

Niagara Mohawk Power Corporation 1980 Annual Report

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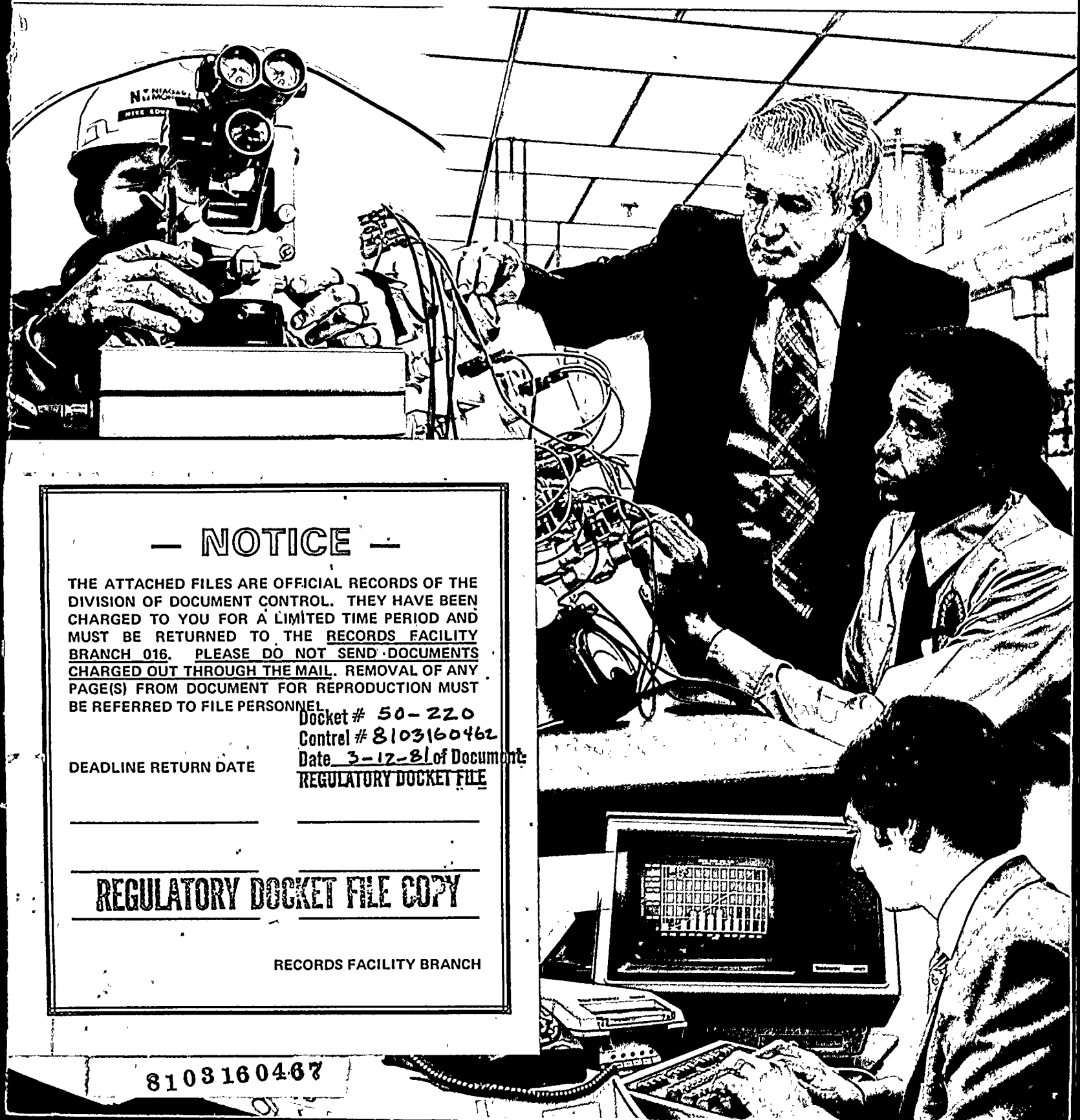
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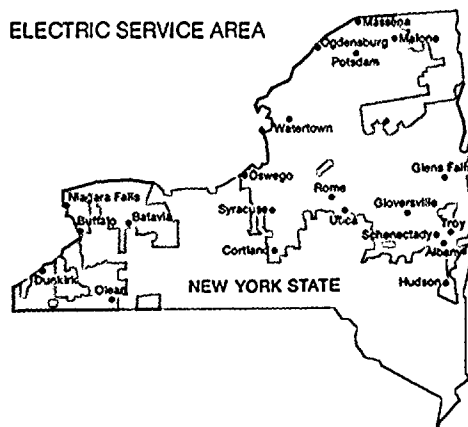
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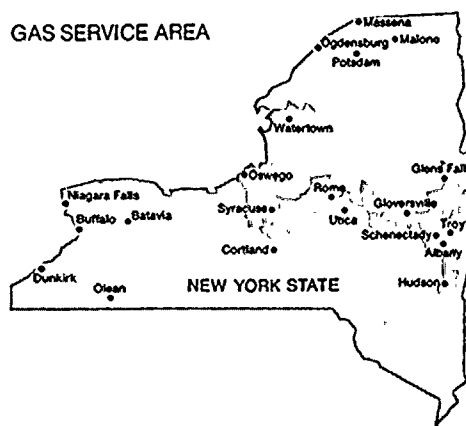
Our service area

Niagara Mohawk Power Corp., one of the Nation's major investor-owned utilities, has the largest and most diverse service territory in New York State. A massive electric system, extending from Lake Erie to New England's borders, to Canada and Pennsylvania, serves the energy needs of 1,360,000 customers. A natural gas system serves 423,000 customers in central, eastern and northern New York, nearly all within the Company's electric service area. Two Canadian subsidiaries, St. Lawrence Power Co. and Canadian Niagara Power Company, Ltd., provide electric service to parts of southern Ontario. Corporate headquarters is 300 Erie Boulevard West, Syracuse, NY 13202.

