of Dollars	
SOURCE OF FUNDS		
Net income	$ 87,389	$ 70,563
Depreciation	43,807	41,462
Amortization of deferred charges	1,713	2,792
Federal income tax deferred—net	(298)	(1,337)
Investment tax credit deferred—net	11,048	6,192
Allowance for funds used during construction	(25,342)	(16,655)
Funds from operations	118,317	103,017
Proceeds from sale of first mortgage bonds	50,000	50,000
Proceeds from sale of common stock	7,243	71,930
Proceeds from sale of preferred stock	20,000	—
Increase in notes payable to joint venture	24,840	—
Proceeds from sale of participations in mining company notes	19,375	—
Total funds available	$239,775	$224,947
APPLICATION OF FUNDS		
Additions to utility plant	$145,928	$115,098
Dividends on preferred stock	14,117	13,090
Dividends on common stock	44,441	38,732
First mortgage bonds becoming due within one year	12,500	10,000
Fuel costs deferred	3,600	2,610
Other investments	(3,286)	28,756
Decrease in notes payable	9,800	44,200
Other debt—net	(34)	1,021
Debt expense and other—net	1,621	(251)
Increase (decrease) in working capital (excluding changes in notes payable)	11,088	(28,309)
Total funds applied	$239,775	$224,947

The accompanying notes shown on pages 22 through 26 are an integral part of the financial statements.

Statement of Capital Stock and Long-Term Debt

CAPITAL STOCK

December 31, 1979

	Redemption Price			Shares Outstanding	Amount (Thous.)
	Current	Through	Eventual Minimum		
Preferred stock redeemable solely at the option of the Company					
Serial cumulative preferred stock, par value $100 a share, 1,455,000 shares authorized:					
3.75% series	$104.00	—	$104.00	150,000	$ 15,000
4½ % series (1949)	103.75	—	103.75	40,000	4,000
4.15% series	101.00	—	101.00	40,000	4,000
4.40% series	102.00	—	102.00	75,000	7,500
4.15% series (1954)	102.00	—	102.00	50,000	5,000
6.48% series	103.00	1-31-83	102.00	300,000	30,000
8.80 % series	108.34	2-28-81	102.00	250,000	25,000
Series cumulative preferred par value $25 a share, 3,800,000 shares authorized:					
8.48% series	27.29	1-31-84	25.70	1,000,000	25,000
Total					$115,500
Preferred stock subject to mandatory redemption requirements					
Serial cumulative preferred stock, par value $100 a share, 507,875 shares authorized:					
4.50% sinking fund series	105.25	—	105.25	7,875	$ 787
8.25% sinking fund series (issued 1979)	111.00	12-31-80	100.00	200,000	20,000
9.00% sinking fund series	107.50	9-30-80	100.00	300,000	30,000
Serial cumulative preferred stock, par value $25 a share, 1,200,000 shares authorized:					
8.50% sinking fund series	25.60	6-30-80	25.00	600,000	15,000
9.10% sinking fund series	28.75	6-30-84	25.00	600,000	15,000
Total					$ 80,787
Preference stock, par value $100 a share, 1,000,000 shares authorized				None	
Common stock, par value $6.66⅔ a share, 40,000,000 shares authorized*				26,128,491	$174,190

*In 1979 the Company issued 453,555 shares of common stock through its dividend reinvestment and stock purchase plan for $7,243,000. In 1978 the Company issued 176,702 shares under the plan and 4,000,000 shares through public offering for aggregate proceeds of $71,930,000.

LONG-TERM DEBT

	Amount (Thous.)
First mortgage bonds:	
2.80% series, due December 1, 1980	$ 12,500
7⅝ % series, due August 1, 1981	60,000
10.60% series, due October 1, 1982	50,000
3¼ % series, due May 1, 1984	20,000
3⅜ % series, due September 1, 1985	15,000
12⅛ % series, due December 1, 1986 (issued 1979)	50,000
4⅝ % series, due May 1, 1987	25,000
3⅞ % series, due February 1, 1988	25,000
4⅝ % series, due May 1, 1991	25,000
8⅝ % series, due June 1, 1996	50,000
5⅜ % series, due January 1, 1997	25,000
6¼ % series, due September 1, 1997	25,000
6½ % series, due September 1, 1998	30,000
7⅝ % series, due November 1, 2001	50,000
9.35% series, due July 1, 2003 (issued 1978)	50,000
9⅜ % series, due March 1, 2005	75,000
9⅜ % series, due January 1, 2006	75,000
7¼ % series, due June 1, 2006	12,000
6⅞ % series, due December 1, 2006	25,750
8⅝ % series, due November 1, 2007	60,000
Total first mortgage bonds	760,250
Notes payable (Note 4)	19,375
Other — principally unamortized premium on debt	1,046
Total debt	780,671
Less, debt due within one year — included in current liabilities	12,507
Total long-term debt	$768,164

The mortgage indenture, as amended and supplemented, secures the first mortgage bonds which constitute a direct first mortgage lien on substantially all utility plant.

The accompanying notes shown on pages 22 through 26 are an integral part of the financial statements.

Notes to Financial Statements

1. Significant Accounting Policies

a. Accounting records

The Company maintains its accounting records in conformity with the uniform system of accounts prescribed by the Federal Energy Regulatory Commission and the Public Service Commission of the State of New York (PSC).

b. Utility plant

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

c. Allowance for funds used during construction (AFDC)

The Company capitalized AFDC on a compound basis at the following rates:

	1978	1979
Net-of-tax	6¾%	7½%
Before tax effect	8¾%	9½%

During 1978 and for the first five months of 1979, AFDC was recorded at the net-of-tax rate on Construction Work in Progress (CWIP) related to construction of electric facilities (in excess of $30 million CWIP allowed in rate base) limited to a base of $220 million. AFDC was recorded on CWIP for electric facilities in excess of $250 million and all other CWIP at the before tax effect rates.

As a result of a PSC rate decision in April 1979, the Company recorded AFDC at the net-of-tax rate on all CWIP for the last seven months of 1979. The PSC did not allow CWIP in rate base in this decision. In accordance with the decision, the Company revised its method of recording AFDC in September 1979 to eliminate a one-month lag between the time construction charges are incurred and recording the related AFDC. This change resulted in an additional $2,000,000 AFDC for 1979 ($.08 per share).

d. Revenue

Revenues from sale of electricity and gas are recorded on the basis of meters read.

e. Retirement plans

The Company has noncontributory retirement annuity plans which cover all officers and substantially all employees. The cost of these annuity plans and supplemental payments made directly by the Company to retired employees was $13,052,000 and $12,069,000 for 1979 and 1978. The annuity plan costs are based on normal cost and amortization of the unfunded liability as provided for by the Pension Reform Act of 1974. The unfunded liability (excess of actuarial liability over actuarial value of the fund) as of December 31, 1978 was estimated to be $53,000,000. The Company's policy is to fund pension costs accrued.

f. Deferred charges

Debt expense is deferred and amortized ratably over the lives of the issues.

