NYSEG

NEW YORK STATE ELECTRIC & GAS CORPORATION

ANNUAL REPORT 1981

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Contents

Cover:
With the rising cost of new power plants, improvement and maintenance of existing facilities becomes increasingly important. Shown here is new control equipment at Goudey Station near Binghamton, a plant which produces 129,000 kilowatts from electricity generating units installed over 30 years ago.

Highlights of the Year

	1981	1980	Increase	Percent
Gross operating revenues (thousands)	$ 767,539	$ 645,314	$122,225	19
Income before interest charges (thousands)	$ 175,764	$ 145,886	$ 29,878	20
Earnings available for common stock (thousands)	$ 90,265	$ 73,637	$ 16,628	23
Earnings per share of common stock	$2.95	$2.70	$.25	9
Allowance for funds used during construction per share of common stock	$1.07	$1.13	$(.06)	(5)
Dividends paid per share of common stock	$1.94	$1.82	$.12	7
Taxes per share of common stock	$3.51	$2.98	$.53	18
Electricity sales to ultimate customers (million kwh)	11,008	10,742	266	2
Gas sales (thousand dekatherms)	39,956	37,658	2,298	6
Cost of fuel for electric generation (thousands)	$ 177,592	$ 151,404	$ 26,188	17
Total utility plant (thousands)	$2,391,712	$2,117,241	$274,471	13
Expenditures for construction (thousands)	$ 265,545	$ 154,516	$111,029	72
Book value per share of common stock (average)	$22.01	$21.92	$.09	—
Market value per share of common stock (year end)	$15.00	$14.88	$.12	1

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 14, 1982 at 11 a.m. Formal notice of the meeting, a proxy statement and form of proxy will be sent to stockholders in early April.

To the Owners of NYSEG:

In assessing 1981, probably the most significant event for NYSEG was the successful completion in October of a key rate proceeding. After eleven months of study, including twelve days of public hearings, the Public Service Commission approved a 22% increase in electric rates and a 5% increase in gas rates for total added revenues of $133 million annually, which was 87% of the amount requested. This was in marked contrast with the grossly inadequate rate relief in the two previous rate cases in 1979 and 1980 in which we received only about 40% of the amounts applied for.

Unfortunately, continued inflation and the attendant high costs of funds to finance our major capital requirements do not allow us much respite. Looking ahead to 1983 and the need to finance expenditures for completion of Somerset Generating Station and other construction makes it necessary for us to seek another rise in rates. Last month we filed for a $149-million, or 19%, increase in electric rates and a $4.9-million, or 2%, increase in gas rates. The proposed rates are based on a 17.5% return on common stock equity and projected operations for a calendar 1983 test year. They also include an increase in construction work in progress in rate base to $450 million from $200 million presently reflected in rates.

Somerset is a wholly-owned, 625,000-kilowatt, coal-fired generating station which is planned for initial service in late 1984. Its construction has been progressing on schedule and, when completed, it will reduce costly electricity purchases and contribute to a reduction in the use of oil for electric generation in the state. The only significant impediment to date has been the failure to obtain federal regulatory approval for a railroad connection, needed to transport coal and other raw materials to the plant, because of differences in public opinion as to a route for the facility. We anticipate that the Interstate Commerce Commission will decide the issue sometime this spring.

Wells P. Allen, Jr. (left) and Charles F. Kennedy

Another important regulatory decision pending is the Public Service Commission's study of the economic and financial implications of continuing construction of Nine Mile Point II nuclear generating station. The Company is one of five utility owners and holds an 18% interest in the plant which is about one-third built. It is being constructed by Niagara Mohawk and is scheduled for operation in late 1986. The PSC has substantially completed its deliberations, indicating that completion of the plant is warranted. A decision has not yet been formally issued. It is possible that the decision will include incentive provisions that benefit or penalize the project's owners if certain costs vary from prescribed target levels.

The estimated cost of Nine Mile Point II has risen sharply since 1974 when the project started. Like other nuclear plants presently under construction, costs have been affected by inflation, high interest rates, and revisions in regulatory requirements, some of which stem from the Three Mile Island accident. Since capital costs of other sources of electricity have also increased materially, the relative economic advantage of Nine Mile Point II remains largely unchanged. Moreover, the addition of nuclear capacity will reduce the state's dependence on imported oil.

Last October's favorable rate decision should permit some closing of the gap, experienced in recent years, between allowed return on common stock equity and the return actually earned. While we do not anticipate earning in 1982 the full 17% return granted by the PSC last October, we do expect to come closer to earning the allowed return than in previous years.

Rate decisions in the past year and other developments indicate that the regulatory climate in New York is improving. We were encouraged recently to read a PSC administrative law judge's recommended decision in a thorough, two-year-long proceeding exploring utility financial needs. His principal finding is that including construction work in rate base is the most effective and lowest-cost method to enable utilities to maintain financial integrity. We heartily agree and hope this proceeding, which is expected to be completed in 1982, will result in further improvement of regulation in New York.

To use a phrase heard quite regularly these days in the electric utility industry, we are beginning to see light at the end of the tunnel. Barring adverse developments we expect to be able to finance construction expenditures for Somerset, which peak in 1982 and 1983, then return to something resembling normalcy in the mid-1980s. For our stockholders it will mean fewer issues of new common stock which tend to dilute earnings. For our customers it will mean moderating increases in electric and gas rates. The extent of moderation will depend on the rate of inflation.

In last year's Annual Report we included a readership survey card which many stockholders completed and returned to us. We appreciate the response as your replies and comments help in planning this report and other stockholder communications.

We look forward to the future with confidence. NYSEG has a fine service area, a competent management team, and an employee group that is second to none in the utility industry. Employee dedication is amply demonstrated during storms and other emergencies when long, tedious hours are devoted to restoring service. In addition to their work responsibilities, many employees spend off-hours in community activities. We take this opportunity to acknowledge employee contributions and thank them for a job well done.

For the Board of Directors,

Charles H Kennedy

Chairman and Chief Executive Officer

Wells P Allen Jr.

President and Chief Operating Officer

March 1, 1982

Condensed Statement of Income

	1981	1980 (Thousands of Dollars)	Increase
REVENUES			
Sales of electricity	$609,178	$506,502	$102,676
Sales of gas	158,361	138,812	19,549
Total	767,539	645,314	122,225
EXPENSES			
Wages and salaries of employees and contributions to retirement and insurance plans (exclusive of $44,504,000 in 1981 and $43,046,000 in 1980 charged to construction, etc.)	83,044	73,442	9,602
Fuel used to produce electricity	177,592	151,404	26,188
Electricity purchased and interchanged	7,029	(2,030)	9,059
Gas purchased	112,176	100,895	11,281
Other materials, services and research	77,100	67,822	9,278
Federal taxes	39,044	21,600	17,444
State and local taxes	68,264	59,838	8,426
Depreciation	49,448	47,486	1,962
Total	613,697	520,457	93,240
Income available to investors	153,842	124,857	28,985
ALLOWANCE FOR FUNDS USED DURING CONSTRUCTION	32,719	30,925	1,794
INVESTORS' SHARE			
Interest on bonds	67,389	59,967	7,422
Interest on notes payable and other	11,371	7,611	3,760
Dividends on preferred stock	17,536	14,567	2,969
Dividends on common stock	58,657	49,091	9,566
Total	154,953	131,236	23,717
RETAINED IN THE BUSINESS	$ 31,608	$ 24,546	$ 7,062

General Review of the Year

Earnings and Dividends

Operating Income Rises 26%

Operating income was $145 million, an increase of $30 million, or 26%, over 1980. Revenues increased $122 million, which includes $57 million from higher electric and gas rates and $48 million from increased fuel and purchased-gas costs included in billings. Operating expenses, excluding energy production costs, were up 13%, largely as a result of inflationary rises in labor and materials expense.

Interest charges, including interest on short-term debt, rose $11 million, or 17%. Higher interest rates and increased borrowing required to finance construction were largely responsible for the increase.

Allowance for funds used during construction was 36% of earnings available for the common stock. This is a decline of six percentage points from 1980 and reflects rate increases which allowed construction work in progress in rate base.

Allowance for funds used during construction represents financing cost, such as bond interest, that is allocated to major projects under construction. It does not constitute cash earnings.

Earnings available for the common stock of $90 million increased 23% over 1980. On a per-share basis, earnings of $2.95 were up only 9% because of a 12% increase in average number of shares outstanding.

The quarterly dividend rate on the common stock was raised from 47 to 50 cents effective with the August 15, 1981 payment. This is the fourth consecutive year the dividend rate has been increased. The higher dividend, together with a greater number of shares outstanding, increased total common stock dividends $10 million, or 19%.

After dividends, the balance of net income of $32 million was added to common stock equity.

For federal income tax purposes, it is estimated that no portion of 1981 dividends was a return of capital; therefore the dividend is fully taxable as ordinary income. Similarly, the Company anticipates that no portion of 1982 dividends will be considered a return of capital.

Dividend Reinvestment Plan

New Tax Break For Stockholders

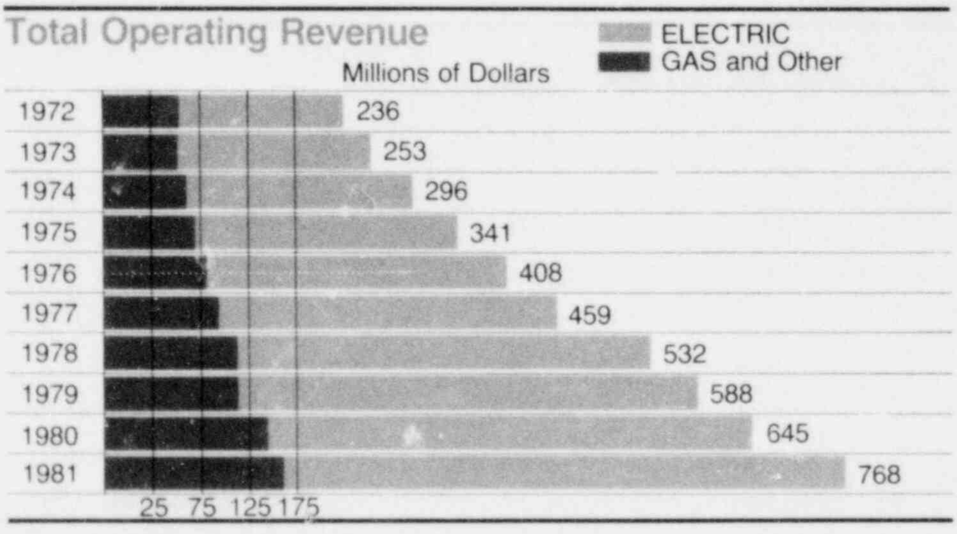
The Economic Recovery Tax Act of 1981 provides a tax benefit for eligible stockholders reinvesting dividends in qualifying utility companies such as NYSEG. Beginning in 1982, stockholders can exclude up to $750 ($1,500 on a joint return) of reinvested dividends from their taxable income. If the shares purchased are sold after one year, the proceeds will be taxable at capital gains rates which are lower than tax rates on ordinary income. There are certain U.S. Treasury requirements regarding retention of shares. Under present law, the tax benefit terminates at the end of 1985.

During 1981, participation in the Dividend Reinvestment and Stock Purchase Plan increased from 12,000 to 14,000 stockholders. These stockholders, representing about 20% of the total number of stockholders, purchased over $13 million in new shares by reinvesting dividends or making optional cash purchases. This compares with $8 million in 1980.

In January 1982 stockholder participation in the plan increased from 20 to 25%, probably because of the new tax law benefits.

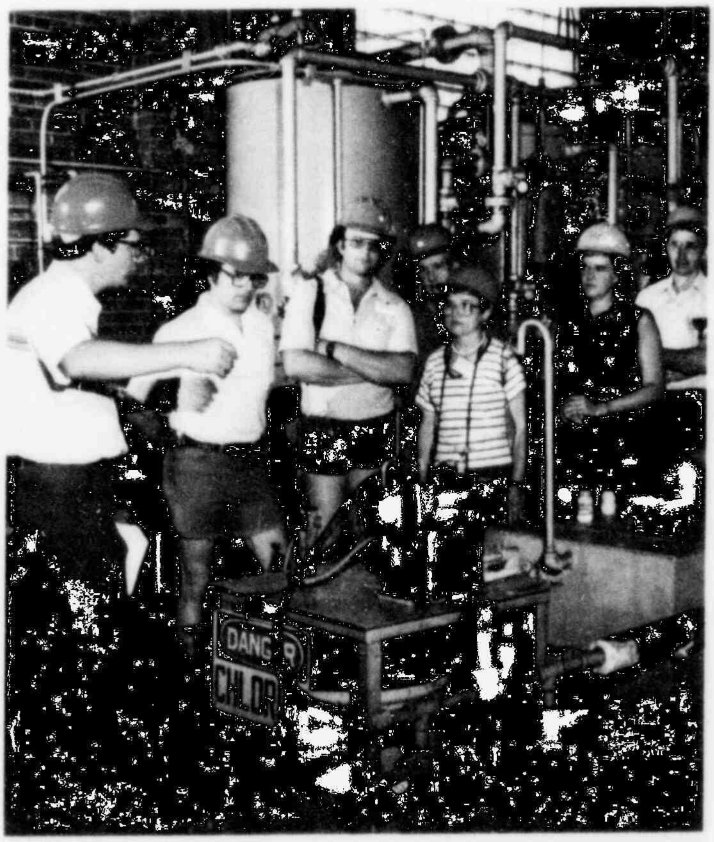
The plan allows shareholders to reinvest quarterly dividends and make monthly cash payments of up to $5,000 quarterly for purchase of shares. Dividends reinvested purchase shares at 95% of the average market price on the dividend payment date. There are no service charges or brokerage commissions.

If you are interested in enrolling in the plan or desire further information, please write:
NYSEG Shareholder Services,
P. O. Box 200, Ithaca, New York
14850.




A SHORT HISTORY
OF ENERGY


HOME
ENERGY GUIDE
ENERGY GUIDE LABEL QUIZ



Rate Matters
$133-Million Rate Increase Approved

In October 1981 the Public Service Commission approved a $124-million, or 22%, increase in electric rates and a $9-million, or 5%, increase in gas rates. The $133 million in higher revenues was 87% of the amount requested and included $45 million in temporary electric rates allowed on June 1. In the two previous general rate proceedings, the PSC had approved only about 40% of the amounts requested.

To improve cash flow and interest coverage, the PSC allowed portions of construction work in progress to be added to rate base. The temporary rates were based entirely on the addition of $275 million of construction work to rate base. The permanent rate increase, which went into effect on October 25, is based on $200 million of construction work in rate base. These additions to rate base substitute cash earnings for the non-cash allowance for funds used during construction. Furthermore, they lower the in-service cost of major projects since the financing costs during construction are not added to the cost of projects but are paid for currently by customers.