ELECTRIC SERVICE AREA



GAS SERVICE AREA



The road ahead

The cover montage features Niagara Mohawk people involved in planning.

Effective planning for the coming years and decades—for the early 1980s and intermediate years to 2000—is an essential part of the utility business. Looking beyond the '90s, a whole new century lies ahead to test the Company and the Nation.

Reviewed in this Annual Report is a kaleidoscope of positive activities and planning designed to keep in step with changing times. Niagara Mohawk is confident that it is on a sound course to meet the future and to continue providing for energy needs. The interests of our stockholders, consumers and employees dominate this vital planning mission as the new decade dawns.

Investor notes

Annual Meeting

The annual meeting of stockholders will be held on May 5, 1981 at the Company's main office in Syracuse. A formal notice of meeting, proxy statement and proxy form will be sent to holders of common stock in early April.

Transfer Agents

Preferred Stock and Preference Stock:
Marine Midland Bank, N.A.
140 Broadway, New York, N.Y. 10015

Common Stock:
Morgan Guaranty Trust Company
of New York
30 W. Broadway, New York, N.Y. 10015

Disbursing Agent

Preferred, Preference and Common Stocks:
Niagara Mohawk Power Corporation
300 Erie Boulevard West
Syracuse, N.Y. 13202

Stock Exchanges

Common and Certain Preferred Series:
Listed on New York Stock Exchange

Common Stock:
Also traded on Amsterdam (Netherlands), Boston, Cincinnati, Detroit, Midwest, Pacific Coast and PBW stock exchanges.

Ticker symbol: NMK

Form 10-K Report

A copy of the Company's Form 10-K report filed annually with the Securities and Exchange Commission is available after March 31, 1981 by writing the Treasurer at 300 Erie Boulevard West, Syracuse, NY 13202.

The information in this report is not given in connection with the sale of, or offer to buy, any security.

Printed in U.S.A.

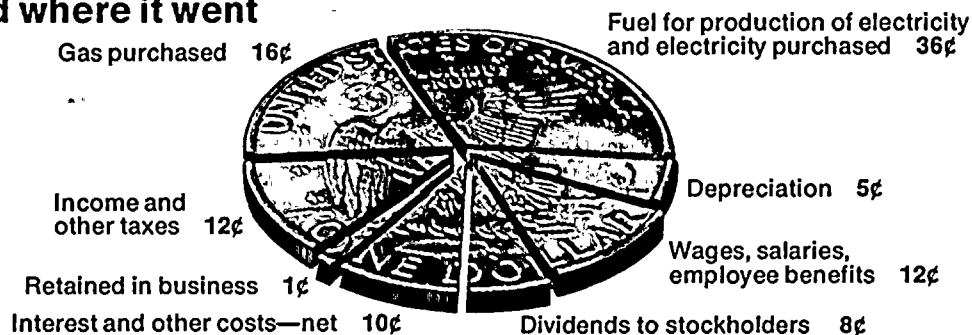
Highlights of 1980

	1980	1979	% Change
Total operating revenues	\$1,777,115,000	\$1,516,503,000	17
Income available for common stockholders	\$ 133,201,000	\$ 128,186,000	4
Earnings per common share	\$1.87	\$2.00	(7)
Dividends per common share	\$1.50	\$1.44	4
Common shares outstanding (<i>average</i>)	71,257,000	63,976,000	11
Utility plant (<i>gross</i>)	\$4,563,309,000	\$4,218,528,000	8
Gross additions to utility plant	\$ 378,503,000	\$ 374,530,000	1
Kilowatt-hour sales	32,588,000,000	33,315,000,000	(2)
Electric customers at end of year	1,360,000	1,348,000	1
Electric peak load (<i>kilowatts</i>)	5,403,000	5,641,000	(4)
Natural gas sales (<i>dekatherms</i>)	101,321,000	96,618,000	5
Gas customers at end of year	423,000	416,000	2
Maximum day gas sendout (<i>dekatherms</i>)	740,594	750,666	(1)

The 1980 revenue dollar



and where it went



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To our stockholders:

Earnings declined by 13 cents to \$1.87 per share of common stock in 1980, compared with \$2.00 per share in 1979.

This earnings decrease reflects the interacting influences, largely beyond our direct control, of increasing inflation, high interest costs, economic recession and a reduction in electric sales to our own customers during the year. Such sales totaled 29.7 billion kilowatt-hours in 1980, against 30.3 billion Kwh in 1979, the first decrease of this type experienced by Niagara Mohawk since 1975. Gas sales rose 4.9 percent in 1980, compared to a decline last year. All these developments, combined with insufficient rate relief, adversely affected earnings.

The lower earnings resulted in the Company's current rate of return on common equity dropping to 10.8 percent—well below the 14 percent authorized earlier by the N.Y. State Public Service Commission. Such conditions mandate pursuing further rate increases to maintain dependability of energy service and adequate earnings for stockholders.

We see the potential for recovery of earnings in 1981 from present depressed levels. As this report goes to press, we await a decision by the N.Y. State Public Service Commission in our pending rate case. As 1980 ended, the Administrative Law Judge issued a recommendation for increased rates totaling \$160 million, approximately 70 percent of the total requested. He recommended that the Company's rate of return on common equity be adjusted upward to 15.4 percent.

Because of the vital importance of providing stockholders a fair return on their growing investment in the Company, in May 1980, the Board of Directors increased the annual common stock dividend by 8 cents per share, up 5.6 percent.

The Commission is currently in a period of new appointments and consideration of possible regulatory changes. More realistic and reasonable regulatory treatment will be no less than essential to enable Niagara Mohawk to earn the allowed rate of return and maintain financial integrity. Our continuing to provide satisfactory service for consumers in future years will hinge in large part on the decisions and attitudes of our regulators.