Pursuant to PSC policy, the Company defers certain fuel and purchased gas costs which are subsequently billed to customers through adjustment clauses in rates.

At December 31, 1979, other deferred charges include $1,800,000 of unamortized costs related to an abandoned nuclear power plant project. In a 1977 and subsequent rate decisions, the PSC granted electric revenues sufficient to amortize the deferred amount over a five-year period.

g. Depreciation

The annual provision for depreciation is determined using straight-line rates, based on average service lives, applied to the original cost, by groups of depreciable property in service. Depreciation accruals were equivalent to 3.2% of average depreciable property for 1979 and 1978.

2. Commitments and Sales of Securities

Assuming generating projects proceed as planned, it is estimated that 1980 costs for the Company's construction program will approximate $190,000,000. The program is subject to periodic review and revision, and actual construction costs to be incurred may vary because of revised load estimates, the imposition of additional regulatory requirements and the availability and cost of capital. Proceeds from periodic security sales are used to repay notes payable to banks and commercial paper, the proceeds of which are used for construction purposes.

3. Federal Income Taxes

For federal income tax purposes the Company uses the sum-of-the-years digits depreciation method and the Asset Depreciation Range System (ADR). The PSC requires that federal income tax reductions resulting from the use of accelerated methods of depreciation be reflected currently in income whereas reductions arising from the use of ADR are deferred and, in general, are returned to income over the book life of the applicable property.

In the October 1977 and April 1979 rate decisions, the PSC allowed revenues equal to the federal income tax effect of the interest on debt portion of AFDC and directed the Company to use a net-of-tax method to calculate AFDC on portions of CWIP. This net-of-tax (imputed income tax) benefit ($6,203,000 for 1979 and $4,312,000 for 1978) has been allocated to other income and deductions.

Investment tax credits (ITC) based on the Revenue Act of 1973 (4%) are reflected currently in income and are shared equally between stockholders and customers for rate making purposes. Increased ITC derived from the Tax Reduction Act of 1975 are deferred. The Company has estimated ITC carry-forward of $3,310,000 at December 31, 1979.

Federal income taxes for 1979 and 1978 are as follows:

	1979	1978
	(Thousands of Dollars)	
Charged to operations:		
Current	$ 6,580	$ 3,040
Deferred — net	(298)	(1,337)
AFDC imputed income tax benefit	6,203	4,312
Investment tax credits:		
Deferred (net of flow through, $5,828,000 and $7,584,000)	11,764	6,543
Shared	2,914	3,792
	27,163	16,350
Included in other income:		
AFDC imputed income tax benefit	(6,203)	(4,312)
Investment tax credits — shared	(2,914)	(3,792)
Amortization of ITC deferred in prior years	(717)	(351)
Tax on other income	19	72
	(9,815)	(8,383)
Total	$17,348	$ 7,967

Federal income tax provisions for 1979 and 1978 are substantially less than the amount obtained by using the statutory rate due to the following:

	1979	1978
Statutory rate	46.0%	48.0%
Decreases:		
Excess of allowable tax depreciation and amortization over book amounts	(6.3)	(10.2)
Costs capitalized on books, expensed for income taxes:		
AFDC	(11.1)	(10.2)
Taxes, pensions and insurance	(4.8)	(5.9)
Investment tax credits	(4.9)	(9.4)
Miscellaneous	(2.3)	(2.1)
Actual rate	16.6%	10.2%

4. Other Investments

The Company and Long Island Lighting Company have each contributed $58,417,000 as of December 31, 1979 ($57,544,000 at December 31, 1978) for a joint venture to construct a nuclear generating station in the Town of New Haven near Lake Ontario. The Company has recorded $24,845,000 of its contribution in other investments as of December 31, 1979 ($28,131,000 at December 31, 1978) and the balance of $33,572,000 at December 31, 1979 ($29,413,000 at December 31, 1978) is included in CWIP. As of December 31, 1979 the Company has recorded $24,840,000 in notes payable to the joint venture which is netted against other investments.

The Company's application to the New York State Board on Electric Generation Siting and the Environment (Siting Board), filed in November 1978, was dismissed by the Siting Board in October 1979 on the grounds that ownership of the New Haven units was not reasonably certain. A petition for rehearing has been filed with the Siting Board. Also, a motion has been filed with the Nuclear Regulatory Commission to postpone its proceedings regarding the Company's application for the nuclear units until the proceeding before the Siting Board is resolved (See also page 10, Future Power Supply).

The Company has entered into long-term contracts for the supply of coal to the Homer City Generating Station and, in that connection, has agreed to make loans (maximum aggregate amount of $23,150,000 approved by the PSC) to the mining companies. These loans (amounting to $19,375,000 at December 31, 1979 and 1978) are being made on first mortgage notes maturing December 31, 1981 which currently bear interest at one-half of one percent above the prime interest rate in effect from time to time. In April 1979, the Company sold to Chemical Bank 100% participations in these notes. The participations have been recorded as long-term notes payable. The agreement with Chemical Bank requires the Company to repurchase the participations under certain conditions.

5. Bank Loans and Other Borrowings

The Company has a revolving credit agreement with eighteen New York banks which provides for borrowing up to $75,000,000 through January 31, 1982 at the prime commercial rate in effect from time to time at The Chase Manhattan Bank, N.A. and payment of a commitment fee of one-half of one percent per annum on the unborrowed amount. There was no balance outstanding during 1979 and the average balance outstanding during 1978 was $569,000. The loan agreement does not require compensating balances. However, the Company maintains balances which generally have averaged 10% of the available line of credit during 1979. A substantial portion of these balances represent normal working account funds.

Interim financing in the form of short-term borrowings on commercial paper ($25,500,000 at December 31, 1979) is also utilized to finance construction expenditures. The average daily aggregate commercial paper borrowing outstanding amounted to $22,500,000 during 1979 and $47,500,000 during 1978 (calculated as the average of the sum of daily borrowings) and the weighted average interest rate was 11.6% in 1979 and 7.9% in 1978 (calculated by dividing total interest expense by the average of the sum of the daily borrowings). The maximum borrowing on commercial paper at any time was $72,000,000 during 1979 and $75,000,000 during 1978.

6. Supplementary Income Statement Information

Charges for maintenance and repairs, and depreciation, other than those set forth in the statement of income, were not significant in amount. Neither advertising costs nor research and development costs exceed 1% of total revenues and there are no royalties.