The October rate decision was predicated on an allowed 17% return on common stock equity, based on a test year ending October 31, 1982. It did not allow revenues to recover pre-construction expenditures on the abandoned New Haven nuclear project because a separate proceeding on that matter is pending. The Company's $153-million rate request had included about $15 million for the annual recovery over five years of these expenditures.

While the rate decision was a satisfactory one, the Company must look beyond October 1982. The effects of past and expected future inflation, including high interest costs, will continue to affect operations. For this reason it was necessary for the Company to seek another increase in rates. In February 1982 an application was filed with the PSC for a $149-million, or 19%, increase in electric rates and a $4.9-million, or 2%, increase in gas rates. The electric rate request is based on a 17.5% return on common stock equity, $450 million of construction work in rate base and a calendar 1983 test year. It also includes revenues for recovery over ten years of expenditures on the abandoned New Haven and Jamesport nuclear projects.

Power Supply
Generation Primarily Coal-Fired

All of NYSEG's steam-electric generating stations use coal as a primary fuel. These plants provide 98% of the Company's generation with hydro-electric facilities producing the remainder.

Total power supply in 1981, on a kilowatt-hour basis, was 12.3 billion kilowatt-hours, an increase of 1% over 1980. About 88% of this was generated by Company plants. The remainder was largely purchased under contracts with the New York State Power Authority and neighboring utilities.

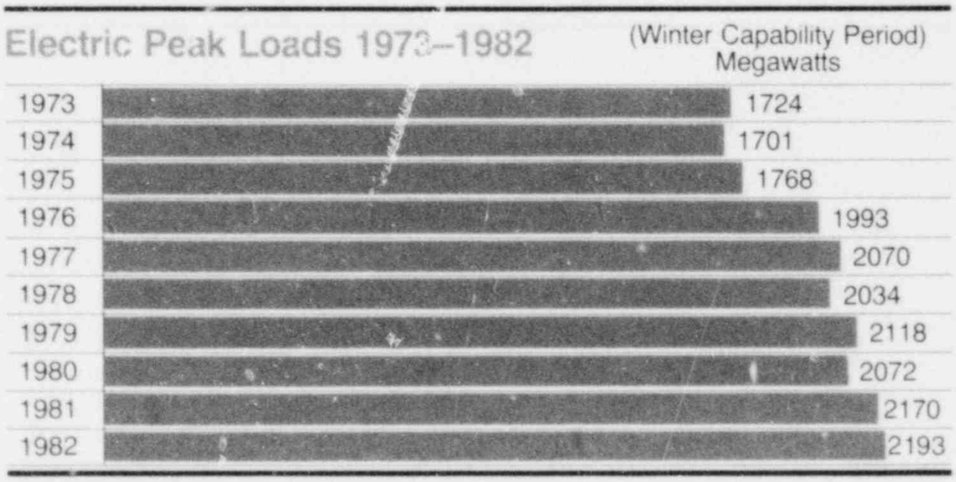
A new peak load of 2,193,000 kilowatts (kw) was set during very cold weather in mid-January 1982. The new peak exceeds the previous one, which was set a year earlier, by about 1%.

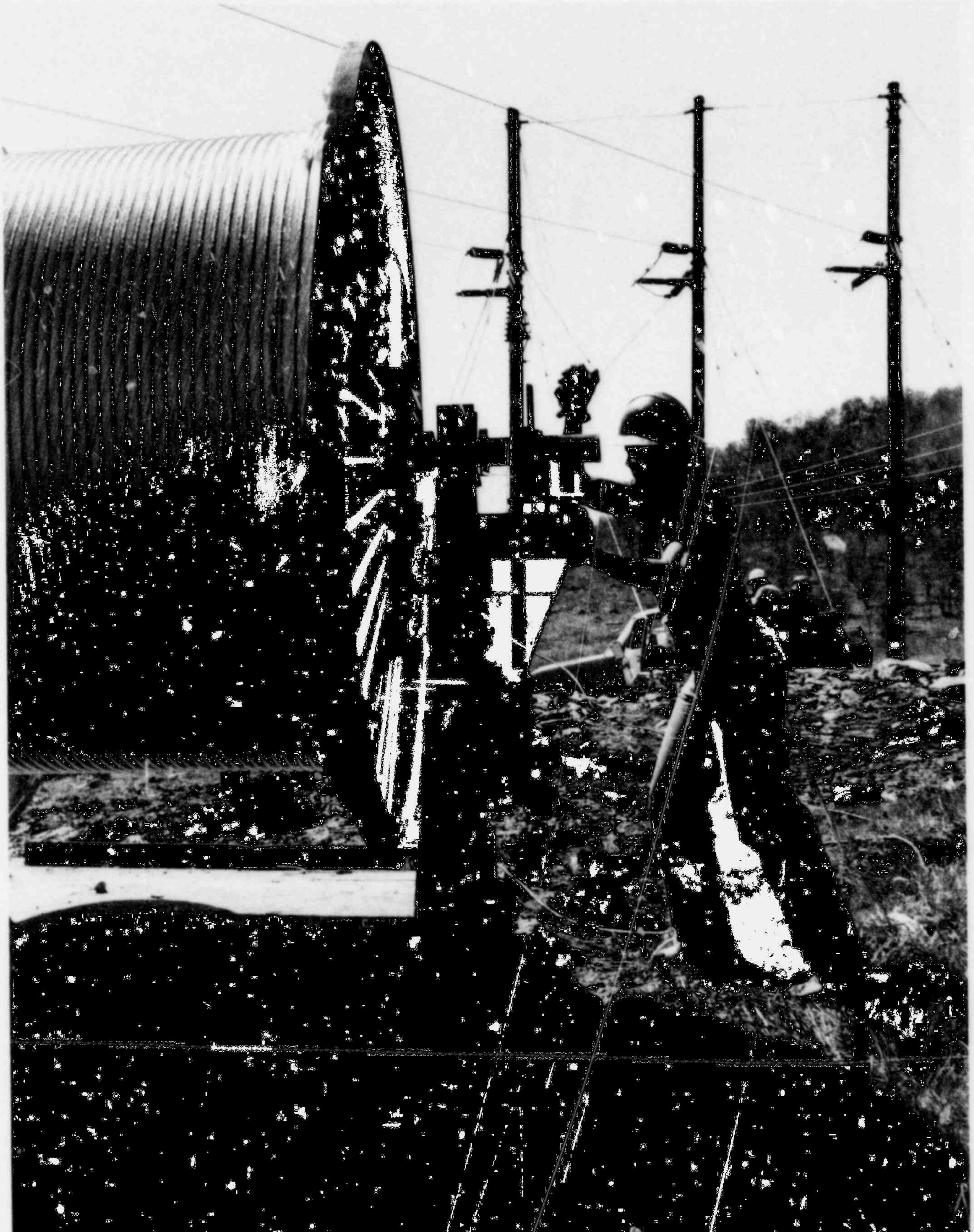
The Company's power supply capability to serve peak loads is currently 2,775,000 kw. This comprises 1,769,000 kw of Company generating capacity, 764,000 kw of purchases from the Power Authority and 242,000 kw of firm purchases from neighboring utilities.

A large part of the purchases from the Power Authority are from hydro projects on the Niagara and St. Lawrence Rivers. The chairman of the Authority has proposed a reallocation of this low-cost power throughout the state in 1985 and 1990, when present contracts expire. The Company's residential customers would continue to benefit from the power, but to a lesser extent than currently. No legislative action has been taken to date on the proposal.

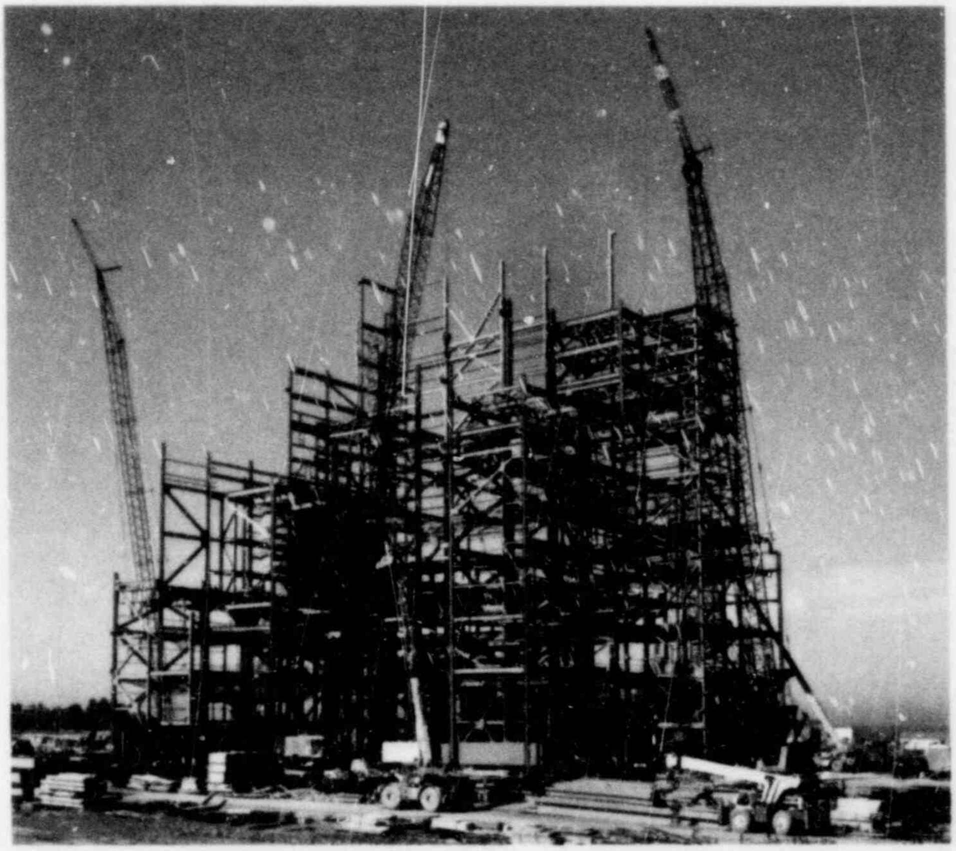
Despite a three-month strike of coal miners beginning in March 1981, the Company was able to maintain normal electricity production at all its plants except Homer City. Maintenance work scheduled for this facility late in 1981 was advanced so that there was no substantial loss of planned power production for the year.

Informing the public about energy matters is an important facet of NYSEG activities. Top: *Youngsters visit an energy museum at a Company office.* Bottom right: *As part of an energy seminar, a group of teachers tours an electricity generating plant.* Bottom left: *Displays at fairs and exhibitions help provide the public with information about wise energy use and conservation.*





Steel framing is erected for Somerset Generating Station, a coal-fired facility being built by the Company in western New York. It will add 625,000 kilowatts to electric generating capacity when completed in 1984.



Future Power Supply

Somerset Project Progresses

Good progress was made in 1981 on the construction of Somerset, a wholly-owned, 625,000-kw, coal-fired generating station being built near Lake Ontario in western New York. Steel structure for the main building has been erected and work has begun on facilities to bring lake cooling water to the plant. Engineering work will be substantially completed by the end of 1982. About 70% of the work, on a dollar basis, has been contracted for with remaining major contracts expected to be awarded by September 1982. The project is scheduled for completion in late 1984.

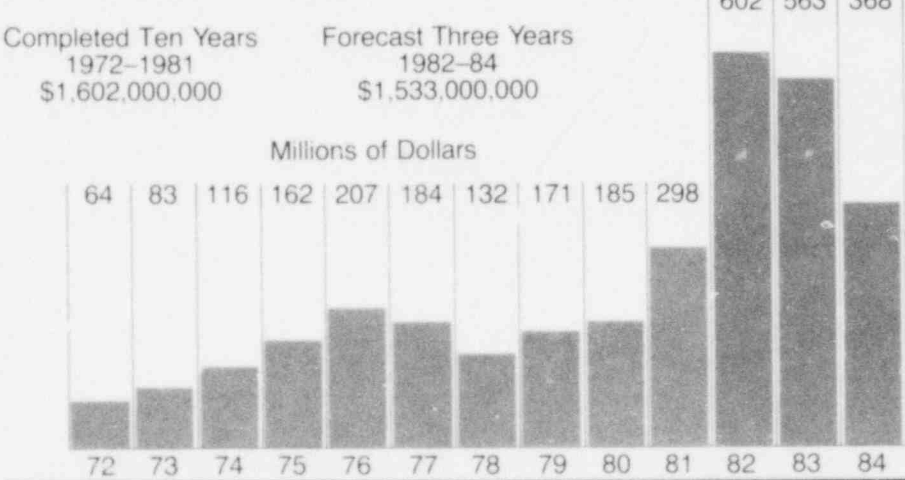
The plant is estimated to cost $1,072 million, which includes allowance for funds used during construction. The cost includes almost $300 million for environmental protection facilities including a wet limestone scrubber to remove sulphur dioxide from exhaust gases. At the end of 1981, expenditures of $215 million had been made on the plant.