"The Road Ahead" theme of this Annual Report underscores the ever-increasing urgency of effective planning in our business. We are striving to add a further degree of sophistication to our future-oriented work, designed to help us cope effectively with the volatile business conditions we experience.

Current 15-year load forecasts indicate annual electric growth at 1 to 1.5 percent. While growth in our service territory has been static in recent years, industrial redevelopment efforts hold promise.

Financing in 1980, detailed in this report, totaled \$266 million, including refinancing of \$80 million of maturing debt. In 1981, extensive financing to meet construction needs, including construction at Nine Mile Point Nuclear Unit No. 2 in particular, and to refund \$140 million in bonds coming due during the year, is expected to exceed \$400 million.

We now anticipate resuming construction of Unit No. 2 at full scale starting in spring 1981, depending upon the final results of reassessments, audits and studies initiated during the past year. Presently, the project is nearly one-third complete.



John G. Haehl, Jr.



William J. Donlon

The success of Nine Mile Point Unit No. 1 has surpassed our brightest expectations, bolstering our faith in nuclear technology—for its dependability, safety, cost-effectiveness and contribution to oil displacement. Niagara Mohawk's nuclear commitment lies deeply rooted in the early 1960s, when we first embarked on a plan to construct the unit. Performance at Nine Mile Point has enabled us to demonstrate the great potential that nuclear technology offers all upstate New York. The pride our management and employees share in Unit No. 1 is the result of more than a decade of commendable operation.

Despite inflation and related cost spirals for all services and goods, the price of Niagara Mohawk service continues to rise at a rate lower than other living costs. Electricity and natural gas remain outstanding values. Our residential electric rates continue to be the lowest of any major New York State utility and below the national average.

In 1980, we engaged an independent consultant to conduct a system-wide customer attitude survey which revealed that Niagara Mohawk is considered reliable by an overwhelming majority of our customers. A substantial majority also indicated the Company is "hard-working and friendly, that Niagara Mohawk does a good job of communicating and is willing to listen to consumers." We are gratified by these perceptions—a clear endorsement of our service quality. The survey also stressed we must reassure consumers we are doing everything possible to protect them in terms of energy supply and price.

An example of our continuing such protective efforts is the conversion of Albany Steam Station from oil to natural gas, scheduled for fall 1981 completion. The changeover, subject to regulatory approvals, would equip the station with dual capability to burn either gas or oil, offering a most desirable combination of fuel-cost reduction and oil-displacement.

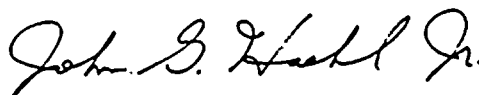
Our gas operations grew in 1980, attracting 7,000 new customers. Much of the increased consumption that normally follows additional customer attachments

was offset by conservation measures and reduced gas usage. Average annual gas use per residential customer declined 2.8 percent in 1980, despite colder degree-day experience.

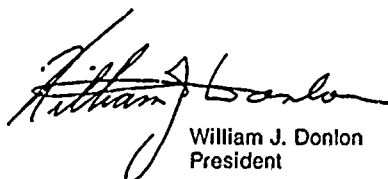
Settlement of the Massena municipal electric distribution system problem was reached on January 6, 1981. We agreed to sell Massena, which undeniably had power to condemn, all facilities served in and about the Town for \$7.7 million, thereby providing the most economic separation of facilities. The settlement represented reasonable value and thereby protected our stockholders' interests.

Our newly restructured senior management organization is consistent with our planning objectives. We are confident the Company's officers, management and employees are prepared—as shown on the following pages—to come fully and capably to grips with the challenges the future is sure to bring in the unsettled times in which we live and do business.

We sincerely appreciate the continuing loyalty and support of our stockholders, employees and customers.



John G. Haehl, Jr.
Chairman of the Board
and Chief Executive Officer



William J. Donlon
President

February 2, 1981



Coming to grips with the future

Never before has planning required more concentrated effort and attention from Niagara Mohawk. Unpredictable events and forces of the 1970s are almost sure to persist through this decade, taking new variations, testing management's flexibility and presenting imposing challenges to the most carefully laid plans.

Among the shifting trends the Company must continue to cope with in the years ahead will be the leveling-off of electric load growth, regulatory uncertainties and long "lead times"—presently up to ten years or more—involving construction of major generating installations and other facilities. These problems are common to the electric utility industry.

In such a setting, and faced also with fluctuating social and economic trends and the complexities of financing, on-target planning is critical to Niagara Mohawk's well-being. This task today calls for increasingly farsighted planning and use of sophisticated and innovative resources and machinery for future decision-making strategies. The Company recognizes the need to capitalize on both "in-house" and external resources and agencies to help prepare as efficiently and accurately as humanly possible for whatever variable conditions the future may bring.

Complex, computerized studies and surveys, analysis of statistics on the economics, demographics and energy-use

Energy needs of ADM Milling Co. plant, recently converted from a retired cement production facility to a substantial new flour and grain operation, are discussed by Consumer Relations Supervisor James W. Keegan, left, and Richard A. Vercruysse, Plant Manager, Niagara Mohawk 115,000-volt feeder and customer's own substation, left, meet electric requirements of mill, near Hudson, New York.

patterns prevailing in the Company's service area are more essential than ever to equipping Niagara Mohawk to handle the challenges of the years ahead. As an outgrowth of earlier planning by the Company, three major computer-oriented systems presently in the early stages offer significant promise in our efforts to maximize productivity and operating efficiency. The first will improve customer accounting procedures through a direct, on-line system with computer terminals at customer service locations. The second will enable construction and maintenance field supervisors to make more effective use of manpower and material resources for planning, estimating, scheduling and reporting their assigned projects. The third involves upgrading corporate accounting systems to provide, on a more current basis, expanded information and data on Company operations and finances, to aid in all types of planning. It also will provide an effective tool in administration of regulatory matters. Another project, still in the embryo stage (the Energy Management System discussed on page 7) will furnish Niagara Mohawk with the most current state-of-the-art system to control and coordinate generation, transmission and distribution facilities.