Taxes, other than federal income taxes, and rental charges are classified as follows:

	1979	1978
	(Thousands of Dollars)	
Real estate and personal property	$26,773	$24,982
Franchise and gross receipts	31,633	28,057
Social security	5,966	4,747
Miscellaneous	3,098	3,133
Total, charged principally to tax expense	$67,470	$60,919
Rentals, charged principally to operating expenses	$ 3,033	$ 3,038

7. Industry Segment Information

Certain information pertaining to the electric and gas operations of the Company is as follows:

	1979	1978	1977	1976	1975
				(Unaudited)	
			(Thousands of Dollars)		
Operating Revenues:					
Electric	$ 477,643	$ 433,774	$ 374,456	$ 330,870	$ 277,097
Gas	110,568	98,397	84,996	77,397	63,688
Total	588,211	532,171	459,452	408,267	340,785
Operating Expenses:					
Electric	373,735	339,451	296,775	257,884	214,295
Gas	103,701	89,758	80,061	70,885	57,750
Total	477,436	429,209	376,836	328,769	272,045
Operating Income:					
Electric	103,908	94,323	77,681	72,986	62,802
Gas	6,867	8,639	4,935	6,512	5,938
Total	$ 110,775	$ 102,962	$ 82,616	$ 79,498	$ 68,740
Depreciation:[A]					
Electric	$ 40,679	$ 38,428	$ 31,718	$ 29,820	$ 27,874
Gas	3,128	3,034	2,826	2,769	2,720
Total	$ 43,807	$ 41,462	$ 34,544	$ 32,589	$ 30,594
Construction Expenditures:					
Electric	$ 141,580	$ 110,784	$ 154,460	$ 190,288	$ 150,011
Gas	4,348	4,314	4,033	3,259	3,225
Total	$ 145,928	$ 115,098	$ 158,493	$ 193,547	$ 153,236
Identifiable Assets:					
Electric	$1,532,984	$1,418,038	$1,310,846	$1,151,977	$ 973,002
Gas	97,538	95,022	95,029	93,147	92,250
Corporate	107,001	90,365	83,987	78,858	62,359
Total	$1,737,523	$1,603,425	$1,489,862	$1,323,982	$1,127,611

[A] Included in operating expenses.

8. Quarterly Financial Information (Unaudited)

The following is a summary of quarterly results of Company operations as previously reported to stockholders:

Quarter Ended	Operating Revenues	Operating Income	Net Income	Earnings Available for Common Stock	Average Shares Outstanding	Earnings Per Share
		(Thousands of Dollars)			(Thousands)	
1979						
March 31	$171,763	$31,801	$24,215	$20,943	25,717	$.81
June 30	138,789	26,890	20,378	16,901	25,828	.65
September 30*	127,847	25,426	22,121	18,437	25,939	.71
December 31	149,811	26,658	20,675	16,991	26,057	.65
1978						
March 31	$162,784	$32,448	$24,470	$21,197	21,598	$.98
June 30	128,429	25,835	17,810	14,538	23,547	.62
September 30	111,453	22,086	14,026	10,754	23,593	.46
December 31	129,504	22,593	14,257	10,985	24,796	.44

*See note 1-c

9. Jointly-Owned Generating Stations

The Company has an undivided 50% interest in the output and costs of three generating units comprising the Homer City Generating Station. The station is owned with Pennsylvania Electric Company which also operates the facility. The Company's share of the rated capability is 944 megawatts and consists of a net utility plant investment of $259,623,000, which includes $37,867,000 of construction work in progress. The accumulated provision for depreciation as of December 31, 1979 was $37,373,000. The Company's share of operation and maintenance expense of the station is reflected in the Statement of Income.

The Company's undivided interest percentages and investments included in CWIP at December 31, 1979 for other generating facilities, either planned or under construction, were Nine Mile Point Unit 2 (18%) $142,356,000, New Haven Units 1&2 (50%) $37,609,000, and Jamesport (50%) $60,082,000 (See also page 10, Future Power Supply).

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

The following supplementary information is supplied in accordance with the requirements of the Statement of Financial Accounting Standards No. 33 for the purpose of providing certain information about the effects of changing prices. The two methods used in this presentation inherently involve the use of assumptions, approximations and estimates and, therefore, the resulting measurements should be viewed in that context and not as precise indicators of the effect of inflation.

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

Under the rate-making prescribed by the regulatory commissions to which the Company is subject, only the historical cost of utility plant is recoverable in revenues as depreciation. Therefore, the excess of the cost of utility plant stated in terms of constant dollars or current cost over the historical cost of plant is not presently recoverable in rates as depreciation and is reflected as a reduction to net recoverable value. While the rate-making process gives no recognition to the cost of replacing utility plant, based on past practices the Company believes it will be allowed to earn on the increased cost of its net investment when replacement of facilities actually occurs.

	Year Ended December 31, 1979	
	Average 1979 Dollars	
	Constant Dollar	Current Cost
	(Thousands of Dollars)	
Income from continuing operations, as reported in the Statement of Income	$ 87,389	$ 87,389
Adjustment to restate depreciation expense	(37,315)	(51,636)
Income from continuing operations adjusted to reflect the effects of changing prices (excluding reduction of utility plant to net recoverable value for constant dollar measurement)	$ 50,074*	$ 35,753
Income from continuing operations per common share after preferred stock dividend requirements	$ 1.39*	$ .84
Increase in specific prices (current cost) of utility plant held during the year**		$ 204,494
Reduction of utility plant to net recoverable value	$ (143,410)	(31,484)
Effect of increase in general price level		(302,099)
Excess of increase in general price level over increase in specific prices after reduction to net recoverable value		(129,089)
Purchasing power gain on net amounts owed	99,063	99,063
Net	$ (44,347)	$ (30,026)
Net assets at year-end at net recoverable value	$ 649,320	$ 649,320

*After the reduction to net recoverable value, income from continuing operations on a constant dollar basis would change to a loss of $107,453 or $4.15 per average common share.

**At December 31, 1979, current cost of utility plant, net of accumulated depreciation, was $2,609,600 while net recoverable value at historical cost was $1,537,157.

10. Supplementary Information to Disclose the Effects of Changing Prices (Unaudited) (Continued)

Comparison of selected financial data stated in terms of a constant dollar, in average 1979 dollars, is as follows:

	Year Ended December 31,				
	1979	1978	1977	1976	1975
Operating revenues (000)	$588,211	$592,088	$550,330	$520,571	$459,595
Dividends declared per common share	1.72	1.87	1.92	2.04	1.98
Market price per common share at year-end	15.75	18.77	22.91	25.72	21.69
Average CPI-U	217.4	195.4	181.5	170.5	161.2

The current cost of utility plant, which includes land, land rights, intangible plant, property held for future use, and construction work in progress, represents the estimated cost of replacing existing utility plant assets and was determined primarily by indexing existing plant by the Handy-Whitman Index of Public Utility Construction Costs. The current year's provisions for depreciation on the constant dollar and current cost amounts of utility plant were determined by applying the Company's depreciation rates to the indexed plant amounts.