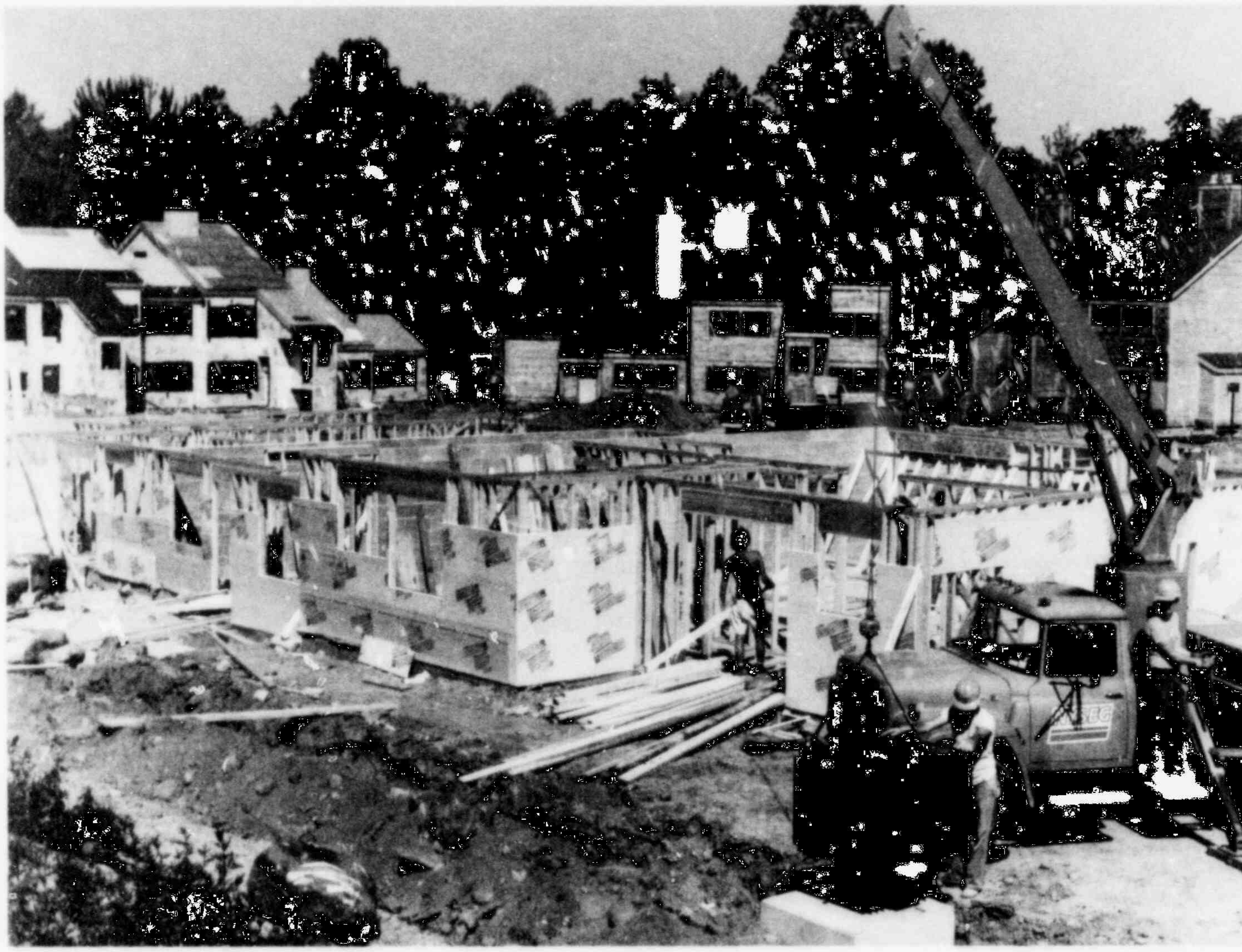
Public hearings on a railroad to bring coal and limestone to the plant were completed in December. Three routes for the railroad, varying in length from 15 to 30 miles, have been proposed to the U.S. Interstate Commerce Commission. Each has been opposed by various environmental and farmland preservation groups. The ICC is expected to decide the issue in the spring of 1982.

The Company is participating with four other New York utilities in the construction of a 1,084,000-kw nuclear generating station near Oswego, N.Y., known as Nine Mile Point II. NYSEG owns 18% of the unit, which is being built by Niagara Mohawk Power Corporation and scheduled for completion in late 1986. Like many nuclear plants currently under construction, the project has experienced a steady rise in estimated construction cost since its start in 1974. As a result, the PSC, in late 1981, initiated a proceeding to review the financial and cost implications of completing the plant. It has indicated that completion is warranted. It is possible that the PSC will set financial incentives and penalties for the project owners relating to final construction costs. NYSEG's share of the project's cost, including allowance for funds used during construction, is $712 million of which $235 million was spent at the end of 1981.

Whenever possible, NYSEG utilizes existing rights-of-way to build transmission lines. This is a new 115,000-volt line to strengthen electric service in the Oneonta area.

Construction Program





Terminated Nuclear Projects
Recovery of Expenditures Pending

In 1979 and 1980 the New York State Board on Electric Generation Siting and the Environment turned down proposals by NYSEG and Long Island Lighting Company to build jointly-owned nuclear generating plants at New Haven in upstate New York and at Jamesport in eastern Long Island.

The Company is seeking PSC approval to recover its expenditures on the projects through rates over a period of years. About $60 million ($43 million after tax effect) had been expended by NYSEG on Jamesport and $44 million ($33 million after tax effect) on New Haven. Most of the outlays were for environmental studies and other pre-construction work required by law.

In September 1981 a PSC administrative law judge recommended that recovery of the New Haven expenditures be approved. A PSC decision in the matter is expected shortly. Action on the Jamesport application is not expected until late 1982.

1981 Construction
Expenditures Total Almost $300 Million

Construction expenditures in 1981 were $298 million which includes $33 million of allowance for funds used during construction. Principal outlays were $123 million for Somerset Station, $62 million for the Company's share of Nine Mile Point II and $10 million for a hydro-electric project on the Hudson River at Mechanicville. The remainder was spent on projects for general improvement of electric and gas systems, including $43 million for minor projects, each costing $25,000 or less.

Future Construction
Outlays Continue at Record Highs

Outlays for construction are planned to continue at high levels through 1984 when Somerset Generating Station is expected to be completed. It is estimated that construction expenditures in 1982 through 1984 will aggregate $1,533 million, which includes $281 million of allowance for funds used during construction.

Somerset and its related rail facility will require $886 million. The Company's share of the Nine Mile Point II project is budgeted for $300 million. Other large expenditures include $67 million for improvements at existing coal-fired generating facilities and $60 million for additions to hydro-electric generating capacity.

The remainder of the three-year program is allocated for general reinforcement of the Company's electric and gas systems.

Continuation of the construction program is contingent upon, among other things, receipt of adequate electric and gas rates. If the PSC does not permit higher revenues to cover increased costs, the Company may be unable to finance the entire program.

Financing
Cash Needs Amount to $374 Million

Like construction expenditures, financing requirements reached new highs in 1981. Cash needs were $374 million which included $265 million for construction, $65 million for maturing securities and $44 million for reduction in short-term debt.

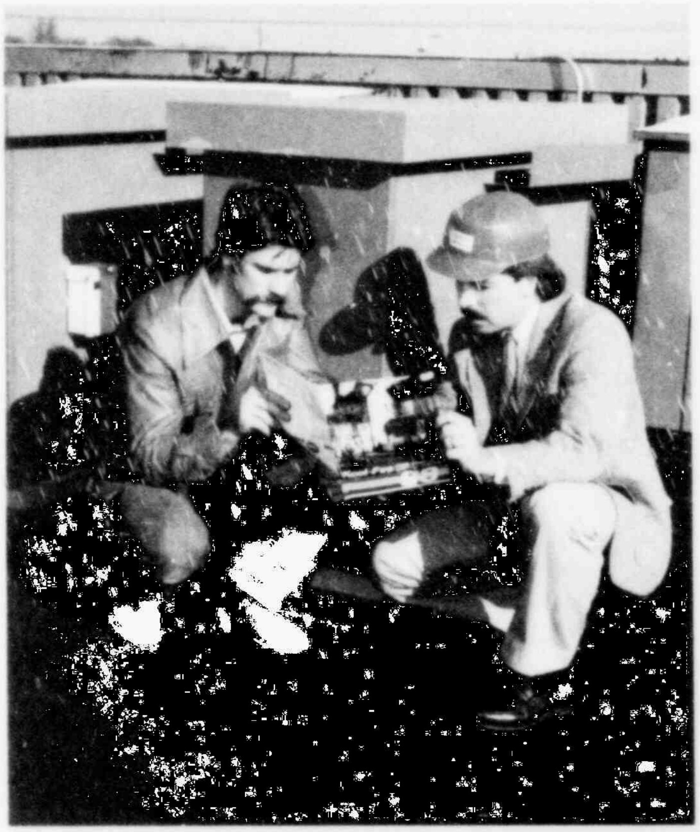
About $80 million, or 30% of construction expenditures, was generated internally. Sale of securities provided $270 million. The remainder of the $374 million came from a reduction in working capital and $11 million received as the Company's share of a settlement of nuclear fuel supply litigation.

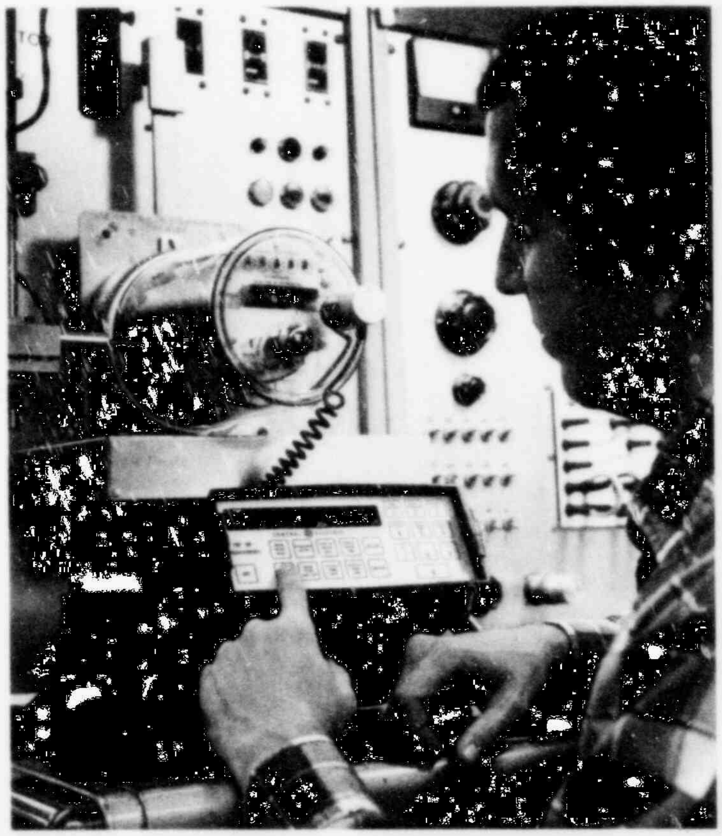
Sales of securities during the year

Industrial Electric Revenues

	1981 (thousands)	Percent of total
Stone, clay and glass products	$ 17,645	14.5%
Machinery, except electrical	13,579	11.2
Food and kindred products	11,149	9.2
Transportation equipment	10,751	8.8
Electrical machinery and supplies	10,283	8.5
Fabricated metal products	10,131	8.3
Primary metal industries	9,954	8.2
Rubber and plastic products	8,253	6.8
Chemicals and allied products	4,165	3.4
Paper and allied products	3,443	2.8
Printing and publishing	3,048	2.5
Instruments and related products	3,032	2.5
Nonmetal mining, excluding fuels	3,018	2.5
Wood products, except furniture	2,019	1.7
Leather and leather products	1,321	1.0
Textile mill products	1,217	1.0
Petroleum and refining	1,205	.9
Metal mining	1,098	.9
Furniture and fixtures	921	.8
Apparel and other textile products	265	.2
Miscellaneous industries	2,145	1.8
Unclassified (under 50 kw demand)	2,976	2.5
Total	$121,618	100.0%
Total electric revenues	$609,178	

Despite high mortgage rates and generally-reduced housing activity, construction of new dwelling units continued in 1981. Residential customers added during the year included 4,200 for electric service and 540 for gas. Most new residences use electricity or gas for space heating.





NYSEG personnel work closely with customers. Top right: A meter specialist tests a meter that will allow industrial customers to benefit from newly-developed time-of-use electric rates. Top left: A market service representative discusses with customer a heat pump combined with a gas furnace which provides efficient space heating and air conditioning. Bottom: A consumer affairs representative offers a young family financial counseling.

included the following (dollars in millions):

January	$ 60	14½% bonds due 1991
April	30	15⅝% preferred stock
August	37	common stock, 2,500,000 shares
December	100	17⅝% bonds due 1989/90
December	30	15% preferred stock
	13	dividend reinvestment plan
Total	$270	

The common shares issued in August were sold through underwriters to the public at $15.50 a share. After deduction of underwriting fees, the Company received $14.94 a share.

In 1982 it is estimated that the Company will require about $470 million of external funds to finance construction and pay for maturing securities. About $85 million was raised in January 1982 with public sales of $50 million principal amount of 18% first mortgage bonds due 2012 and 2,500,000 shares of common stock. The stock was sold to underwriters at $14.18 a share and reoffered to the public at $14.75 a share.

Also in January, as part of a program to finance pollution control facilities at Somerset Station, the Company publicly sold $61 million principal amount of tax-exempt 9¼% pollution control notes due January 1, 1985 through the New York State Energy Research and Development Authority. The notes are backed by a letter of credit issued by a major bank. Proceeds of the sale, along with proceeds from an issuance through the Authority of up to $35 million of tax-exempt commercial paper, will be used to finance the facilities pending permanent financing.

Research and Development

Variety of Projects Supported

More than $7 million was spent on a variety of research and development projects in 1981. About three-quarters of the expenditure was for the Company's participation in national and state electric research programs. Electric Power Research Institute received $2.2 million. It conducts research for more than 600 electric utilities nationwide. The Company contributed $2.4 million to Empire State Electric Energy Research Corporation which sponsors research for the state's major electric utilities. Another $870,000 was spent for the Company's share of research conducted by the New York State Energy Research and Development Authority.

About $1.7 million was devoted to the Company's own research efforts. Among projects being studied is better utilization of the fly ash left after burning of coal in generating stations. Fly ash from a station near Binghamton is being used experimentally as an ingredient in asphalt for paving parking lots and highways. Fly ash from another plant is being sold to firms which manufacture concrete products.