As we look down the road ahead with others in both the public and private sectors, the N.Y. State Energy Master Plan announced in 1980 with its proposed schedules and sites for principal generation and transmission projects will be of greatest significance to Niagara Mohawk and other utilities in the N.Y. Power Pool. At the same time, the Power Pool is performing its own studies, with economic and demographic models of future years, and the Public Service Commission has undertaken a detailed analysis of the state's total energy reliability picture. The Company has implemented many planning-oriented recommendations from a study of management and operations in the late 1970s, and a residential appliance saturation survey was conducted in 1980 to aid in forecasting electric usage and to assess load management potential and energy conservation effects on our System. Detailed up-to-date findings of the 1980 Census also are expected to be helpful in forecasting and future chartwork.

Presently, Niagara Mohawk's long-range electric sales forecast indicates yearly growth of about 1 to 1.5 percent in the Company's service area, a sign of its mature economy and energy conservation practiced to an increasing extent since the early 1970s. While this is sharply reduced from electric sales forecasts of a decade ago, the Company still must be prepared to meet projected increased power demands and oil displacement objectives.

The expectation is that new upturns in energy demands may be spurred by renewed industrial and commercial activity as economic conditions improve in up-state New York. Growth already is being experienced near Buffalo and Syracuse, for example. Two automotive manufacturers have begun expansion totaling \$480-million alone and impressive multi-million dollar research, restaurant and hotel, educational, aluminum production, beverage and other industrial developments were announced or under way throughout our service territory during the year.

In mapping plans and strategies for the natural gas side of the business, potential for sales growth continues to improve, but at moderate levels due to energy conservation by customers and continuing refinement by manufacturers of new gas appliances and equipment with greater efficiency. To meet gas needs, 67 miles of new mains and other gas service facilities were installed during the year. About \$6.2 million is earmarked for new gas facilities in 1981. Markets for this relatively low-cost, clean-burning fuel should broaden during the 1980s.■

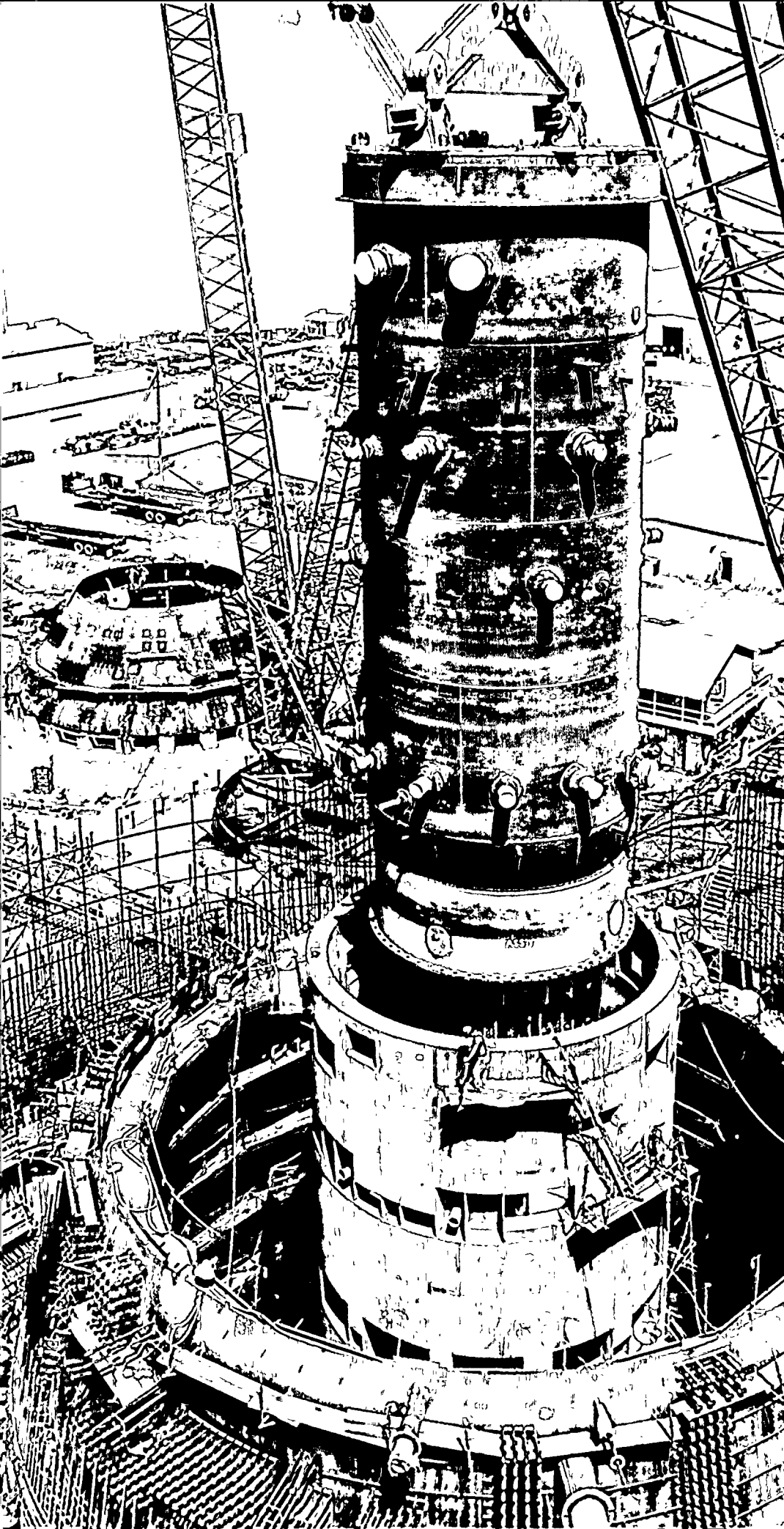
Planning tomorrow's energy timetable

Consistent with long-standing plans to bring new electric generation sources on line in the 1980s, full-scale construction at Nine Mile Point Nuclear Unit No. 2 has been tentatively scheduled to resume in spring 1981. On this basis, completion is targeted for late 1986.