Fuel inventories, the cost of fuel used in generation, and gas purchased for resale have not been restated from their historical cost in nominal dollars. Regulation limits the recovery of fuel and purchased gas costs to actual costs through the operation of adjustment clauses or adjustments in basic rate schedules. For this reason fuel inventories are effectively monetary assets.

As prescribed in Financial Accounting Standard No. 33, income taxes were not adjusted.

To properly reflect the economics of rate regulation, the reduction of utility plant to net recoverable value should be offset by the purchasing power gain on net amounts owed. The gain from the decline in purchasing power of net amounts owed is primarily attributable to the substantial amount of debt which has been used to finance utility plant. Since the depreciation on this plant is limited to the recovery of historical costs, the Company does not have the opportunity to realize a holding gain on debt and is limited to recovery only of the embedded cost of debt capital.

COOPERS & LYBRAND

IN PRINCIPAL AREAS OF THE WORLD

1251 AVENUE OF THE AMERICAS
NEW YORK, N.Y. 10020

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

We have examined the balance sheets of New York State Electric & Gas Corporation as of December 31, 1979 and 1978 and the related statements of income, retained earnings and changes in financial position for the years then ended and the statement of capital stock and long-term debt as of December 31, 1979. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the financial position of New York State Electric & Gas Corporation at December 31, 1979 and 1978 and the results of its operations and the changes in its financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

February 1, 1980

Coopers & Lybrand

Discussion and Analysis of the Statement of Income

Operating Revenues

Total operating revenues increased $56,000,000, $72,700,000 and $51,200,000 respectively for 1979, 1978 and 1977 as compared with each of the previous years. The increases are attributable principally to increased fuel and gas adjustment revenue ($32,200,000, $16,200,000 and $43,200,000) increased rates ($17,800,000, $45,400,000 and $5,000,000) and additional sales of electricity. Kilowatt-hour sales (excluding sales to other utilities) increased 3% in each of the years 1979, 1978 and 1977. Unit sales of gas decreased 2% in 1979, increased 4% in 1978 and decreased 11% in 1977.

Operating Expenses

During each of the past three calendar years, major items of operating expense increased over the corresponding prior period. Operation - fuel increased $23,800,000 (20%) in 1979, $31,200,000 (36%) in 1978 and $14,600,000 (20%) in 1977. The increases in 1979 and 1978 were due to increased coal consumption and increased prices. The increase in 1977 was due to increased prices. Operation - other increased between 10% and 12% in each period primarily due to increased Company labor and material costs. Electricity purchased and interchanged decreased in 1979 and 1978 due to increased Company generation of power and increased in 1977 due to power purchased to replace reduced deliveries of low-cost hydroelectricity. Gas purchased reflects higher unit costs for each period. During 1979 and 1977 such higher cost was partially offset by decreased units purchased. Federal income taxes increased $10,800,000 in 1979, $16,000,000 in 1978 and decreased $7,400,000 in 1977. The changes in federal income tax are due primarily to changes in taxable income. Higher real property and state gross receipts taxes were largely responsible for increases in other taxes.

Other Income and Deductions

Allowance for other funds used during construction increased $6,800,000 in 1979, decreased $3,400,000 in 1978 and increased $6,300,000 in 1977 due primarily to corresponding changes in the levels of construction work in progress.

Federal income tax credit increased $1,400,000 in 1979 and $7,100,000 in 1978 due to an increase in the imputed income tax benefit of AFDC and a larger credit for ITC shared due to increased taxable income allowing for utilization of more ITC.

Interest Charges and Preferred Stock Dividends

Interest charges before offset for AFDC - borrowed funds increased due to borrowings to finance the Company's construction program. The offsetting allowance for borrowed funds used during construction increased in 1979 and 1977 due primarily to higher amounts of construction work in progress. The increase in 1979 was partially offset by the use of a lower net of income tax rate. The AFDC - borrowed funds decreased for 1978 due to the use of a lower net of income tax rate and lower amounts of construction work in progress. Preferred dividends increased in 1979 due to the issuance of a new series of preferred stock.

COMMON STOCK — MARKET PRICE RANGE AND DIVIDENDS 1979 AND 1978

	Price of Common Stock New York Stock Exchange Composite				Dividends Paid Per Share	
	1979		1978			
	High	Low	High	Low	1979	1978
First Quarter	$18⅛	$16⅞	$19½	$18⅛	$.42	$.42
Second Quarter	18⅛	15⅞	19⅜	17¾	.42	.42
Third Quarter	18⅛	15¾	19⅛	18⅛	.44	.42
Fourth Quarter	16⅜	15	19	16⅜	.44	.42