Customer Assistance

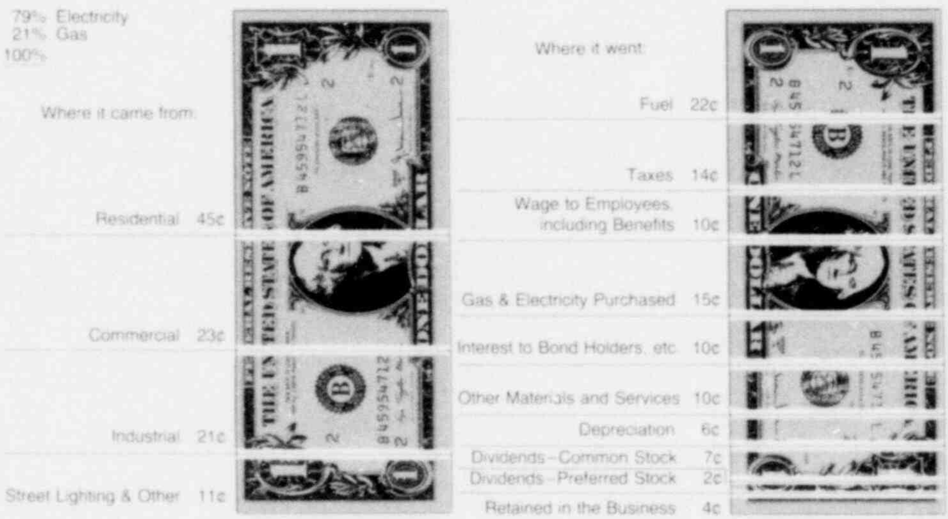
Consumer Advisory Panel Formed

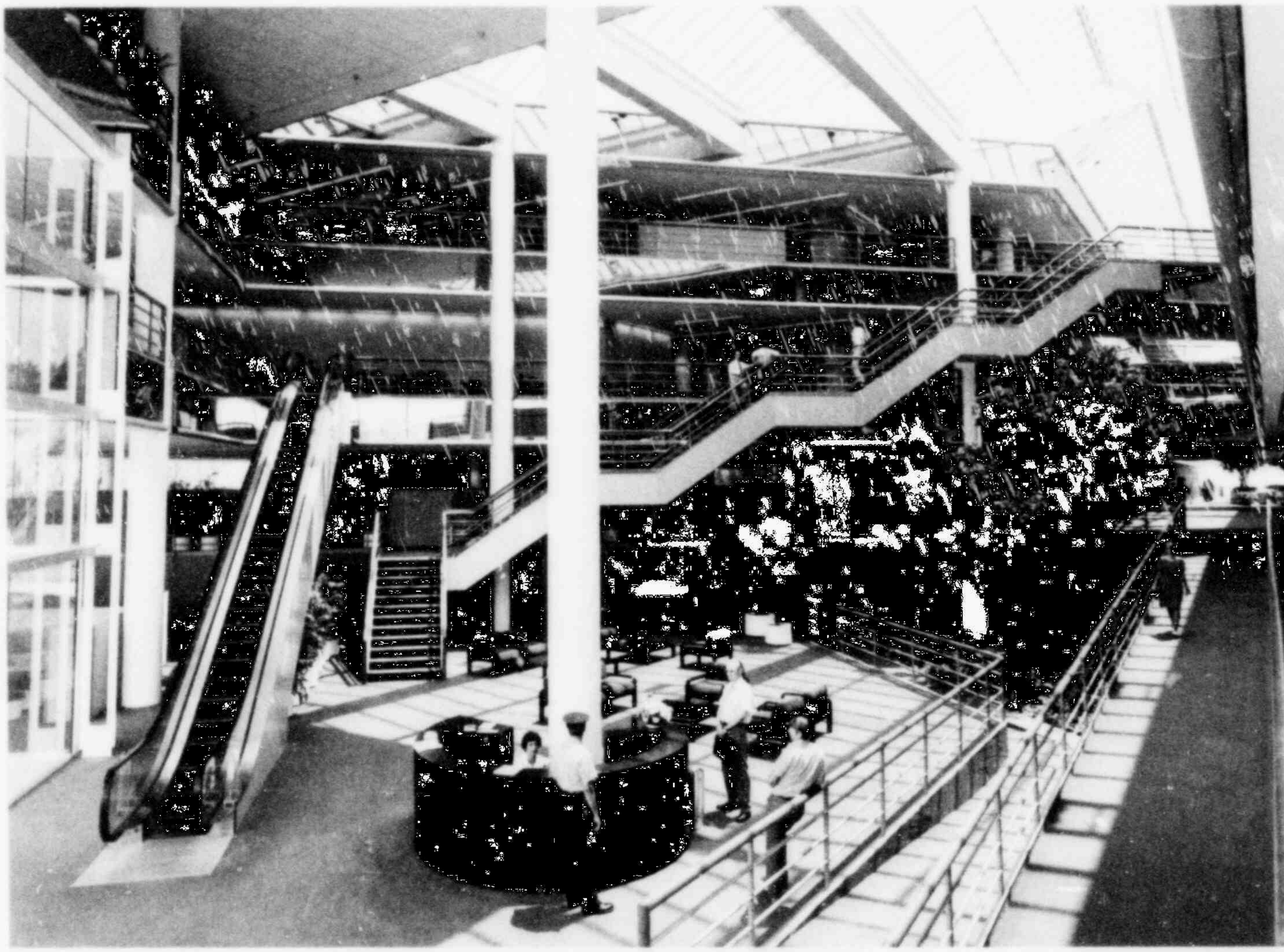
A Consumer Advisory Panel was formed in 1981 to strengthen communication with customers. Nineteen persons with varied backgrounds and experience were selected from the Company's Binghamton, Elmira and Ithaca operating areas. The panel meets regularly to discuss matters which concern consumers. Each member serves a one-year term without compensation, except for reimbursement of travel expenses.

In other efforts to assist customers and improve communications, the Company has consumer representatives in district offices who assist customers who have difficulty paying for service or related problems. An award-winning publication, *Senior Sun*, is circulated to senior citizens and provides information on how to minimize utility costs.

Energy conservation continues to receive attention. Company market service representatives work with residential and business customers to identify ways of saving energy. Almost 20,000 home energy audits have been conducted to date and 3,200 loans, aggregating $5.8 million, have been arranged to help customers reduce energy consumption. The loans can be used to finance such improvements as new, more efficient furnaces, insulation, storm windows and solar water heaters.

The Revenue Dollar–1981





Electric and gas sales to business customers increased in 1981. Shown here (above) is an engineering building at Corning completed recently by Corning Glass Works. At right is a shopping mall near Elmira that was enlarged during the year.

Suburban areas outside large cities constitute a large portion of the service area. Shown here is part of an award-winning condominium complex north of New York City.

Personnel

Vehicle Accident Rate Improves

Employees driving Company vehicles improved their accident record during 1981. The accident rate was 5.08 accidents per million miles driven, which compares with 6.24 per million miles in 1980. For electric utilities nationally, the average rate is currently 8.89 accidents per million miles driven.

Affirmative action to hire, train and promote minority-group persons and women continued during the year. Policies and procedures on sexual harrassment, and equal employment opportunities for Viet Nam veterans and disabled persons, were developed and implemented. Several programs were conducted to increase the awareness of female employees to career opportunities within the Company.

Electric Operations

Sales Rise 2%, Revenues Up 20%

Electric sales in 1981 were up 2% while revenues increased 20% over the previous year. The revenue increase reflects higher rates and fuel costs included in customer billings. Percent changes by customer category were as follows:

	Kwh Sales	Revenues
Residential	2%	20%
Commercial	1	19
Industrial	3	23
Total	2%	20%

Average consumption by residential customers and the number of customers each increased about 1% during the year. The average residential rate was 6.13 cents per kilowatt-hour, which compares to 5.25 cents in 1980.

Electric operating expenses increased $52 million, or 19%. A large part of the increase, or $41 million, was due to higher production expenses, including the cost of fuel and purchased electricity. The unit cost of fuel was $1.57 per million Btu, a 15% increase over 1980.

Gas Operations

Industrial Sales Up Sharply

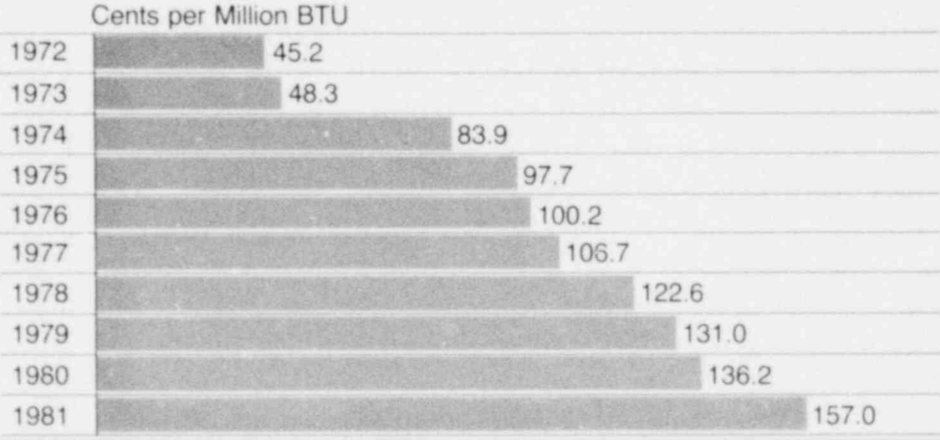
Sales of gas increased 6% over 1980 largely as a result of sharply-higher sales to industrial customers. Revenues were up 13%, reflecting pass-through to customers of higher purchased gas costs and increased rates. Percent changes by customer category were as follows:

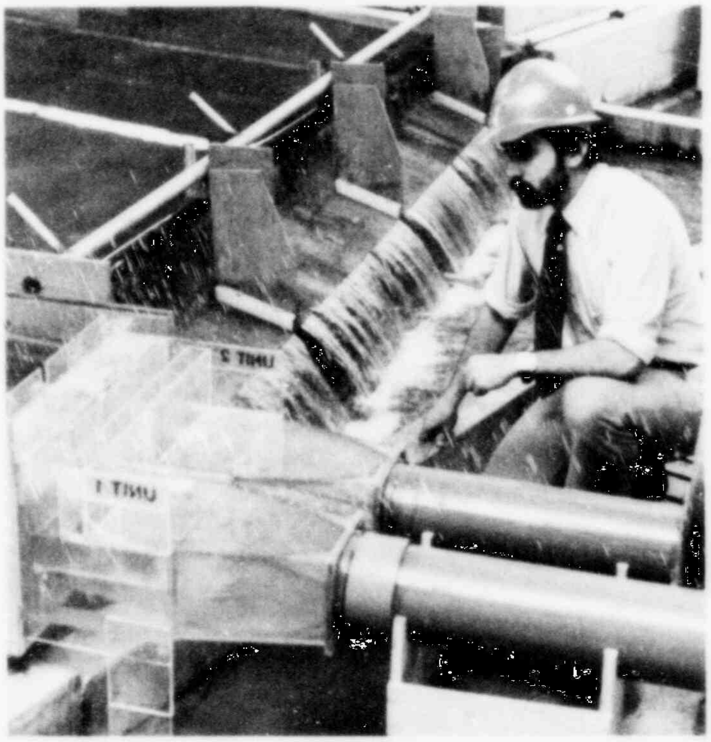
	Unit Sales	Revenues
Residential	–%	8%
Commercial	1	8
Industrial	16	26
Total	6%	13%

About 1,500 residential gas space heating customers were added in 1981. However, the effect of the addition on sales was offset by a 3% decline in average use per customer, which largely reflects greater customer energy conservation. Previously, in 1980, average use per customer had declined 7%.

Operating expenses rose $14 million, or 12%, primarily because of an 11% increase in purchased gas cost. On a unit basis, the cost of purchased gas was $2.82 per dekatherm which compares with $2.59 in 1980.

Cost of Coal Used for Generation





Environmental protection accounted for many man-hours of work and sizable expenditures in 1981. In these photos various tests, experiments and analyses are conducted to assure that environmental effects of the Company's operations are minimized.

Market for Common Stock and Related Security Holder Matters

The Company's common stock is listed on the New York Stock Exchange. The number of stockholders of record at January 20, 1982 was 71,464.

	Price of Common Stock New York Stock Exchange Composite				Dividends Paid Per Share	
	1981		1980			
	High	Low	High	Low	1981	1980
First quarter	$16	$13⅞	$17	$13⅛	$.47	$.44
Second quarter	16	14	17¼	14⅛	.47	.44
Third quarter	16¼	14	17⅝	15¼	.50	.47
Fourth quarter	15⅞	14	16¾	13⅝	.50	.47

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. Such dividends are limited if Common Stock Equity (39% at December 31, 1981) falls below 25% of total capitalization. Dividends on common stock cannot be paid unless all 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.

Coopers & Lybrand | certified public accountants

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, 1981 and 1980 and the related statements of income, retained earnings and changes in financial position for each of the three years in the period ended December 31, 1981. 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, 1981 and 1980 and the results of its operations and the changes in its financial position for each of the three years in the period ended December 31, 1981, in conformity with generally accepted accounting principles applied on a consistent basis.

Coopers & Lybrand

New York, New York
January 29, 1982

Balance Sheet

	December 31 1981	December 31 1980
	(Thousands of Dollars)	
ASSETS		
UTILITY PLANT, at original cost (Note 1)		
Electric	$1,550,985	$1,469,836
Gas	129,493	124,850
Common	47,539	45,762
	1,728,017	1,640,448
Less accumulated depreciation	490,579	452,464
Net utility plant in service	1,237,438	1,187,984
Construction work in progress (Notes 8–10)	663,695	476,793
	1,901,133	1,664,777
OTHER INVESTMENTS (Note 3)	20,045	21,261
CURRENT ASSETS		
Cash	7,210	6,921
Special deposits	6,197	11,128
Accounts receivable	80,415	71,187
Fuel, at average cost	31,517	29,836
Materials and supplies, at average cost	26,148	24,583
Prepayments	12,079	10,712
	163,566	154,367
DEFERRED CHARGES		
Fuel costs deferred (Note 1)	21,886	19,146
Other	21,668	12,430
	43,554	31,576
	$2,128,298	$1,871,981
CAPITALIZATION AND LIABILITIES		
CAPITALIZATION (Notes 4–7)		
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	120,575	71,313
Common stock equity		
Common stock	217,499	194,732
Capital in excess of par value	234,746	208,629
Retained earnings	270,464	238,856
Total common stock equity	722,709	642,217
Long-term debt	813,398	777,819
Total	1,772,182	1,606,849
CURRENT LIABILITIES		
Securities to be redeemed or due within one year	60,737	64,737
Notes payable – commercial paper (Note 7)	35,000	6,800
Accounts payable	79,556	56,098
Dividends payable on preferred stock	4,896	3,582
Pensions accrued	13,300	13,100
Taxes accrued	16,570	16,787
Interest accrued	20,960	17,850
Other	29,822	20,517
	260,841	199,471
DEFERRED CREDITS		
Accumulated deferred investment tax credit (Note 2)	33,695	29,621
Other	5,251	2,016
	38,946	31,637
ACCUMULATED DEFERRED FEDERAL INCOME TAX (Note 2)	56,329	34,024
COMMITMENTS AND CONTINGENCIES (Notes 8 and 9)	—	—
	$2,128,298	$1,871,981

The accompanying notes shown on pages 21 through 28 are an integral part of the financial statements.