In 1980, the work force at the Lake Ontario project was reduced in large part to allow the sponsors time to re-examine work programming for the 1.08-million kilowatt unit in light of federal and state regulatory uncertainties and questions raised by the 1979 Three Mile Island nuclear plant accident.

Together with the four other utility co-owners of the unit, the Company engaged independent engineering and management consultants early in 1980 to examine the status of engineering, construction and management systems at the project. A decision to return to full construction will be based on that review plus an assessment performed by consultants retained by the N.Y. State Public Service Commission covering essentially the same areas. It is anticipated that findings by the Commission's consultants will closely parallel those already reached in the utility-sponsored audit.

Preliminary reassessment indicates that construction costs to have Unit No. 2 ready for operation by late 1986 will approximate \$2.4 billion, excluding financing costs. The previous \$1.35-billion estimate was based on 1984 completion. The cost difference results from this two-year deferral and greater inflation, modifications to meet new regulations and varied increases related to engineering and construction work programs. Similar cost hikes, for essentially the same reasons, are common to nuclear facilities under construction elsewhere in the United States.



Despite reduced activity at Unit No. 2 in 1980, there was significant construction activity during the year. The 900-ton reactor pressure vessel and associated shielding were installed, while work on other key components proceeded satisfactorily. When the plant goes into commercial operation, it will save from 20,000 to 30,000 barrels of imported oil daily. This will save consumers hundreds of millions of dollars over the unit's life, compared to an oil-fired power producer of the same size.

Unit No. 2's ownership and future output are shared by Niagara Mohawk at 41%; Long Island Lighting Co., 18%; New York State Electric & Gas Corp., 18%; Rochester Gas and Electric Corp., 14%; and Central Hudson Gas & Electric Corp., 9%.

The next refueling of Nine Mile Point Nuclear Unit No. 1 is scheduled for spring 1981. This nuclear cornerstone in the Company's array of generation sources achieved another fine record of outstanding performance and reliability in 1980. In commercial service since 1969, the 610,000-kilowatt project has compiled a capacity factor of 85 percent in 1980. The plant operated for 338 days through 1980 (an availability factor of 92 percent). This places it among the top five percent of the nation's nuclear stations. This spring's planned shutdown will entail partial reloading of the nuclear reactor, routine plant maintenance work and addition of further safety refinements.

During the year, Niagara Mohawk and three other New York State utilities continued to pursue recovery of amounts spent toward construction of a proposed 1.15-million kilowatt nuclear plant planned on Lake Ontario west of Oswego. The sponsors' joint intentions to build the Sterling plant were terminated early in 1980 when the N.Y. State Board on Electric Generation Siting and the Environment reversed itself and revoked the certificate for construction, granted

World's largest land-based cranes hoist 900-ton reactor vessel 28 stories above Lake Ontario during installation at Nine Mile Point Nuclear Unit No. 2. Scene highlights year's construction activity at the 1.08-million kilowatt power plant site.

in 1978. Earlier approval at the federal level was granted in 1977 when the Nuclear Regulatory Commission issued a license to construct Sterling after the utilities had demonstrated that the site was environmentally acceptable and that necessary engineering and safety criteria had been met.

In seeking recovery of its investment, the Company plans to spread the cost over several years to lessen the effect upon its customers. Niagara Mohawk's share in Sterling is 22 percent.

NM Uranium, Inc., a southern Texas uranium mine in which Niagara Mohawk owns half interest, produced more than 500,000 pounds and sold to third parties \$14 million of uranium in 1980. United States Steel Corp. owns the other half and manages operation of the facility, the world's largest mining development of its kind.

The new Unit No. 6 at Oswego Steam Station began commercial operation on July 3, 1980. Under construction since 1972, more than a year before the OPEC oil embargo, the 850,000-kilowatt unit went on line for a reasonable capital outlay—\$290 per installed kilowatt, excluding financing costs. This is substantially less than for any generating plant planned in N.Y. State over the next decade. Capacity of Unit No. 6 is shared, with Niagara Mohawk receiving 646,000 kilowatts (76 percent) and Rochester Gas and Electric 204,000 kilowatts (24 percent) of net capability.

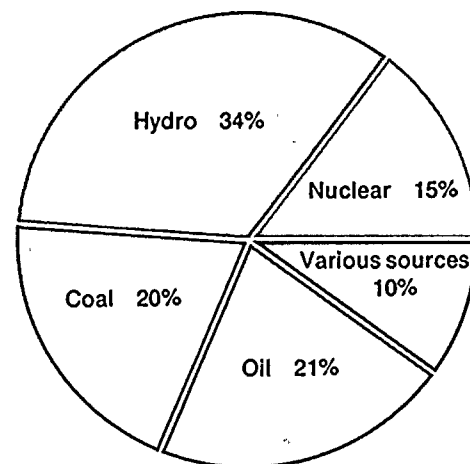
Because of uncertainty in electric load growth, construction of the first 850,000-kilowatt unit at the planned Lake Erie Generating Station is being delayed until the need for its capacity is more clearly determined. At hearings before the State Board on Electric Generation Siting and the Environment, the Company originally proposed an in-service date of 1985, with construction to begin in 1980. However, continuing load-growth studies now indicate that the need for power from Lake Erie's first unit would not occur until the

1990s. Early in 1980, the State Board certified the LEGS site for the 1.7 million-kilowatt coal-fired installation, unconditionally approving plans for the first unit but noting approval of a second unit would require proof of need by Niagara Mohawk or a group of utilities. Ultimately, the proposed station would save some 11 million barrels of imported oil yearly.