Financial and Operating Statistics

SUMMARY OF EARNINGS	1979	1978	1977	1976	1975	1974	1969
				Dollars in Thousands			
OPERATING REVENUES:							
Electric	$477,643	$433,774	$374,456	$330,870	$277,097	$237,955	$137,130
Gas	110,568	98,397	84,996	77,397	63,688	58,049	37,727
Total	588,211	532,171	459,452	408,267	340,785	296,004	174,857
OPERATING EXPENSES:							
Operation—fuel	142,141	118,384	87,181	72,621	69,741	58,059	15,215
—other	83,226	74,465	67,544	60,132	51,346	46,052	27,892
Electricity purchased and interchanged	2,626	19,059	46,599	33,679	15,884	4,108	14,731
Gas purchased	74,542	63,896	56,284	47,944	37,904	33,866	21,311
Maintenance	40,569	38,529	33,709	29,757	22,887	22,047	10,628
Depreciation	43,807	41,462	34,544	32,589	30,594	28,712	18,978
Federal income tax	27,163	16,350	330	7,751	5,127	6,674	5,311
Other taxes	63,362	57,064	50,645	44,296	38,562	35,039	21,433
Total	477,436	429,209	376,836	328,769	272,045	234,557	135,499
OPERATING INCOME	110,775	102,962	82,616	79,498	68,740	61,447	39,358
OTHER INCOME AND DEDUCTIONS:							
Allowance for other funds used during construction	17,486	10,659	14,056	7,803	4,370	2,266	3,767
Federal income tax credit	9,815	8,383	1,255	1,166	987	751	—
Other, net	93	202	(160)	(158)	185	3,034	(165)
INCOME BEFORE INTEREST CHARGES	138,169	122,206	97,767	88,309	74,282	67,498	42,960
INTEREST CHARGES:							
Interest on long-term debt	55,347	52,337	45,119	39,712	33,516	29,711	17,396
Other interest	3,289	5,302	4,010	2,673	1,623	675	630
Allowance for borrowed funds used during construction	(7,856)	(5,996)	(11,307)	(5,961)	(4,536)	(1,643)	(2,428)
Interest charges—net	50,780	51,643	37,822	36,424	30,603	28,743	15,598
NET INCOME	87,389	70,563	59,945	51,885	43,679	38,755	27,362
PREFERRED STOCK DIVIDENDS	14,117	13,090	13,094	10,465	10,402	8,610	3,459
EARNINGS AVAILABLE FOR COMMON STOCK	73,272	57,473	46,851	41,420	33,277	30,145	23,903
COMMON STOCK DIVIDENDS	44,441	38,732	33,564	28,375	21,780	19,800	15,587
RETAINED EARNINGS	$ 28,831	$ 18,741	$ 13,287	$ 13,045	$ 11,497	$ 10,345	$ 8,316
Average number of shares of common stock outstanding (thousands)	25,886	23,393	21,208	18,181	15,450	13,500	11,391
Earnings per average share	$2.83	$2.46	$2.21	$2.28	$2.15	$2.23	$2.10
Dividends paid per share	$1.72	$1.68	$1.60	$1.60	$1.47	$1.47	$1.39
INCOME STATISTICS							
Income before interest charges—percent of operating revenues	24.8	24.1	23.7	23.1	23.1	23.4	26.0
Average common stock equity per share	$ 21.17	$ 20.82	$ 20.17	$ 19.96	$ 19.76	$ 19.98	$ 17.20
Return on average common stock equity—percent	13.4	11.8	10.9	11.4	10.9	11.2	12.2
Mortgage bond interest—times earned	2.6	2.5	2.5	2.4	2.5	2.8	3.3
Interest charges and preferred dividends—times earned	2.0	1.8	1.8	1.8	1.7	1.8	2.1
Operating income before income taxes:							
Electric	$129,869	$110,625	$ 78,608	$ 79,706	$ 67,153	$ 61,375	$ 39,786
Gas	8,069	8,687	4,338	7,544	6,714	6,746	4,883

Financial Statistics

	1979	1978	1977	1976	1975	1974	1969
			Dollars in Thousands				
PROPERTY, PLANT AND EQUIPMENT:							
Additions:							
Electric	$ 165,868	$ 124,746	$ 177,872	$ 202,685	$ 156,406	$ 106,710	$ 82,357
Gas	4,220	3,759	3,623	2,961	2,659	4,142	5,002
Other	1,182	3,248	2,361	1,665	3,077	5,971	1,443
Total	171,270	131,753	183,856	207,311	162,142	116,323	88,802
Retirements and adjustments:							
Electric	10,436	13,359	11,065	7,791	7,757	7,372	1,882
Gas	628	667	609	644	582	563	41
Other	856	1,261	508	840	314	640	5,335
Total	11,920	15,287	12,182	9,275	8,653	8,575	7,258
Balance end of year:							
Electric	1,787,229	1,631,797	1,520,410	1,353,604	1,158,710	1,010,061	717,993
Gas	120,760	117,168	114,076	111,062	108,745	106,668	88,657
Other	40,910	40,584	38,597	36,743	35,918	33,155	21,476
Total	$1,948,899	$1,789,549	$1,673,083	$1,501,409	$1,303,373	$1,149,884	$828,126
ACCUMULATED DEPRECIATION	$ 411,742	$ 376,933	$ 350,014	$ 324,852	$ 300,862	$ 278,913	$181,301
CAPITALIZATION:							
Debt:							
Long-term	$ 780,671	$ 721,347	$ 676,961	$ 580,026	$ 477,080	$ 452,409	$327,013
Notes payable	25,500	35,300	80,500	55,500	74,500	32,000	27,500
Total debt	806,171	756,647	757,461	635,526	551,580	484,409	354,513
Preferred stock	196,287	176,375	176,463	176,543	146,638	146,661	67,036
Common stock equity:							
Common stock	359,780	352,541	280,615	243,971	200,460	150,889	126,954
Capital stock expense	(4,727)	(4,614)	(4,403)	(4,238)	(3,969)	(3,715)	(2,722)
Retained earnings	214,310	185,479	166,738	153,451	140,406	128,909	94,687
Total common stock equity	569,363	533,406	442,950	393,184	336,897	276,083	218,919
Total capitalization	$1,571,821	$1,466,428	$1,376,874	$1,205,253	$1,035,115	$ 907,153	$640,468
CAPITALIZATION RATIOS (percent):							
Long-term debt	49.7	49.2	49.2	48.1	46.1	49.9	51.0
Notes payable	1.6	2.4	5.8	4.6	7.2	3.5	4.3
Preferred stock	12.5	12.0	12.8	14.7	14.2	16.2	10.5
Common stock equity	36.2	36.4	32.2	32.6	32.5	30.4	34.2
RATIO OF MORTGAGE BONDS TO NET UTILITY PLANT (percent)	49.5	51.0	51.1	49.2	47.5	51.7	47.2
NUMBER OF STOCKHOLDERS:							
Common stock	67,014	64,579	51,580	45,146	40,033	32,216	20,216
Preferred stock	6,308	6,503	6,544	6,591	6,454	6,257	1,526
PAYROLL (including pensions, etc.):							
Charged to operations	$ 66,611	$ 58,186	$ 55,639	$ 51,175	$ 44,163	$ 39,271	$ 23,584
Charged to construction and other accounts	41,664	40,179	37,518	34,419	30,592	29,332	17,397
Total	$ 108,275	$ 98,365	$ 93,157	$ 85,594	$ 74,755	$ 68,603	$ 40,981
Number of employees—end of year	4,200	4,215	4,202	4,170	4,131	4,179	3,811