Statement of Income

	Years Ended December 31		
	1981	1980	1979
		(Thousands of Dollars)	
OPERATING REVENUES			
Electric	$609,178	$506,502	$477,643
Gas	158,361	138,812	110,568
Total	767,539	645,314	588,211
OPERATING EXPENSES			
Operation—fuel (Note 1)	177,592	151,404	142,141
—other	108,294	96,877	83,226
Electricity purchased and interchanged	7,029	(2,030)	2,626
Gas purchased	112,176	100,895	74,542
Maintenance	51,616	44,121	40,569
Depreciation	49,448	47,486	43,807
Federal income tax (Note 2)	43,844	28,382	27,163
Other taxes (Note 11)	72,935	63,552	63,362
Total	622,934	530,687	477,436
OPERATING INCOME	144,605	114,627	110,775
OTHER INCOME AND DEDUCTIONS			
Allowance for other funds used during construction (Notes 1 and 8)	21,922	21,029	17,486
Federal income tax credit (Note 2)	9,471	10,496	9,815
Other—net	(234)	(266)	93
INCOME BEFORE INTEREST CHARGES	175,764	145,886	138,169
INTEREST CHARGES			
Interest on long-term debt	68,773	61,217	55,347
Other interest	9,987	6,361	3,289
Allowance for borrowed funds used during construction (Notes 1 and 8)	(10,797)	(9,896)	(7,856)
Interest charges—net	67,963	57,682	50,780
NET INCOME	107,801	88,204	87,389
PREFERRED STOCK DIVIDENDS	17,536	14,567	14,117
EARNINGS AVAILABLE FOR COMMON STOCK	$ 90,265	$ 73,637	$ 73,272
EARNINGS PER SHARE	$2.95	$2.70	$2.83
AVERAGE NUMBER OF SHARES OUTSTANDING	30,586,063	27,311,154	25,886,419

Statement of Retained Earnings

	Years Ended December 31		
	1981	1980	1979
		(Thousands of Dollars)	
Balance, beginning of year	$238,856	$214,310	$185,479
Add net income	107,801	88,204	87,389
	346,657	302,514	272,868
Deduct cash dividends			
Preferred stock (at serial rates)			
Redeemable solely at the option of the Company	7,710	7,710	7,710
Subject to mandatory redemption requirements	9,826	6,857	6,407
Common stock ($1.94, $1.82 and $1.72 per share in 1981, 1980 and 1979, respectively)	58,657	49,091	44,441
	76,193	63,658	58,558
Balance, end of year	$270,464	$238,856	$214,310

The accompanying notes shown on pages 21 through 28 are an integral part of the financial statements.

Statement of Changes in Financial Position

	Years Ended December 31		
	1981	1980	1979
		(Thousands of Dollars)	
SOURCE OF FUNDS			
Net income	$107,801	$ 88,204	$ 87,389
Depreciation	49,448	47,486	43,807
Amortization of deferred charges	6,146	3,302	1,713
Federal income tax deferred—net	21,122	12,822	(298)
Investment tax credit deferred—net	4,074	7,813	11,048
Allowance for funds used during construction	(32,719)	(30,925)	(25,342)
Funds from operations	155,872	128,702	118,317
Proceeds from sale of first mortgage bonds	160,000	—	50,000
Proceeds from sale of common stock	50,609	48,416	7,243
Proceeds from sale of preferred stock	60,000	—	20,000
Increase (decrease) in commercial paper	28,200	(18,700)	(9,800)
Proceeds from contract settlement agreement	11,271	—	—
Decrease (increase) in working capital*	23,971	46,532	(6,439)
Proceeds from sale and leaseback of service centers	—	9,300	—
Total funds available	$489,923	$214,250	$179,321
APPLICATION OF FUNDS			
Additions to utility plant	$265,545	$154,516	$145,928
Dividends on preferred stock	17,536	14,567	14,117
Dividends on common stock	58,657	49,091	44,441
Securities to be redeemed or due within one year	60,737	64,737	17,244
Fuel costs deferred	7,316	2,583	3,600
Bonds reacquired for sinking fund	—	3,603	—
Decrease (increase) in notes payable	72,500	(74,500)	(44,215)
Other—net	7,632	(347)	(1,794)
Total funds applied	$489,923	$214,250	$179,321
INCREASE (DECREASE) IN WORKING CAPITAL			
CURRENT ASSETS			
Cash	$ 289	$ 1,336	$ 1,035
Special deposits	(4,931)	(402)	615
Accounts receivable	9,228	7,630	9,951
Fuel	1,681	(3,478)	14,407
Materials and supplies	1,565	3,759	4,552
Prepayments	1,367	901	1,009
Total increase in current assets	9,199	9,746	31,569
CURRENT LIABILITIES			
Securities to be redeemed or due within one year	(4,000)	47,493	7,156
Accounts payable	23,458	11,585	9,762
Dividends payable on preferred stock	1,314	(102)	412
Taxes accrued	(217)	(4,504)	4,040
Interest and pensions accrued	3,310	1,215	1,123
Other	9,305	591	2,637
Total increase in current liabilities*	33,170	56,278	25,130
Increase (decrease) in working capital*	$ (23,971)	$ (46,532)	$ 6,439

*Exclusive of changes in commercial paper

The accompanying notes shown on pages 21 through 28 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 (FERC) 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)

AFDC, a non-cash item, is shown on the Statement of Income as AFDC–other funds and AFDC–borrowed funds. AFDC is defined in the regulatory system of accounts as the net cost, for the period of construction, of borrowed funds used for construction purposes and a reasonable rate on other funds when so used. (See Note 8.)

The Company capitalized AFDC on a compound basis, net of taxes, at rates of 7.5%, 8% and 8.7% for 1979, 1980 and 1981, respectively. The Company is allowed revenues equal to the federal income tax effect of the interest on debt portion of AFDC.

AFDC was not recorded on construction work in progress (CWIP) allowed in rate base which amounted to (1) $30 million for the first five months of 1979, (2) $31.4 million for August 1980 through June 1981, (3) $275 million for July 1981 through October 1981 and (4) $200 million for the last two months of 1981.

d. Revenue

Revenues from the 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. Annuity plan costs are based on normal costs and amortization of the unfunded liability. The assumed rate of return used in determining actuarial present values of accumulated plan benefits was 6%, and benefit information in the following table was determined on January 1 of each year. The Company's policy is to fund pension costs accrued.

	1981	1980	1979
	(Thousands of Dollars)		
Provision for pension cost	$ 13,300	$ 13,100	$ 12,600
Actuarial present value of accumulated plan benefits:			
Vested	83,600	72,600	62,900
Non-vested	13,100	14,100	12,700
Net assets available for benefits	159,000	128,100	104,000

f. Deferred fuel charges

The Company defers certain fuel and purchased gas costs which are subsequently billed to customers through adjustment clauses in rates.

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 through 1981.

2. Federal Income Taxes

For federal income tax purposes the Company uses the sum-of-the-years digits depreciation method, the Asset Depreciation Range System (ADR) and effective January 1, 1981, for property additions subsequent to 1980 it adopted the Accelerated Cost Recovery System (ACRS) pursuant to the Economic Recovery Tax Act of 1981.

Prior to 1981, investment tax credits (ITC) based on the Revenue Act of 1973 (4%) were reflected currently in income and were shared equally between stockholders and customers for rate-making purposes. The additional 6% ITC derived from the Tax Reduction Act of 1975 are deferred. The Company has approximately $14,565,000 of unused ITC at December 31, 1981.

The PSC, in its October 1981 rate decision, required that the ACRS reductions in taxes and all ITC (10%) claimed on ACRS property subsequent to the rate order, be deferred. The PSC previously required that federal income tax reductions arising from the use of ADR be similarly deferred. These benefits are to be returned to income over the book life of the applicable property.

In the July 1980 rate decision, the PSC allowed revenues equal to the federal income tax effect of pension costs, insurance costs and all taxes charged to CWIP for electric facilities only. Effective with the PSC's October 1981 rate decision, the additional revenues will be limited to the federal income tax effect applicable to pension and insurance costs in excess of $6 million, which represents capitalized costs applicable to minor projects. The federal income tax benefit is recorded as a reduction of CWIP.

Federal income taxes for 1979 through 1981 are as follows:

	1981	1980	1979
	(Thousands of Dollars)		
Charged to operations:			
Current	$ 6,650	$ (2,600)*	$ 6,580
Deferred—net	21,122	12,822	(298)
AFDC imputed income tax benefit	6,836	7,485	6,203
Investment tax credits:			
Deferred	7,944	8,835	11,764
Shared	1,292	1,840	2,914
	43,844	28,382	27,163
Included in other income:			
AFDC imputed income tax benefit	(6,836)	(7,485)	(6,203)
Investment tax credits—shared	(1,292)	(1,840)	(2,914)
Amortization of ITC deferred in prior years	(1,204)	(1,022)	(717)
Tax on other income	(139)	(149)	19
	(9,471)	(10,496)	(9,815)
Total	$34,373	$17,886	$17,348

* This credit amount was due principally to the tax loss related to the abandonment of nuclear projects proposed for New Haven and Jamesport (see Note 8).

Federal income tax provisions for 1979 through 1981 are substantially less than the amount obtained by using the statutory rate due to the following:

	1981	1980	1979
Statutory rate	46.0%	46.0%	46.0%
Decrease:			
Excess of allowable tax depreciation and amortization over book amounts	(4.7)	(5.7)	(6.3)
Costs capitalized on books, expensed for income taxes:			
AFDC	(10.6)	(13.4)	(11.1)
Taxes, pensions and insurance	(.7)	(3.0)	(4.8)
Investment tax credits	(2.0)	(3.4)	(4.9)
Miscellaneous	(3.8)	(3.6)	(2.3)
Actual rate	24.2%	16.9%	16.6%

3. Other Investments

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 ($16,575,000 and $18,275,000 at December 31, 1981 and 1980, respectively) were made on first mortgage notes maturing December 31, 1982 which currently bear interest at one-half percent above prime. The Company intends to seek PSC permission to extend the maturity date of these notes. The Company sold to Chemical Bank 100% participations in these notes which have been recorded as long-term notes payable due April 5, 1986. The agreement with Chemical Bank requires the Company to repurchase the participations under certain conditions.

The Company has established a wholly owned subsidiary, the Somerset Railroad Corporation (SRC), to construct rail facilities to the Somerset Generating Station. In addition to its investment of $200,000, the Company has guaranteed SRC borrowings of $5 million under a bank line of credit.

4. Long-term Debt (Thousands of Dollars):

First mortgage bonds

Series	Due	Amount	Series	Due	Amount
10.60%	Oct. 1, 1982	$ 50,000	8 ⅝%	June 1, 1996	$ 50,000
3 ¼%	May 1, 1984	20,000	5 ⅝%	Jan. 1, 1997	25,000
3 ⅜%	Sept. 1, 1985	15,000	6 ¼%	Sept. 1, 1997	25,000
12 ⅛%**	Dec. 1, 1986	50,000	6 ½%	Sept. 1, 1998	30,000
4 ⅝%	May 1, 1987	25,000	7 ⅝%	Nov. 1, 2001	50,000
3 ⅞%	Feb. 1, 1988	25,000	9.35%	July 1, 2003	50,000
17 ⅝%*	Mar. 1, 1989	50,000	9 ⅜%	Mar. 1, 2005	75,000
17 ⅝%*	Mar. 1, 1990	50,000	9 ⅜%	Jan. 1, 2006	71,397
14 ½%*	Jan. 1, 1991	60,000	7 ¼%	June 1, 2006	12,000
4 ⅝%	May 1, 1991	25,000	6 ⅞%	Dec. 1, 2006	25,750
			8 ⅝%	Nov. 1, 2007	60,000

Total first mortgage bonds	$844,147
Notes payable to banks due January 31, 1985 (Note 7)	2,000
Participations in mining companies' notes (Note 3)	16,575
Unamortized premium on debt	676
	863,398
Less debt due within one year—included in current liabilities	50,000
Total	$813,398

*Issued 1981 **Issued 1979

In 1982 the Company issued $61 million of 9¼% unsecured three-year notes in connection with a tax-exempt financing and $50 million principal amount of first mortgage bonds, 18% series, due 2012. At December 31, 1981 long-term debt (exclusive of notes payable to banks) which will become due during the following five calendar years is:

1982	1983	1984	1985	1986
(Thousands of Dollars)				
$50,000	$2,397	$25,100	$20,100	$71,675

The Company's mortgage provides for a sinking and improvement fund. The provisions require the Company to make annual cash deposits 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). Pursuant to the terms of the mortgage, the Company has satisfied these requirements by crediting "bondable value of property additions" against the amount of cash to be deposited.

Mandatory annual cash sinking fund requirements are $3,000,000 for the 9⅜% series due 2006, $2,100,000 beginning July 1, 1984 for the 9.35% series, $600,000 beginning June 1, 2001 for the 7¼% series and $250,000 beginning December 1, 1992 for the 6⅞% series. The amount increases to $500,000 and $750,000 on December 1, 1997 and December 1, 2002, respectively, for the 6⅞% series.

The mortgage indenture secures the first mortgage bonds which constitute a direct first mortgage lien on substantially all utility plant.

5. Common Stock and Capital in Excess of Par Value

At December 31, 1981 common stock and capital in excess of par value were as follows:

	Shares Outstanding	Amount (Thousands of Dollars)
Common stock, par value $6.66⅔ a share, 60,000,000 shares authorized (shares issued: 2,500,000 in 1981 and in 1980 and 1,949,819 through the Dividend Reinvestment and Stock Purchase Plan since January 1, 1979)	32,624,755	$217,499
Capital in excess of par value increased $26,117,000, $27,766,000 and $4,102,000 in 1981, 1980 and 1979, respectively, resulting from sales of the Company's common stock at amounts in excess of par value		$234,746

In February 1982 the Company sold 2,500,000 shares of common stock.

6. Preferred Stock

At December 31, 1981 serial cumulative preferred stock was composed of the following:

Series	Par Value Per Share	Redeemable Prior to	Redeemable Per Share	Shares Authorized(1) and Outstanding	Amount (Thousands of Dollars)
Redeemable solely at the option of the Company:					
3.75%	$100		$104.00	150,000	$ 15,000
4 ½% (1949)	100		103.75	40,000	4,000
4.15%	100		101.00	40,000	4,000
4.40%	100		102.00	75,000	7,500
4.15% (1954)	100		102.00	50,000	5,000
6.48%	100	2/1/83	103.00	300,000	30,000
		Thereafter	102.00		
8.80%	100	3/1/86	106.14	250,000	25,000
		3/1/91	103.94		
		Thereafter	102.00		
8.48%	25	2/1/84	27.29	1,000,000	25,000
		2/1/89	26.76		
		2/1/94	26.23		
		Thereafter	25.70		
Total					$115,500
Subject to mandatory redemption requirements:(2)					
4.50%	100	(3)	105.25	6,125	$ 612
8.25%**	100	1/1/83(2)	109.00	200,000	20,000
9.00%	100	10/1/82(4)	106.50	267,000	26,700
15 ⅜%*	100	4/1/86(5)	115.38	300,000	30,000
8.50%	25	7/1/82(6)	25.00	360,000	9,000
9.10%	25	7/1/84(7)	28.75	600,000	15,000
15 %*	25	1/1/87(8)	28.75	1,200,000	30,000
					131,312
Less sinking fund requirements at par value—included in current liabilities					10,737
Total					$120,575

*Issued 1981 **Issued 1979

At December 31, 1981 redeemable preferred stock sinking fund requirements for the following five calendar years are:

1982	**1983**	**1984**	**1985**	**1986**
(Thousands of Dollars)				
$10,740	$1,740	$1,740	$24,740	$4,740

(1) At December 31, 1981 there were 1,250,000 shares of $100 par value preferred stock, 3,600,000 shares of $25 par value preferred stock and 1,000,000 shares of $100 par value preference stock authorized but unissued.