The Company plans to modify the oil-fired, 400,000-kilowatt Albany Steam Station to add natural gas, a burning capability measure offering cost advantages as well as reducing usage of imported oil. Certain regulatory approvals will be necessary for the changeover, which involves an investment of \$7 million. A contract has been signed with our wholesale gas supplier to provide the fuel. The proposal calls for bringing Albany's four converted units on line in fall 1981 and operating primarily on gas, at least until late 1983. By that time, a final decision is expected to be formulated by the U.S. Department of Energy regarding conversion of Albany to coal, a modification that could cost well over \$100 million, depending upon pollution abatement equipment required. Originally a coal-fired project, the station was converted to oil fuel for combined environmental and economic reasons in 1969. However, since the OPEC embargo, Albany was cited by the Department of Energy as a prime candidate for conversion back to coal. Oil-fueled Niagara Mohawk generation units at Oswego have been ruled out for coal conversion for technical and cost reasons.

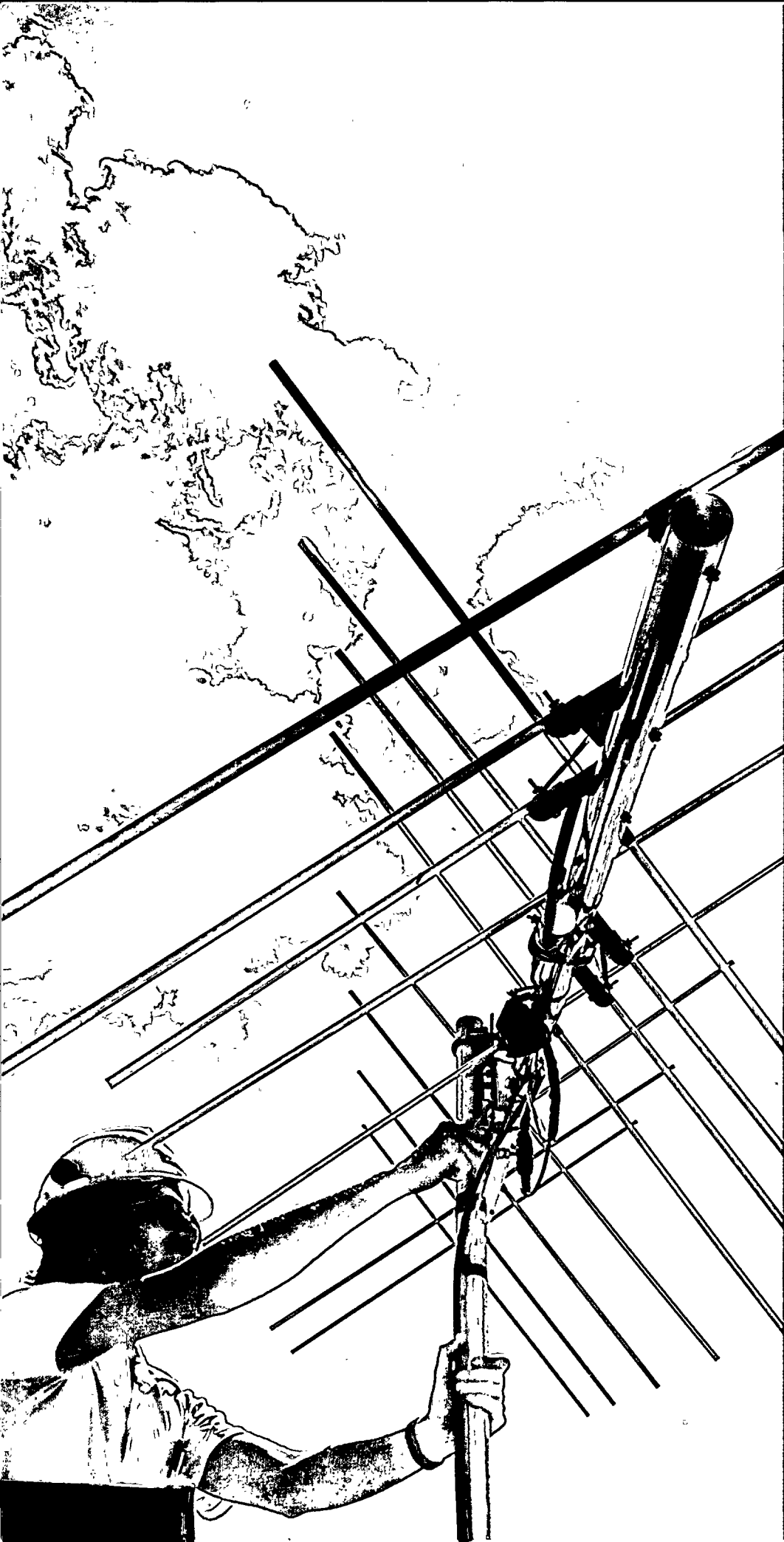
As part of a hydroelectric development and expansion plan scheduled through the 1980s, excavation work will continue during early 1981 in the renovation and enlargement of Granby Hydro Station on the Oswego River. Built in 1915, this 4,600-kilowatt "run-of-river" plant is being replaced with a new power house and two units that will more than double its output to 10,000 kilowatts. Initial commercial service is set at 1983 for Granby, the first of 15 new or renovated hydro facilities which are part of a program to obtain increased, relatively lower-cost energy wherever feasible on rivers and streams in our service area.

ELECTRICITY GENERATED AND PURCHASED BY TYPE OF FUEL



Keyed to delivery of energy from generation sources to load growth centers, the Company's power transmission system is undergoing a number of significant improvements and additions. A major, \$8.9-million, 345,000-volt transmission switching station was completed and put into service at Elbridge, west of Syracuse, and progress was made on a new 230,000-volt underground cable in Buffalo and a 345,000-volt line from Lafayette, near Syracuse, to Oakdale, near Binghamton. The 65-mile line is being erected jointly with New York State Electric & Gas Corp., with Niagara Mohawk constructing the northerly 40 miles and NYSEG the southern section.