Electric Sales Statistics

	1979	1978	1977	1976	1975	1974	1969
Kwh Sales (millions):							
Residential	4,329	4,297	4,203	4,093	3,864	3,647	2,668
Commercial	2,455	2,438	2,370	2,322	2,215	2,090	1,474
Industrial	2,843	2,632	2,515	2,369	2,221	2,240	1,974
Street lighting	109	109	111	111	110	108	91
Public authorities and other	1,043	1,016	1,012	1,001	972	936	647
Other electric utilities	10	23	27	26	25	224	456
Total	10,789	10,515	10,238	9,922	9,407	9,245	7,310
Operating Revenues (thousands):							
Residential	$215,504	$197,024	$168,041	$151,790	$125,928	$109,841	$ 66,575
Commercial	111,292	103,192	89,899	79,857	67,554	55,670	28,675
Industrial	94,013	81,332	70,009	58,095	48,033	39,523	21,421
Street lighting	7,355	6,967	6,742	5,971	5,516	5,269	4,071
Public authorities and other	42,447	38,712	34,034	29,837	25,285	20,246	9,482
Other operating revenues	6,731	6,109	5,284	4,906	4,394	3,929	2,454
Other electric utilities	301	438	447	414	387	3,477	4,452
Total operating revenues	$477,643	$433,774	$374,456	$330,870	$277,097	$237,955	$137,130
Sales Revenues per kwh (cents):							
Residential	4.98	4.59	4.00	3.71	3.26	3.01	2.50
Commercial	4.53	4.23	3.79	3.44	3.05	2.66	1.95
Industrial	3.31	3.09	2.78	2.45	2.16	1.76	1.09
Street lighting	6.75	6.39	6.07	5.38	5.01	4.88	4.46
Public authorities and other	4.07	3.81	3.36	2.98	2.60	2.16	1.46
Other electric utilities	3.01	1.90	1.66	1.59	1.55	1.55	.98
Average revenue per kwh	4.36	4.07	3.61	3.28	2.90	2.53	1.84
Total Customers (end of year)	656,146	648,638	640,361	632,148	624,087	615,617	554,318
Number of Customers (average for year):							
Residential	586,665	578,982	571,701	564,502	556,622	548,635	490,712
Commercial	56,568	55,725	55,113	54,808	54,413	53,990	50,037
Industrial	1,290	1,298	1,284	1,279	1,235	1,192	1,234
Other	9,396	9,226	9,042	8,633	8,292	7,906	7,186
Total	653,919	645,231	637,140	629,222	620,562	611,723	549,169
Annual Average Use (kwh):							
Residential	7,379	7,422	7,352	7,252	6,942	6,647	5,436
Commercial	43,399	43,751	43,003	42,366	40,707	38,710	29,462
Industrial (thousands)	2,204	2,028	1,959	1,852	1,798	1,879	1,600
Annual Average Bill:							
Residential	$ 367	$ 340	$ 294	$ 269	$ 226	$ 200	$ 136
Commercial	1,967	1,852	1,631	1,457	1,242	1,031	573
Industrial	72,878	62,659	54,524	45,422	38,893	33,157	17,359

Electric Operating Statistics

	1979	1978	1977	1976	1975	1974	1969
PRODUCTION DATA:							
System Capability (megawatts):							
Net generating capability:							
Steam	1,734	1,728	1,527	1,377	1,375	1,367	1,317
Hydro	38	38	38	38	38	38	38
Internal combustion	14	14	14	14	14	14	13
Total	1,786	1,780	1,579	1,429	1,427	1,419	1,368
Purchased—firm contracts	880	812	924	1,048	839	706	545
Total system capability	2,666	2,592	2,503	2,477	2,266	2,125	1,913
Annual Load Factor (percent)	65.2	63.6	62.9	61.0	62.2	66.2	62.4
Coal Burned (thousands of net tons)	4,748	4,430	3,720	3,395	3,288	3,564	2,113
Coal Heat Value (Btu per lb.)	11,378	11,141	11,056	11,123	11,082	10,927	11,807
Btu per Kwh Generated (net)	10,582	10,744	11,145	11,112	10,932	10,926	10,745
Kwh Production—net (millions):							
Generated	10,430	9,350	7,606	7,046	6,870	7,344	4,909
Purchased	2,765	3,282	3,509	4,383	3,898	3,681	3,352
Interchanged	(1,082)	(909)	201	(298)	(420)	(890)	(143)
Total	12,113	11,723	11,316	11,131	10,348	10,135	8,118
Production Expenses (thousands):							
Generated	$171,079	$148,285	$110,448	$ 91,724	$ 85,655	$ 73,388	$ 20,652
Purchased	35,757	37,297	39,670	34,926	22,188	20,776	15,954
Interchanged (net)	(33,131)	(18,238)	6,929	(1,247)	(6,304)	(16,668)	(1,224)
Total	$173,705	$167,344	$157,047	$125,403	$101,539	$ 77,496	$ 35,382
Production Costs per Kwh (mills):							
Generated	16.40	15.86	14.52	13.02	12.47	9.99	4.21
Purchased	12.93	11.36	11.30	7.97	5.69	5.64	4.76
Average cost per kwh	14.34	14.27	13.88	11.27	9.81	7.65	4.36
ELECTRIC OPERATION AND MAINTENANCE EXPENSES (thousands):							
Production	$173,705	$167,344	$157,047	$125,403	$101,539	$ 77,496	$ 35,382
Transmission	8,616	8,171	7,612	7,058	5,482	5,186	3,508
Distribution	27,306	22,644	22,544	21,569	16,928	16,307	11,167
Customer accounting	10,467	9,467	8,527	7,672	6,633	5,730	3,718
Customer service	3,137	2,887	2,605	2,507	2,288	2,487	2,030
Administrative and general	29,664	25,537	22,972	20,068	16,900	13,901	7,007
Total	$252,895	$236,050	$221,307	$184,277	$149,770	$121,107	$ 62,812
ELECTRIC OPERATION AND MAINTENANCE EXPENSES—as a percent of electric operating revenues:							
Production	36.4	38.6	42.0	37.9	36.6	32.6	25.8
Transmission	1.8	1.9	2.0	2.1	2.0	2.2	2.6
Distribution	5.7	5.2	6.0	6.5	6.1	6.9	8.1
Customer accounting	2.2	2.2	2.3	2.3	2.4	2.4	2.7
Customer service	.6	.6	.7	.8	.8	1.0	1.5
Administrative and general	6.2	5.9	6.1	6.1	6.1	5.8	5.1
Total	52.9	54.4	59.1	55.7	54.0	50.9	45.8