(2) Each of the following series of preferred stock is not redeemable prior to the date designated, through certain refunding operations, but otherwise is redeemable at the indicated price per share prior to the indicated date. The indicated price per share will be reduced either (A) annually or (B) at five-year intervals by the reduction amount. As of the redemption at par date and thereafter, the redemption price will be at par. By the redemption date, the Company must set aside the amount required to redeem at par all shares outstanding.

Series	Date Designated	Indicated Price	Indicated Date	Reduction Amount	Redemption at Par	Redemption Date
8.25%	1/1/85	$109.00(A)	1/1/83	$1.00	1/1/85	3/28/85
9.00%	10/1/86	106.50(A)	10/1/82	.50	10/1/94	9/30/96
15 ⅜%	4/1/86	115.38	4/1/86			
		110.00(B)	4/1/91	5.00	4/1/96	4/1/06
9.10%	7/1/84	28.75	7/1/84			
		25.65(A)	7/1/85	.16	7/1/88	7/1/89
15 %	1/1/87	28.75(B)	1/1/87	1.25	1/1/97	1/1/11

(3) By March 31, in each year 1982 through 1988, the Company must redeem at $103.25 per share 875 shares of the 4.50% Series. Since 1979, 875 shares have been reacquired and canceled annually.
(4) By September 30, in each year 1982 through 1995, the Company must redeem at par 16,500 shares of the 9.00% Series. Since 1980, 16,500 shares have been reacquired and canceled annually.
(5) By April 1, in each year 1987 through 2006, the Company must redeem at par 15,000 shares of the 15⅜% Series.
(6) By July 1, 1982 the Company must redeem at par 360,000 shares of the 8.50% Series. Since 1980, 120,000 shares have been reacquired and canceled annually.
(7) By July 1, in each year 1985 through 1989, the Company must redeem at par 120,000 shares of the 9.10% Series.
(8) By January 1, in each year 1987 through 2011, the Company must redeem at par 48,000 shares of the 15% Series.

7. Bank Loans and Other Borrowings

The Company has revolving credit agreements with banks (see Note 4) which provide for borrowing, at prime, up to $100 million through January 31, 1985 and payment of annual commitment fees of approximately three-eighths percent on the unborrowed amount. The loan agreements do not require compensating balances, but balances generally have averaged ten percent of the available line of credit during 1981. A substantial portion of these balances represents normal working account funds. Interim financing in the form of short-term borrowings on commercial paper is utilized to finance construction expenditures. The Company also has agreements with three banks which provide for borrowing, at prime, up to $30 million through November 30, 1982.

Information relative to short-term borrowings is as follows:

	Commercial Paper			Notes Payable
	1981	**1980**	**1979**	**1981**
	(Thousands of Dollars)			
Ending balance	$35,000	$ 6,800	$25,500	$ —
Maximum amount outstanding	$99,100	$73,500	$72,000	$60,000
Average amount outstanding(1)	$40,600	$42,500	$22,500	$10,400
Weighted average interest rate:				
On ending balance	13.4%	17.5%	13.5%	—%
During the period(2)	16.5%	12.8%	11.6%	17.0%

(1) Calculated as the average of the sum of daily borrowings.
(2) Calculated by dividing total interest expense by the average of the sum of daily borrowings.

8. Abandoned Projects—New Haven and Jamesport

The Company and Long Island Lighting Company have been denied certain regulatory approvals to construct, on a joint venture basis, nuclear generating facilities near New Haven, N.Y. and Jamesport, N.Y. The New York State Board on Electric Generation Siting and the Environment (Siting Board) granted the companies a Certificate of Environmental Compatibility and Public Need (Certificate) for one 800,000-kw coal fired generating unit near Jamesport. The Company has notified the Siting Board that it will not accept the Certificate and that it has decided to terminate its participation in the Jamesport project.

The Company has filed petitions with the PSC requesting authorization to (1) continue to accumulate AFDC on its share of costs until amortization of such costs commences to be recovered in rates, (2) amortize the investments through rates and (3) include in rates appropriate carrying charges on the unamortized balances. The Company is planning to file applications with the FERC requesting authorization to continue to accumulate AFDC in the same manner as requested in the petitions to the PSC.

PSC proceedings are continuing in connection with the New Haven petition. The PSC has authorized the Company to continue to accrue and accumulate AFDC on the nuclear related costs of the Jamesport project until a decision is made with respect to the prudence and disposition of the nuclear costs. If the requests to the PSC or to the FERC to continue to accumulate AFDC are denied, the Company may have to reverse certain accruals of AFDC previously recorded. If the request to amortize the investments is denied and alternative regulatory relief is not granted, the Company would have to charge income with the project costs, net of the federal income tax effect.

The Company's net income for 1981 includes $4 million of AFDC attributable to the New Haven project and $5 million of AFDC attributable to the Jamesport project. As of December 31, 1981, the Company had expended, including AFDC, approximately $44 million for the New Haven project and $60 million for the Jamesport project. The Company expects to incur additional expenditures in connection with the cancellation of the Jamesport nuclear units.

9. Commitments

The Company estimates that 1982 costs for the construction program will approximate $602 million. The program is subject to periodic review and revision, and actual construction costs to be incurred may vary because of revised load estimates, imposition of additional regulatory requirements and the availability and cost of capital. (See Note 10.)

10. 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 944,000-kw and its net utility plant investment is $274 million, which includes $30 million of CWIP. The accumulated provision for depreciation as of December 31, 1981 was $55 million. The Company's share of operation and maintenance expense of the station is reflected in the Statement of Income.

The Company also has an undivided 18% interest in the 1,084,000-kw Nine Mile Point nuclear generating unit No. 2 (Unit) being constructed by Niagara Mohawk Power Corporation (Niagara Mohawk) near Oswego, N.Y. In early 1980 the co-tenants having an interest in the Unit (Co-tenants) engaged independent engineering and management consulting firms to perform a review of the Unit's estimated cost and scheduled in-service date, together with engineering, construction and management systems. Also, a reassessment was conducted by Niagara Mohawk and Stone & Webster, the architect-engineer and construction agent. As a result of those reviews, a $2.4 billion revised cost, exclusive of AFDC and nuclear fuel, and a rescheduling of the operation date from 1984 to late 1986 were announced in September 1980. The Company's share of the construction cost, including AFDC, is now estimated at $712 million. The Company's investment of $235 million, excluding nuclear fuel costs, is included in CWIP at December 31, 1981.

During 1980 the PSC directed Theodore Barry and Associates and Canatom Limited to perform a comprehensive management audit covering essentially the same areas as the review commissioned by the Co-tenants, and a report thereon (TB&A Report) was issued in July 1981. The TB&A Report stated that the planned 1986 completion date is possible, but that a likely one-year slippage in schedule, new regulatory requirements, higher escalation and AFDC could significantly increase the Unit's cost.

In July 1981, various parties petitioned the PSC to establish a public evidentiary proceeding to consider the future of the Unit. In September 1981, the PSC Staff issued a report on a comparative analysis of the economic and financial feasibility of the Unit and coal alternatives which concluded that completion of the Unit is warranted. In September 1981, the PSC established a proceeding to inquire into the financial and cost implications of completing the Unit. Hearings were completed in December.

Event subsequent to the date of the auditors' opinion

At a February 9, 1982 meeting the PSC stated its consensus that completion of the Unit is warranted and that no basis exists at this time to take further action regarding abandonment of the Unit. The PSC also concurred with the PSC Staff recommendation that the Co-tenants must emphasize their attention to the control of the Unit's cost and the construction schedule to minimize the impact on ratepayers and indicated its intention to monitor closely all construction activities. In addition, the PSC decided to explore the feasibility of instituting a yet undefined incentive program that could cause the return on the equity portion of the investment in the Unit to vary depending on a variety of items related to the Unit's ultimate cost and completion date. A formal PSC decision is expected upon completion of its review of the feasibility of instituting an incentive program. The Company is unable to predict what recommendations or actions may arise as a result of this review or what further actions, if any, may be brought by the intervening parties.

11. Supplementary Income Statement Information

Charges for maintenance, repairs and depreciation, other than those set forth in the Statement of Income, were not significant in amount. Taxes, other than payroll and federal income taxes, are classified as follows:

	1981	1980	1979
	(Thousands of Dollars)		
Real estate and personal property	$33,640	$29,622	$26,773
Franchise and gross receipts	33,575	28,652	31,633
Miscellaneous	4,556	3,690	3,098
Total–charged principally to tax expense	$71,771	$61,964	$61,504

12. Industry Segment Information

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

	1981		1980		1979	
	Electric	Gas	Electric	Gas	Electric	Gas
	(Thousands of Dollars)					
Operating						
Revenues	$ 609,178	$158,361	$ 506,502	$138,812	$ 477,643	$110,568
Expenses	472,848	150,086	397,605	133,082	373,735	103,701
Income	136,330	8,275	108,897	5,730	103,908	6,867
Depreciation*	45,654	3,794	44,133	3,353	40,679	3,128
Construction expenditures	259,065	6,480	146,589	7,927	141,580	4,348
Identifiable assets**	1,894,367	106,165	1,654,492	103,302	1,532,984	97,538

*Included in operating expenses.

**Corporate assets ($127,766, $114,187 and $107,001 at December 31, 1981, 1980 and 1979, respectively) consist primarily of cash, special deposits, accounts receivable, prepayments and unamortized debt expense.

13. Quarterly Financial Information (Unaudited)

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

	Quarter Ended			
	March 31	June 30	Sept. 30	Dec. 31
	(Thousands)			
1981				
Operating revenues	$220,705	$173,281	$168,365	$205,188
Operating income	$ 36,832	$ 28,498	$ 35,628	$ 43,647
Net income	$ 30,110	$ 22,661	$ 22,532	$ 32,498
Earnings available for common stock	$ 26,528	$ 18,273	$ 17,862	$ 27,602
Earnings per share (in dollars)	$.90	$.62	$.58	$.85
Average shares outstanding	29,323	29,558	30,920	32,505
1980				
Operating revenues	$192,070	$149,122	$135,180	$168,942
Operating income	$ 32,933	$ 26,602	$ 28,047	$ 27,046
Net income	$ 26,434	$ 19,790	$ 22,39[illegible]	$ 19,590
Earnings available for common stock	$ 22,751	$ 16,107	$ 18,771	$ 16,008
Earnings per share (in dollars)	$.87	$.61	$.68	$.55
Average shares outstanding	26,185	26,314	27,613	29,109

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

The following presentation is intended to show certain information about the impact of inflation on the Company's financial operations. The information was developed using assumptions and estimates and therefore should not be viewed as precise indications of the effects 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. The current cost of utility plant 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 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.

Under the rate-making processes to which the Company is subject, only the historical cost of utility plant is recoverable in revenues. 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 replaced.

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 of only the embedded cost of debt capital.

Income from Continuing Operations Adjusted for Changing Prices

	Average 1981 Dollars	
	Constant Dollar	Current Cost
	(Thousands-except per share data)	
Income from continuing operations, as reported	$107,801	$ 107,801
Adjustment to restate depreciation expense	(58,138)	(69,530)
Income from continuing operations	$ 49,663*	$ 38,271
Income from continuing operations per common share (after preferred stock dividends)	$1.05*	$.68
Increase in specific prices of utility plant held during the year**		$ 291,494
Less increase in general price level		266,320
Net change		$ 25,174
Reduction of utility plant to net recoverable value	$ (96,778)	$(110,560)

*After the reduction of utility plant to net recoverable value, income from continuing operations on a constant dollar basis would change to a loss of $47,115 or $2.11 per average common share.

**At December 31, 1981, current cost of net utility plant was $3,300,210, while net recoverable value at historical cost was $1,901,133.

Five-Year Summary of Selected Financial Data Adjusted for Changing Prices

	1981	**1980***	**1979***	**1978**	**1977**
		(Thousands-except per share data)			
Operating revenues					
As reported	$767,539	$ 645,314	$ 588,211	$532,171	$459,452
In 1981 purchasing power	$767,539	$ 712,251	$ 737,022	$741,880	$689,558
Income from continuing operations					
As reported	$107,801	$ 88,204	$ 87,389	$ 70,563	$ 59,945
Constant dollar basis**	$ 49,663	$ 44,810	$ 62,742	***	***
Current cost basis	$ 38,271	$ 32,111	$ 44,798	***	***
Income from continuing operations per common share (after preferred stock dividends)					
As reported	$2.95	$2.70	$2.83	$2.46	$2.21
Constant dollar basis**	$1.05	$1.05	$1.74	***	***
Current cost basis	$.68	$.58	$1.05	***	***
Net assets at year-end at net recoverable value					
As reported	$838,209	$ 757,717	$ 684,863	$648,906	$558,450
Constant dollar and current cost	$809,674	$ 836,313	$ 858,126	***	***
Reduction of utility plant to net recoverable value					
Constant dollar basis	$ 96,778	$ 154,662	$ 182,210	***	***
Current cost basis	$110,560	$ —	$ 39,449	***	***
Net change in value of utility plant held during the year	$ 25,174	$(171,793)	$(124,817)	***	***
Purchasing power gain on net amounts owed	$ 85,602	$ 114,534	$ 126,645	***	***
Cash dividends per common share					
As reported	$1.94	$1.82	$1.72	$1.68	$1.60
In 1981 purchasing power	$1.94	$2.01	$2.16	$2.34	$2.40
Market price per common share at year-end					
As reported	$15.00	$14.88	$15.75	$16.88	$19.13
In 1981 purchasing power	$15.00	$16.42	$19.73	$23.53	$28.71
Average CPI-U	272.4	246.8	217.4	195.4	181.5

*All constant dollar and current cost data for 1979 and 1980 have been restated to average 1981 dollars.

**Excludes the reduction of utility plant to net recoverable value.

***The Financial Accounting Standards Board does not require the calculation of inflation-adjusted data for years prior to 1979, nor is the data readily available.