Looking at transmission and distribution of energy in the mid-1980s and beyond, the Company has started designing an extensive Energy Management System (EMS) that will employ the most sophisticated equipment and controls to further enhance and modernize power delivery throughout the upstate New York region. In various planning stages since the late 1970s, EMS's base will be a new master power control center to be built in Syracuse, linked via computers to regional power control centers in Buffalo, Albany, central and northern New York. The system promises a more efficient use of existing power facilities, besides adding to their reliability.■



Research quest

Energy research and development has increased from only \$500,000 for project expenditures in 1970 to more than \$14 million in 1980. R&D occupies an increasingly strategic place in engineering, environmental and overall operations planning. In recent years the Company has earned recognition for its initiative and pioneering in the research field.

To speculate on the 1990s, fully successful application of R&D projects now under way by Niagara Mohawk could result in an estimated 16 percent yearly reduction in fuels used for electric generation, equal to saving more than 8.5 million barrels of imported oil. The Company's own in-house research projects represent nearly 40 percent of the total funding for the R&D program. These seek renewable energy resources, energy conservation improvements and methods of reducing the effect of power generation and delivery upon the environment.

Foremost among in-house research accomplishments in 1980 was initial success with a sophisticated communications demonstration, combining satellites, lasers and fiber optics technology. If applied throughout Niagara Mohawk's 24,000-square-mile electric System, the experiment could lead to reducing annual operating expenses by approximately \$5 million, in addition to improving high-speed data, voice and video communications.

The project employs two orbiting National Aeronautics and Space Administration satellites for transmittal of data concerning power operations, weather and

Special antenna for satellite research program is adjusted by Thomas L. Ierlan, Communications Tester, at power transmission substation. Combining two orbiting NASA satellites, advanced fiber optics and lasers, project promises to improve reliability of electric service and cut operating costs. Niagara Mohawk is first electric utility to explore this communications frontier.

related conditions between the Company's Power Control Center and a key electric switchyard in central New York. At the same time, the project utilizes cables containing hair-thin, computer-to-computer fiber optics. Light originating from laser sources travels as signals through the fiber optics and is instantly "translated" into messages. Each tiny fiber has the same communications capacity as more than 200 copper wires in an ordinary telephone circuit and is unaffected by customary problems that periodically cause telephone interference. The satellite/fiber optics system shows significant promise, not only for its high linkup reliability value when storms threaten communications during power emergencies but for enhancement of energy management between major Northeastern power control centers and other important utility locations.

In a far-reaching research mission with participants representing both government and private sectors, construction progressed to the one-third mark in 1980 on an experimental Flue Gas Desulfurization (FGD) prototype at Niagara Mohawk's Huntley Station in Tonawanda, near Buffalo. The demonstration is to enable power producers to burn lower cost, high-sulfur Eastern coal with little environmental effect while offering considerable long-range cost advantages for electric consumers.

Costing up to \$55 million, the five-year FGD study on one of Huntley's 100,000-kilowatt units is intended to remove 90 percent of sulfur oxides discharged from stacks of large power plants burning higher sulfur coal. Sulfur oxides entrapped in the process are converted to pure marketable sulfur. In addition, disposal problems related to waste by-products are virtually eliminated because materials used by the "scrubber" are recycled in the process.

Niagara Mohawk is host utility and project manager of the FGD demonstration. Co-sponsors include the Empire State Electric Energy Research Corp. (ESEERCO) the research arm of the state's seven investor-owned utilities, the U.S. Environmental Protection Agency, Electric Power Research Institute and Rockwell International Corp., developer of the FGD process. Long in the planning, the project has attracted nationwide attention. FGD may help in solving problems linked with acid rain—a complex environmental concern arising in recent years.

In Niagara Mohawk's pursuit of alternate energy sources, plans also matured in 1980 to a stage where installation of a 10,000-kilowatt fuel cell demonstration unit at a Niagara Mohawk power generation site is anticipated sometime in the mid-1980s. The Company and other utilities have been committed to extensive fuel cell research since the 1960s, after successful results were experienced in the U.S. manned space program. Free of pollution, noise and vibration, the battery-like units are designed to supplement conventional methods of power production and do not require recharging. Operation continues as long as air and a fuel containing hydrogen are fed to the cell electrodes. A 4,800-kilowatt fuel cell prototype is scheduled at a New York City generation station in early 1981 and will supply power to customers of Consolidated Edison Co. of New York, one of the nine utilities participating in the program.

Another innovative effort while also reducing gasoline usage was converting more than 80 Company vehicles to operate on either compressed natural gas or gasoline. CNG compressor filling stations were installed at two key service centers in Syracuse and Albany. When fully operational in 1981, this pilot project is expected to reduce fleet motor fuel needs by 159,000 gallons per year. Consideration is already being given to expanding the project.

R&D strides were achieved in a number of varied projects in 1980—both independent studies by Niagara Mohawk as well as cooperative programs. These include:

- *Olympic Village Thermal Energy Storage and Load Management*
- *Darrieus and Grumman Wind Turbines*
- *Solid Polymer Water Electrolysis for Hydrogen Production*
- *Community-Wide, Water-Source Heat Pump Applications*
- *Selected Solar Energy Installation Monitoring*
- *Wind-Powered Pumped Hydroelectric Storage*
- *Refuse-Derived Fuels for Power Cogeneration*
- *Synthetic Fuels Development*



Programing for the consumer

Because reliance on energy service is certain to continue growing in the coming years, the Company has responsibility to remain alert and sensitive to consumers' problems.