Gas Department Statistics

	1979	1978	1977	1976	1975	1974	1969
Dekatherm (dth) Sales (thousands):							
Residential	17,312	18,386	18,373	19,958	18,559	19,768	19,984
Commercial	8,150	8,654	8,408	9,484	9,065	9,639	8,834
Industrial	9,336	8,651	7,968	9,243	8,886	10,411	10,340
Public authorities and other	3,600	3,638	3,132	3,808	3,264	3,468	3,178
Total	38,398	39,329	37,881	42,493	39,774	43,286	42,336
Operating Revenues (thousands):							
Residential	$ 54,196	$ 50,642	$ 44,895	$ 40,387	$ 33,745	$ 30,627	$ 20,790
Commercial	22,894	20,908	18,236	16,850	13,996	12,602	7,784
Industrial	23,461	18,252	15,205	13,668	11,101	10,531	6,486
Public authorities and other	9,498	8,047	6,289	6,131	4,531	4,007	2,307
Total sales revenues	110,049	97,849	84,625	77,036	63,373	57,767	37,367
Other operating revenues	519	548	371	361	315	282	245
Total operating revenues	$110,568	$ 98,397	$ 84,996	$ 77,397	$ 63,688	$ 58,049	$ 37,612
Sales Revenues per dth:							
Residential	$ 3.13	$ 2.75	$ 2.44	$ 2.02	$ 1.82	$ 1.55	$ 1.04
Commercial	2.81	2.42	2.17	1.78	1.54	1.31	.88
Industrial	2.51	2.11	1.91	1.48	1.25	1.01	.63
Public authorities and other	2.64	2.21	2.01	1.61	1.39	1.16	.73
Average revenue per dth	$ 2.87	$ 2.49	$ 2.23	$ 1.81	$ 1.59	$ 1.33	$ .88
Total customers (end of year)	126,146	125,492	125,450	126,027	126,507	126,563	121,414
Number of Customers: (average for year)							
Residential with house heating	98,044	97,469	97,082	97,496	97,091	95,532	87,803
Residential without house heating	11,917	12,124	12,630	12,812	13,329	14,442	16,309
Commercial with space heating	12,714	12,752	12,809	12,985	13,109	13,220	12,842
Commercial without space heating	1,198	1,233	1,234	1,266	1,282	1,302	1,422
Industrial	365	371	380	384	389	397	407
Other	1,163	1,185	1,241	1,142	1,157	1,136	1,052
Total	125,401	125,134	125,376	126,085	126,357	126,029	119,835
Annual Average Use (dth):							
Residential	157	168	167	181	168	180	192
Commercial	586	619	599	665	630	664	619
Industrial	25,578	23,321	20,968	24,070	22,843	[illegible],224	25,405
Annual Average Bill:							
Residential	$ 493	$ 462	$ 409	$ 366	$ 306	$ 279	$ 200
Commercial	1,646	1,495	1,300	1,182	973	868	546
Industrial	64,277	49,197	40,013	35,594	28,537	26,526	15,936
Cost of Natural Gas Purchased:							
Amount (thousands)	$ 74,542	$ 63,896	$ 56,284	$ 47,944	$ 37,904	$ 33,866	$ 21,311
Per dth	1.94	1.62	1.50	1.11	.94	.78	.50
Gas Operation and Maintenance Expenses (thousands):							
Production	$ 74,804	$ 64,089	$ 56,923	$ 48,210	$ 38,089	$ 33,956	$ 21,364
Transmission and distribution	7,177	6,775	6,469	5,939	4,936	4,678	2,667
Customer accounting	2,158	1,988	1,812	1,705	1,493	1,367	867
Customer service	646	479	480	321	308	306	250
Administrative and general	5,424	4,952	4,326	3,681	3,166	2,717	1,708
Total	$ 90,209	$ 78,283	$ 70,010	$ 59,856	$ 47,992	$ 43,024	$ 26,856
Gas Operation and Maintenance Expenses—as a percent of gas operating revenues:							
Production	67.7	65.1	67.0	62.3	59.8	58.5	56.8
Transmission and distribution	6.5	6.9	7.6	7.7	7.8	8.1	7.1
Customer accounting	1.9	2.0	2.1	2.2	2.3	2.4	2.3
Customer service	.6	.5	.6	.4	.5	.5	.7
Administrative and general	4.9	5.0	5.1	4.7	5.0	4.6	4.5
Total	81.6	79.5	82.4	77.3	75.4	74.1	71.4

Directors

Charles F. Kennedy
Chairman and Chief Executive Officer of the Company

Wells P. Allen, Jr.
President and Chief Operating Officer of the Company

Roy S. Arrandale
Technical Consultant to Thatcher Glass Manufacturing Co., Elmira, N.Y.

Alison P. Casarett
Dean, The Graduate School, Cornell University, Ithaca, N.Y.

Everett A. Gilmour
Chairman and President, The National Bank and Trust Company of Norwich, Norwich, N.Y.

Howard W. Gunlocke
Former President, Gunlocke Chair Company, Wayland, N.Y.

Legare R. Hole
Chairman and President, Columbian Rope Company, Auburn, N.Y.

Alexander Horwitz
Financial Consultant, Binghamton, N.Y.

William A. Lyons
Chairman of the Executive and Finance Committee of the Company

Alton G. Marshall
President, Rockefeller Center, Inc., New York, N.Y.

David R. Newcomb
President and Chief Executive Officer, Buffalo Forge Company, Buffalo, N.Y.

C. William Stuart
Chairman of the Board and Chief Executive Officer, C. H. Stuart Inc., Newark, N.Y.

Charles A. Winding
Director of various corporations, Elmira, N.Y.

Directors Emeritus

Sheldon H. Close
Attorney, Oneonta, N.Y.

Edgar W. Couper
Former Chancellor, New York State Board of Regents, Binghamton, N.Y.

Officers

Binghamton Executive Offices
4500 Vestal Parkway East, Binghamton, N.Y. 13902 Tel. 607/729-2551

Charles F. Kennedy
Chairman and Chief Executive Officer

Wells P. Allen, Jr.
President and Chief Operating Officer

Dolores R. Hix*
Richard Kroboth
Assistants to the Chairman

E. Eugene Forrest
Senior Vice President Administration

Robert B. MacKenzie
Senior Vice President Engineering and Operations

Eugene P. Waters
Senior Vice President, Finance and Treasurer

James A. Ackerman
Vice President Area Administration

Orlin W. Darrach
Vice President Market Services

Allen E. Kintigh
Vice President Generation

Raymond A. Perine
Vice President Gas Operations

Bernard M. Rider
Vice President Electrical Engineering and Planning

Jack H. Roskoz
Vice President Electric Operations

Michael J. Turkovic
Vice President Purchasing

William P. Walker
Vice President Personnel

Francis X. Carney
Assistant Vice President Research and Development

Michael J. Ray
Assistant Vice President Project Engineering and Construction

Vincent W. Rider
Assistant Vice President Operations and Generation Services

Lynn L. Sweetland
Assistant Vice President Industrial Development

*Also Assistant Secretary

Ithaca Executive Offices
Route 13, Dryden Road, Ithaca, N.Y. 14850 Tel. 607/347-4131

L. Theodore Everett
Senior Vice President Corporate

Jaime S. Hecht
Secretary

Richard A. Jacobson
Comptroller

Richard W. Page
Assistant Vice President Computer Services

John D. Scott
Assistant Vice President Economics

Richard P. Fagan
Assistant Comptroller

Matthew F. Felo, Jr.
Assistant Treasurer

James M. Niefer
Assistant Secretary

General Counsel:
Huber Magill Lawrence & Farrell
99 Park Avenue, New York, N.Y. 10016

Transfer Agent for Preferred Stock:
Chemical Bank
55 Water Street, New York, N.Y. 10041

Transfer Agent for Common Stock:
Manufacturers Hanover Trust Company
4 New York Plaza, New York, N.Y. 10015

Stockholder Records: Communications regarding stock transfer requirements or lost certificates should be directed to the transfer agent. Changes of address may be sent to the Secretary. Inquiries on dividends and dividend reinvestment should be directed to Shareholder Services.