Selected Financial Data

	1981	1980	1979	1978	1977
		(Thousands—except per share data)			
Operating revenues	$ 767,539	$ 645,314	$ 588,211	$ 532,171	$ 459,452
Net income	$ 107,801	$ 88,204	$ 87,389	$ 70,563	$ 59,945
Earnings per share	$2.95	$2.70	$2.83	$2.46	$2.21
Dividends paid per share	$1.94	$1.82	$1.72	$1.68	$1.60
Average shares outstanding	30,586	27,311	25,886	23,393	21,208
Interest charges	$ 78,760	$ 67,578	$ 58,636	$ 57,639	$ 49,129
AFDC–other and borrowed funds	$ 32,719	$ 30,925	$ 25,342	$ 16,655	$ 25,363
Depreciation	$ 49,448	$ 47,486	$ 43,807	$ 41,462	$ 34,544
Other taxes	$ 72,935	$ 63,552	$ 63,362	$ 57,064	$ 50,645
Utility plant additions	$ 265,545	$ 154,516	$ 145,928	$ 143,229	$ 158,493
Total assets	$2,128,298	$1,871,981	$1,737,523	$1,603,425	$1,489,862
Long-term obligations and redeemable preferred stock	$ 933,973	$ 849,132	$ 844,214	$ 772,134	$ 733,336

Management's Discussion and Analysis of Financial Condition and Results of Operations

The Company is constructing a wholly owned 625,000-kw coal fired generating unit (Somerset Generating Station) and associated rail facilities near Somerset, N.Y., scheduled for service in late 1984. The current estimate for the cost of the plant is $1,072 million, of which approximately $352 million will be spent in 1982. The Company also has an undivided 18% interest in the 1,084,000-kw Nine Mile Point nuclear generating unit No. 2 (Unit) being constructed by Niagara Mohawk Power Corporation near Oswego, N.Y. The Company's share of the construction cost, including allowance for funds used during construction (AFDC), is estimated at $712 million and its investment of $235 million, excluding nuclear fuel costs, is included in construction work in progress (CWIP) at December 31, 1981. (See Note 10.)

The Company's construction program, including AFDC, is currently estimated to cost $602 million, $563 million and $368 million for the years 1982, 1983 and 1984, respectively. Included in the three-year program is $886 million for the Somerset Generating Station and associated rail facilities and $307 million, including nuclear fuel, for the Unit. The construction program is under continuing review and is revised from time to time in light of the Company's financial condition, load forecasts, the availability and cost of capital, licensing decisions, regulatory requirements, inflation and other factors.

The Company anticipates that to finance its construction program through 1984, approximately 70% of the funds required will be raised through the issuance of securities. The nature, amounts and timing of future financings will depend in part on the level of construction, load growth, the timeliness and adequacy of rate relief, the availability and cost of capital and the continuing ability of the Company to meet its property additions and interest coverage requirements under its Mortgage and preferred stock dividend coverage requirements in its Certificate of Incorporation.

A $115,610,000 increase in the cost of fuel for electric generation, power purchased and interchanged and in the cost of gas purchased, which was recovered through the fuel and gas adjustment clauses, and a $96,806,000 increase in electric and gas rates accounted for 90% of the Company's $235,368,000 increase in operating revenues over the past three years. The balance is chiefly attributable to kilowatt-hour sales, which increased 5%, and unit sales of gas, which increased 2%.

During the same period operating expenses increased $193,725,000, or 31%, principally as a result of increases in (a) fuel and natural gas purchased costs ($107,488,000), (b) wages, materials and supplies used in operations ($46,916,000) and (c) federal income taxes ($27,494,000).

Increased AFDC rates and higher levels of CWIP resulted in a $16,064,000 increase in AFDC during the three-year period. Interest charges before the reduction for AFDC–borrowed funds increased 37% ($21,121,000) due to increased borrowings at higher interest rates to finance the Company's construction program.

Earnings available for interest charges provided 2.48 times the interest on the Company's first mortgage bonds for 1981. This calculation is based on the provision stated in the Company's Mortgage and compares with 2.69 in 1980 and 2.54 in 1979. The Mortgage contains a requirement, subject to certain exceptions, that first mortgage bonds may be issued only if net earnings, as defined, are at least 2.0 times the annual interest charges on bonds outstanding and to be outstanding. Earnings available for interest charges and preferred stock dividends provided 1.70 times the interest and dividends on preferred stock in 1981. This calculation is based on the provision stated in the Company's Certificate of Incorporation and compares to 1.72 and 1.85 for 1980 and 1979, respectively. The Certificate of Incorporation contains a requirement that preferred stock may be issued only if net earnings, as defined, are at least 1.5 times the annual interest charges on all outstanding indebtedness plus the annual dividend requirements on preferred stock outstanding and to be outstanding. These coverages will vary in future years depending on decisions in rate cases and on the need for external funds to finance the Company's construction program.

Earnings available for common stock were $90,265,000, or $2.95 per share in 1981, compared with $73,637,000, or $2.70 in 1980 and $73,272,000, or $2.83 in 1979. Average shares outstanding were 30,586,063 in 1981, 27,311,154 in 1980 and 25,886,419 in 1979. Return on average common equity was 13.4% in 1981, 12.3% in 1980 and 13.4% in 1979. The increase in 1981 earnings was principally due to rate increases received in June and October.

On October 20, 1981, the Public Service Commission of the State of New York (PSC) issued a rate decision approving $124,500,000 in added electric revenues, a 22.2% increase, and $8,800,000 in added gas revenues, a 5% increase. The electric increase includes $45 million allowed on a temporary basis in June. The higher revenues are approximately 87% of the amounts originally requested and are designed to produce a 17% return on common equity. The increases became effective on October 25, 1981 and allowed the inclusion of $200 million of CWIP in rate base.

On February 18, 1982, the Company applied for increased electric and gas rates. The requested increases in annual electric and gas revenues are $148,928,000 and $4,924,000, respectively, based on a projected test year ending December 31, 1983, the inclusion in rate base of $450 million of CWIP and the recovery over a ten-year period of the expenditures related to the terminated New Haven and Jamesport projects. The requested increases are designed to produce a 17.5% return on common equity. The PSC is not expected to reach a final decision on this rate application until January 1983. The Company has no assurance that such higher rates will be granted.

The Company's funds requirements were provided by the following sources:

	1981	1980	1979
	(Thousands of Dollars)		
Operations	$155,872	$128,702	$118,317
Securities sales			
Bonds	160,000	—	50,000
Preferred stock	60,000	—	20,000
Common stock	50,609	48,416	7,243
Notes payable			
Bank loans	—	74,500	44,215
Commercial paper	28,200	—	—
Contract settlement agreement	11,271	—	—
Sale and leaseback of service centers	—	9,300	—
	$465,952	$260,918	$239,775

In 1982 the Company will be required to raise external funds of approximately $470 million. This external funds requirement is needed for the construction program and to supply the $60,737,000 needed for refunding and sinking fund requirements on first mortgage bonds and preferred stock. In 1982 the Company issued $61 million of 9¼% unsecured three-year notes in connection with a tax-exempt financing, $50 million principal amount of first mortgage bonds, 18% series due 2012 and 2,500,000 shares of common stock.

Management has provided supplementary information to disclose the effects of changing prices in Note 14.

Financial and Operating Statistics

SUMMARY OF EARNINGS	1981	1980	1979	1978	1977	1976	1971
				(Dollars in Thousands)			
OPERATING REVENUES							
Electric	$609,178	$506,502	$477,643	$433,774	$374,456	$330,870	$176,574
Gas	158,361	138,812	110,568	98,397	84,996	77,397	44,488
Total	767,539	645,314	588,211	532,171	459,452	408,267	221,062
OPERATING EXPENSES							
Operation—fuel	177,592	151,404	142,141	118,384	87,181	72,621	32,205
—other	108,294	96,877	83,226	74,465	67,544	60,132	32,574
Electricity purchased and interchanged	7,029	(2,030)	2,626	19,059	46,599	33,679	15,293
Gas purchased	112,176	100,895	74,542	63,896	56,284	47,944	26,455
Maintenance	51,616	44,121	40,569	38,529	33,709	29,757	17,294
Depreciation	49,448	47,486	43,807	41,462	34,544	32,589	24,118
Federal income tax	43,844	28,382	27,163	16,350	330	7,751	1,825
Other taxes	72,935	63,552	63,362	57,064	50,645	44,296	25,608
Total	622,934	530,687	477,436	429,209	376,836	328,769	175,372
OPERATING INCOME	144,605	114,627	110,775	102,962	82,616	79,498	45,690
OTHER INCOME AND DEDUCTIONS							
Allowance for other funds used during construction	21,922	21,029	17,486	10,659	14,056	7,803	975
Federal income tax credit	9,471	10,496	9,815	8,383	1,255	1,166	—
Other, net	(234)	(266)	93	202	(160)	(158)	109
INCOME BEFORE INTEREST CHARGES	175,764	145,886	138,169	122,206	97,767	88,309	46,774
INTEREST CHARGES							
Interest on long-term debt	68,773	61,217	55,347	52,337	45,119	39,712	20,877
Other interest	9,987	6,361	3,289	5,302	4,010	2,673	653
Allowance for borrowed funds used during construction	(10,797)	(9,896)	(7,856)	(5,996)	(11,307)	(5,961)	(796)
Interest charges—net	67,963	57,682	50,780	51,643	37,822	36,424	20,734
NET INCOME	107,801	88,204	87,389	70,563	59,945	51,885	26,040
PREFERRED STOCK DIVIDENDS	17,536	14,567	14,117	13,090	13,094	10,465	5,205
EARNINGS AVAILABLE FOR COMMON STOCK	90,265	73,637	73,272	57,473	46,851	41,420	20,835
COMMON STOCK DIVIDENDS	58,657	49,091	44,441	38,732	33,564	28,375	17,145
RETAINED EARNINGS	$ 31,608	$ 24,546	$ 28,8[illegible]1	$ 18,741	$ 13,287	$ 13,045	$ 3,690
Average number of shares of common stock outstanding (thousands)	30,586	27,311	25,886	23,393	21,208	18,181	12,365
Earnings per average share	$2.95	$2.70	$2.83	$2.46	$2.21	$2.28	$1.68
Dividends paid per share	$1.94	$1.82	$1.72	$1.68	$1.60	$1.60	$1.39

Financial Statistics

	1981	1980	1979	1978	1977	1976	1971
INCOME STATISTICS:				(Dollars in Thousands)			
Return on average common stock equity—percent	13.4	12.3	13.4	11.8	10.9	11.4	9.2
Mortgage bond interest—times earned	2.8	2.6	2.6	2.5	2.5	2.4	2.6
Interest charges and preferred dividends—times earned	1.9	1.9	2.0	1.8	1.8	1.8	1.8
Average common stock equity per share	$22.01	$21.92	$21.17	$20.82	$20.17	$19.96	$18.33
PROPERTY, PLANT AND EQUIPMENT:							
Electric	$2,209,278	$1,942,378	$1,787,229	$1,659,928	$1,520,410	$1,353,604	$795,049
Gas	133,156	127,456	120,760	117,168	114,076	111,062	94,567
Other	49,278	47,407	40,910	40,584	38,597	36,743	20,818
Total	$2,391,712	$2,117,241	$1,948,899	$1,817,680	$1,673,083	$1,501,409	$910,434
ACCUMULATED DEPRECIATION	$ 490,579	$ 452,46[illegible]	$ 411,742	$ 376,933	$ 350,014	$ 324,852	$217,597
CAPITALIZATION:							
Long-term debt	$ 863,398	$ 837,819	$ 780,671	$ 721,347	$ 677,961	$ 595,026	$394,792
Preferred stock	246,812	191,550	196,287	176,375	176,463	176,543	91,957
Common stock equity	722,709	642,217	569,363	533,406	442,950	393,184	227,446
Total capitalization	$1,832,919	$1,671,586	$1,546,321	$1,431,128	$1,297,374	$1,164,753	$714,195
CAPITALIZATION RATIOS (percent):							
Long-term debt	47.1	50.1	50.5	50.4	52.3	51.1	55.3
Preferred stock	13.5	11.5	12.7	12.3	13.6	15.1	12.9
Common stock equity	39.4	38.4	36.8	37.3	34.1	33.8	31.8
NOTES PAYABLE:							
Bank loans	$ 2,000	$ 74,500	$ —	$ —	$ 21,000	$ 15,000	$ —
Commercial paper	35,000	6,800	25,500	35,300	59,500	40,500	4,000
Total	$ 37,000	$ 81,300	$ 25,500	$ 35,300	$ 80,500	$ 55,500	$ 4,000
NUMBER OF STOCKHOLDERS:							
Common stock	71,464	70,737	67,014	64,579	51,580	45,146	25,033
Preferred stock	5,932	6,083	6,308	6,503	6,544	6,591	3,605
PAYROLL (including pensions, etc):							
Charged to operations	$ 83,044	$ 73,442	$ 66,611	$ 58,186	$ 55,639	$ 51,175	$ 28,594
Charged to construction and other accounts	44,504	43,046	41,664	40,179	37,518	34,419	18,176
Total	$ 127,548	$ 116,488	$ 108,275	$ 98,365	$ 93,157	$ 85,594	$ 46,770
Number of employees end of year	4,307	4,310	4,200	4,215	4,202	4,170	3,785

Electric Sales Statistics

	1981	1980	1979	1978	1977	1976	1971
Kwh Sales (millions):							
Residential	4,429	4,325	4,329	4,297	4,203	4,093	3,125
Commercial	2,516	2,485	2,455	2,438	2,370	2,322	1,700
Industrial	2,845	2,769	2,843	2,632	2,515	2,369	2,045
Public authorities	1,218	1,163	1,152	1,125	1,123	1,112	881
Other electric utilities	8	16	10	23	27	26	1,296
Total	11,016	10,758	10,789	10,515	10,238	9,922	9,047
Operating Revenues (thousands):							
Residential	$271,335	$226,867	$215,504	$197,024	$168,041	$151,790	$ 80,350
Commercial	142,643	119,545	111,292	103,192	89,899	79,857	35,536
Industrial	121,618	98,976	94,013	81,332	70,009	58,095	24,705
Public authorities	64,113	53,139	49,802	45,679	40,776	35,808	17,141
Other electric utilities	301	467	301	438	447	414	15,809
Other operating revenues	9,168	7,508	6,731	6,109	5,284	4,906	3,033
Total operating revenues	$609,178	$506,502	$477,643	$433,774	$374,456	$330,870	$176,574
Operating Revenues per kwh (cents):							
Residential	6.13	5.25	4.98	4.59	4.00	3.71	2.57
Commercial	5.67	4.81	4.53	4.23	3.79	3.44	2.09
Industrial	4.27	3.57	3.31	3.09	2.78	2.45	1.21
Public authorities	5.26	4.57	[illegible]	4.06	3.63	3.22	1.95
Other electric utilities	3.76	2.92	3.01	1.90	1.66	1.59	1.22
Average revenue per kwh	5.53	4.71	4.43	4.13	3.66	3.33	1.95
Number of Customers (average for year):							
Residential	599,117	593,321	586,665	578,982	571,701	564,502	513,187
Commercial	58,164	57,174	56,568	55,725	55,113	54,808	51,192
Industrial	1,348	1,319	1,290	1,298	1,284	1,279	1,217
Other	9,684	9,554	9,396	9,226	9,042	8,633	7,577
Total	668,313	661,368	653,919	645,231	637,140	629,222	573,173
Annual Average Use (kwh):							
Residential	7,393	7,289	7,379	7,422	7,352	7,252	6,089
Commercial	43,257	43,464	43,399	43,751	43,003	42,366	33,208
Industrial (thousands)	2,111	2,099	2,204	2,028	1,959	1,852	1,680
Annual Average Bill:							
Residential	$ 453	$ 382	$ 367	$ 340	$ 294	$ 269	$ 157
Commercial	2,452	2,091	1,967	1,852	1,631	1,457	694
Industrial	90,221	75,039	72,878	62,659	54,524	45,422	20,300