The Company files an annual report on Form 10-K with the Securities and Exchange Commission. Stockholders may obtain a free copy of this report, excluding exhibits, from the Secretary upon request.

Securities Listed on the New York Stock Exchange:
Common Stock
3.75% Preferred Stock
8.80% Preferred Stock
8.48% Preferred Stock ($25 Par Value)
7⅝% First Mortgage Bonds due 1991
10.60% First Mortgage Bonds due 1982
7⅝% First Mortgage Bonds due 2001
9¾% First Mortgage Bonds due 2005
9¾% First Mortgage Bonds due 2006
8⅝% First Mortgage Bonds due 2007

New York State Electric & Gas Corporation
Box 287, Ithaca, New York 14850

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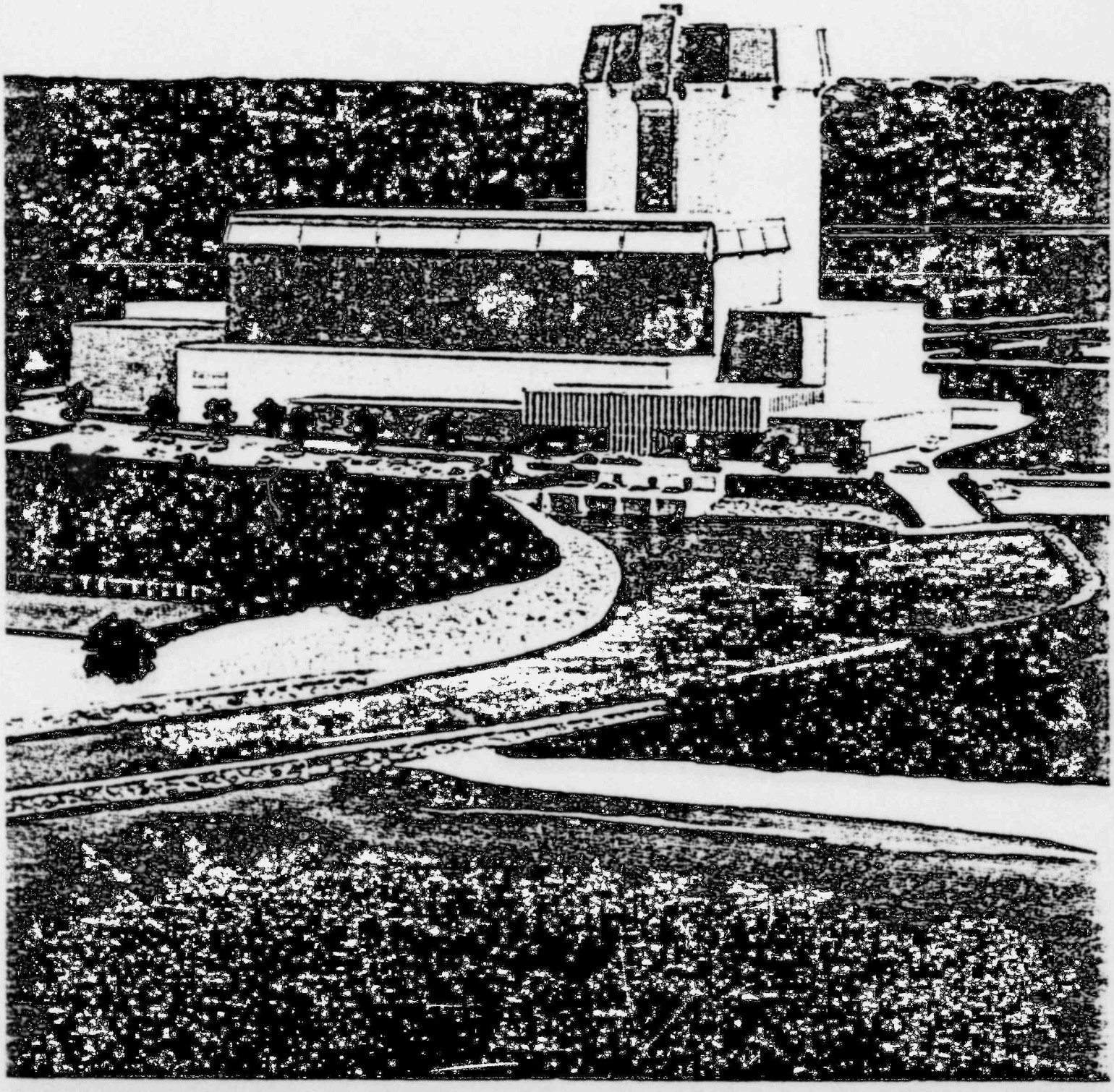

Corporate Information

Executive Offices
250 Old Country Road
Mineola, NY 11501

Common Stock Listed
New York Stock Exchange
Pacific Stock Exchange

Transfer Agents
Common Stock
Manufacturers Hanover Trust Company
4 New York Plaza
New York, NY 10015
Preferred Stock
Citibank, N.A.
111 Wall Street, Sort 3300
New York, NY 10043

Registrar
Common and Preferred Stock
Bradford Trust Company
2 Broadway
New York, NY 10004

Shareowners' Agent for Automatic Dividend Reinvestment Plan
Citibank, N.A.
Dividend Reinvestment Service
111 Wall Street, Sort 3301
New York, NY 10043

Annual Meeting
The Annual Meeting of Shareowners will be held at the Company's Hicksville Operations Center, Hicksville, NY, on April 15, 1980, at 2:00 p.m. In connection with this meeting, proxies will be solicited by the Company. A notice of the meeting, a proxy statement, and a proxy will be mailed to shareowners in March.

Form 10-K Annual Report
The Company will furnish as soon as available, without charge, a copy of the Company's Annual Report, Form 10-K, with exhibits, as filed with the Securities and Exchange Commission, upon written request to Mr. Spencer E. Hughes, Jr., Manager, Investor Relations, Long Island Lighting Company, 250 Old Country Road, Mineola, NY 11501. The Company anticipates that the Form 10-K will be available after April 7, 1980.

ON THE COVER
The cover shows the architect's rendering of the Shoreham Nuclear Power Station. Completion of the station is scheduled for 1981. This station will reduce LILCO's requirements for oil to generate electricity by eight million barrels, or about one-third, annually and will save customers an estimated total of $2.8 billion over a 30-year life as compared with an alternative coal-fired plant.

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