Electric Operating Statistics

	1981	1980	1979	1978	1977	1976	1971
PRODUCTION DATA:							
System Capability (megawatts):							
Net generating capability:							
Steam	1,720	1,745	1,734	1,728	1,527	1,377	1,354
Hydro	38	38	38	38	38	38	38
Internal combustion	11	11	14	14	14	14	14
Total	1,769	1,794	1,786	1,780	1,579	1,429	1,406
Purchased—Power Authority	764	774	680	712	824	848	541
—Other	242	250	200	100	100	200	—
Total system capability	2,775	2,818	2,666	2,592	2,503	2,477	1,947
Annual Load Factor (percent)	64.4	67.1	65.2	63.6	62.9	61.0	63.8
Coal Burned (thousands of net tons)	4,867	4,724	4,748	4,430	3,720	3,395	3,214
Coal Heat Value (Btu per lb.)	11,600	11,537	11,378	11,141	11,056	11,123	11,353
Btu per Kwh Generated (net)	10,701	10,639	10,582	10,744	11,145	11,112	10,879
Kwh Production—net (millions):							
Generated	10,762	10,449	10,430	9,350	7,606	7,046	6,920
Purchased	2,419	3,127	2,765	3,282	3,509	4,383	3,101
Interchanged	(923)	(1,408)	(1,082)	(909)	201	(298)	(47)
Total	12,258	12,168	12,113	11,723	11,316	11,131	9,974
Production Expenses (thousands):							
Generated	$216,805	$185,139	$171,079	$148,285	$110,448	$ 91,724	$ 45,034
Purchased	47,140	47,202	35,757	37,297	39,670	34,926	15,486
Interchanged (net)	(40,111)	(49,231)	(33,131)	(18,238)	6,929	(1,247)	(193)
Total	$223,834	$183,170	$173,705	$167,344	$157,047	$125,403	$ 60,327
Production Costs per Kwh (mills):							
Generated	20.15	17.72	16.40	15.86	14.52	13.02	6.51
Purchased	19.49	15.09	12.93	11.36	11.30	7.97	4.99
Total incl. interchange	18.26	15.05	14.34	14.27	13.88	11.27	6.05
ELECTRIC OPERATION AND MAINTENANCE EXPENSES (thousands):							
Production	$223,834	$183,170	$173,705	$167,344	$157,047	$125,403	$ 60,327
Transmission	11,308	9,930	8,616	8,171	7,612	7,058	4,356
Distribution	32,287	30,455	27,306	22,644	22,544	21,569	11,712
Customer accounting	13,449	11,379	10,467	9,467	8,527	7,672	4,293
Customer service	3,719	3,669	3,137	2,887	2,605	2,507	1,820
Administrative and general	40,129	34,423	29,664	25,537	22,972	20,068	8,398
Total	$324,726	$273,026	$252,895	$236,050	$221,307	$184,277	$ 90,906

Gas Department Statistics

	1981	1980	1979	1978	1977	1976	1971
Dekatherm (dth) Sales (thousands):							
Residential	16,412	16,482	17,312	18,386	18,373	19,958	20,781
Commercial	8,044	7,937	8,150	8,654	8,408	9,484	9,600
Industrial	11,509	9,883	9,336	8,651	7,968	9,243	12,270
Other	3,991	3,356	3,600	3,638	3,132	3,808	3,420
Total	39,956	37,658	38,398	39,329	37,881	42,493	46,071
Operating Revenues (thousands):							
Residential	$ 71,399	$ 66,333	$ 54,196	$ 50,642	$ 44,895	$ 40,387	$ 23,637
Commercial	30,989	28,698	22,894	20,908	18,236	16,850	9,256
Industrial	40,077	31,730	23,461	18,252	15,205	13,668	8,495
Other	15,896	12,051	10,017	8,595	6,660	6,492	3,100
Total operating revenues	$158,361	$138,812	$110,568	$ 98,397	$ 84,996	$ 77,397	$ 44,488
Operating Revenues per dth:							
Residential	$ 4.35	$ 4.02	$ 3.13	$ 2.75	$ 2.44	$ 2.02	$ 1.14
Commercial	3.85	3.62	2.81	2.42	2.17	1.78	.96
Industrial	3.48	3.21	2.51	2.11	1.91	1.48	.69
Other	3.98	3.59	2.78	2.36	2.13	1.70	.91
Average revenue per dth	$ 3.96	$ 3.69	$ 2.88	$ 2.50	$ 2.24	$ 1.82	$ .97
Number of Customers (average for year):							
Residential with house heating	102,386	99,969	98,044	97,469	97,082	97,496	92,021
Residential without house heating	9,910	11,117	11,917	12,124	12,630	12,812	15,737
Commercial with space heating	13,540	12,909	12,714	12,752	12,809	12,985	13,146
Commercial without space heating	1,080	1,108	1,198	1,233	1,234	1,266	1,379
Industrial	395	383	365	371	380	384	417
Other	1,144	1,174	1,163	1,185	1,241	1,142	1,130
Total	128,455	126,660	125,401	125,134	125,376	126,085	123,830
Annual Average Use (dth):							
Residential	146	148	157	168	167	181	193
Commercial	550	566	586	619	599	665	661
Industrial	29,137	25,804	25,578	23,321	20,968	24,070	29,424
Annual Average Bill:							
Residential	$ 636	$ 597	$ 493	$ 462	$ 409	$ 366	$ 219
Commercial	2,120	2,047	1,646	1,495	1,300	1,182	637
Industrial	101,461	82,846	64,277	49,197	40,013	35,594	20,366
Cost of Natural Gas Purchased:							
Amount (thousands)	$112,176	$100,895	$ 74,542	$ 63,896	$ 56,284	$ 47,944	$ 26,455
Per dth	2.82	2.59	1.94	1.62	1.50	1.11	.58
Gas Operation and Maintenance Expenses (thousands):							
Production	$112,410	$101,174	$ 74,804	$ 64,089	$ 56,923	$ 48,210	$ 26,490
Transmission and distribution	8,249	7,608	7,177	6,775	6,469	5,939	3,018
Customer accounting	2,975	2,589	2,158	1,988	1,812	1,705	1,024
Customer service	871	749	646	479	480	321	179
Administrative and general	7,476	6,121	5,424	4,952	4,326	3,681	2,205
Total	$131,981	$118,241	$ 90,209	$ 78,283	$ 70,010	$ 59,856	$ 32,916

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
Retired Senior Vice President, Research and Engineering, 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
President, Columbian Rope Company, Auburn, N.Y.

Alexander Horwitz
Director of various corporations, Binghamton, N.Y.

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

Alton G. Marshall
President, Alton G. Marshall Associates, Inc., New York, N.Y.

David R. Newcomb
President, Buffalo Forge Company, Buffalo, N.Y.

C. William Stuart
Former Chairman of the Board, 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

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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

James A. Ackerman
Vice President, Area Administration

Francis X. Carney
Vice President, Research and Development

Orlin W. Darrach
Vice President, Customer 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

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
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Senior Vice President, Corporate

Eugene P. Waters
Senior Vice President and Treasurer

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 Lawrence & Abell
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.

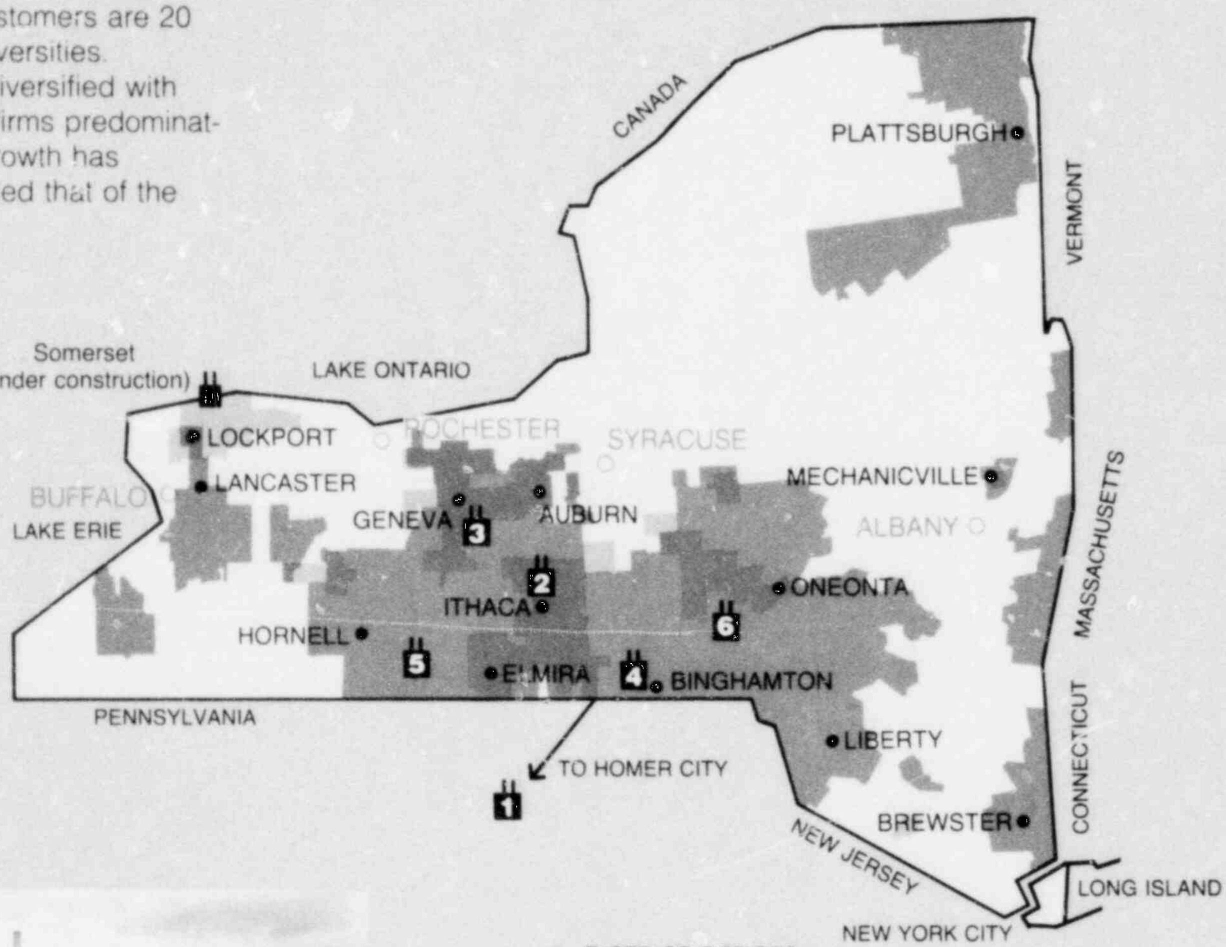
The Company files an annual report on Form 10-K with the Securities and Exchange Commission. Stockholders may obtain a free copy of this report from the Secretary upon request.

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)
15% Preferred Stock ($25 Par Value)
10.60% First Mortgage Bonds due 1982
7⅝% First Mortgage Bonds due 2001
9⅜% First Mortgage Bonds due 2005
9⅜% First Mortgage Bonds due 2006
8⅞% First Mortgage Bonds due 2007

Service Area

The service territory covers 17,000 square miles, has a population of 1,800,000 and is largely suburban and rural in nature. It includes 13 relatively-small cities, the largest of which is Binghamton with a population of 56,000. Among major customers are 20 colleges and universities. Industry is well-diversified with high-technology firms predominating. Economic growth has generally paralleled that of the nation.



● DISTRICT OFFICES

Electric

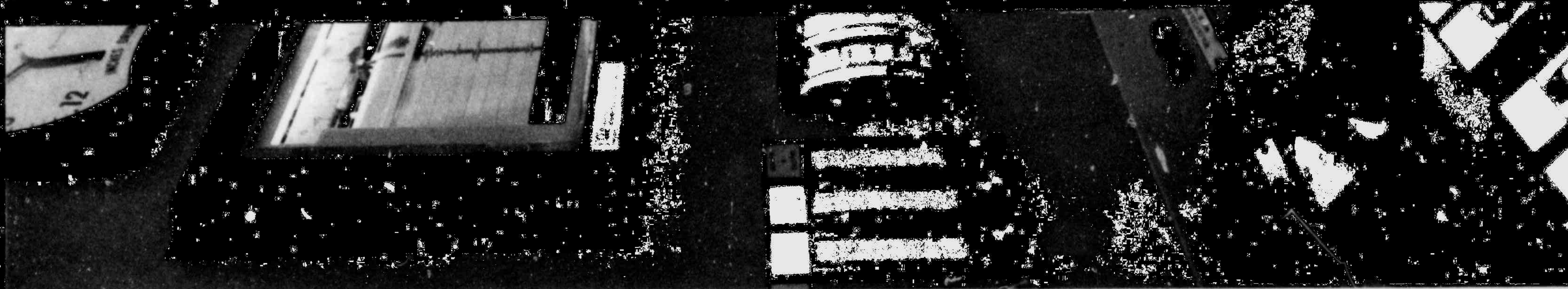
Gas

Electric & Gas

Major Generating Stations
All coal-fired
(Kilowatts)

1. Homer City	921,000
2. Milliken	305,000
3. Greenidge	203,000
4. Goudey	129,000
5. Hickling	87,000
6. Jennison	75,000
Total	1,720,000

Homer City Generating Station, located in western Pennsylvania, is jointly-owned with Pennsylvania Electric Company. It provides a little over half of NYSEG's generating capacity.



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

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