Niagara Mohawk is constantly planning, initiating and refining programs and services to help all categories of energy users—residential, commercial and industrial—in these inflationary times. It is especially sensitive to the difficulties of residential consumers, particularly the elderly. Senior consumers are burdened more and more by soaring food, shelter, medical and energy costs.

It is a long tradition in the Company that Niagara Mohawk employees contribute much personal time and effort helping people and bettering the communities in which they live. This volunteer work, which the Company encourages in the spirit of good citizenship, recognizes that a utility's prosperity is permanently geared to the socioeconomic well-being of its service area.

Direct services and programs initiated or receiving renewed emphasis during the year by Niagara Mohawk to help senior and other consumers with their energy concerns included:

- *Extended Due-Date Plan* aids senior consumers in making bill payments, without penalty, after arrival of social security, social security insurance or disability income checks.
- *Budget Plan* levels off seasonal "highs" in energy costs by spreading estimated annual costs into 12 nearly equal payments.
- *Third-Party Notification* permits a third party, designated by the customer, to receive any notices of service disconnection because of non-payment of bills.
- *Life-Support Program* assists consumers who use any type of electrically operated life-support equipment in the event of emergency outages or non-payment of bills.

Audience hears Nancy L. Hughes, Consumer Relations Representative, describe insulation and heat-saving measures at home energy conservation workshop in Buffalo. Hundreds of these informative seminars were conducted by Niagara Mohawk specialists across the Company's service area.

- *In-Home Service Calls* by Niagara Mohawk personnel for check on gas or electric emergencies, at no charge.
- *Winter Referral Program*, in cooperation with social service agencies, identifies hardship cases and helps them obtain emergency bill payment aid.

The Company's long-standing efforts to help consumers save energy and control fuel bills were again evidenced in 1980, when more than \$2.6 million in low-cost loans were arranged through the Home Energy Audit program, surpassing similar loan arrangement efforts by all other New York State utilities.

In the past two years since the audit concept took form, more than 76,000 customers have participated, requesting one of three types of home audits. These include inspections by Company specialists (50 specialists were trained across the System) and recommendations on energy conservation measures. Also provided are lists naming local contractors who will perform necessary improvements on customers' homes and information on obtaining low-cost energy conservation loans, with liberal repayment terms. Well before the outset of the 1980 heating season, Niagara Mohawk stepped-up a System-wide promotional campaign, advertising in newspapers, radio, television and in bill enclosures to

generate public awareness of the Audit Program.

In addition to Home Energy Audit printed materials, consumers are provided booklets, brochures, films, videotapes and speakers programs on a broad selection of energy conservation topics. Further, in the past year Company conservation specialists presented "No-Cost/Low-Cost" energy workshops in all areas served. These informative evening sessions teach consumers how low-cost do-it-yourself projects can save energy and cut down fuel bills.

Another successful program in 1980 was the Energy Management Action Program, created the previous year for major industrial and commercial customers. A total of more than 450 representatives from a cross-section of key industrial and business firms attended seminars and were awarded certificates in this specialized program. The five-day sessions, conducted by Niagara Mohawk instructors, cover specific lighting, heating, load demand and energy monitoring unique to large energy users. Interest was so high in many areas that the sessions were oversubscribed.

To help guide and assist in identifying customer-related problems, the Consumer Advisory Council on Energy Affairs provided many valuable insights and suggestions again in 1980. Independently, the 27 volunteer Council members, representing a broad cross-section of customer interests, drafted a "Consumer's Bill of Rights and Responsibilities" for distribution to legislators, regulatory agency leaders and news media. As in

MONTHLY RESIDENTIAL ELECTRIC COST FOR 500 KILOWATT-HOURS

New York City	\$61.37
Newark, NJ	51.06
Boston, MA	46.31
NY State Avg. (not including NM)	43.37*
Hartford, CT	37.51
Philadelphia, PA	35.15
Portland, ME	34.28
Los Angeles, CA	34.03
Cleveland, OH	31.88
National Avg.	29.14**
Niagara Mohawk	25.75

Includes fuel and PASNY credit adjustments as applicable

*NM Rate Department as of December 31, 1980

**E. I. Report with Rates Effective 7/1/80

previous years, the Council's observations and recommendations are proving highly significant in the Company's consumer relations and public affairs programming. A notable example is Council guidance in developing some of the consumer programs described above. In addition, the Council monitors legislative bills and proposals affecting consumers and energy policies and prepares relevant "issue papers" for release to news media from time to time.

As a further measure to identify with consumers, an extensive customer opinion and attitude survey was conducted in 1980 by an independent market opinion research firm. It was the first such survey in several years. Customer reactions covered a wide spectrum, with the topics ranging from basic trust in Niagara Mohawk and opinions on the cost of electricity and gas to nuclear power, environmental concern and municipal ownership. A special committee is evaluating these attitude findings, both to analyze the general feelings customers have toward the Company and to guide the formulation of specific plans with regard to the positives and negatives identified.

In late 1980, the Public Service Commission approved the Company's time-of-use electric rate proposal. Effective January 1, 1981, the new time-based rates are mandatory for large industrial and commercial users, but optional for residential consumers. It is expected that only large-use residential consumers could shift enough usage to off-peak times to benefit from the plan, while principal industrial and commercial customers could realize as much as a 10 percent decrease in power costs. ■

Issue is debated at task force meeting of Consumer Advisory Council on Energy Affairs. Council members are volunteers from outside the Company and represent varied consumer and community interests. From left are Clarence Dart of Saratoga Springs, Ralph Falco of Syracuse, Chairman Sidney A. Sherwin, Jr., of Batavia, William Roden of Trout Lake, Henry J. Osinski of Buffalo and Floyd Nolan of Pulaski.





People in planning

As the Company prepares to meet obstacles and challenges along the road ahead, the unending task of employee training at Niagara Mohawk becomes more paramount than ever in planning.

Efforts to develop and to refine employee skills and knowledge, all looking to the future, resulted in productivity and efficiency gains throughout the Company's ranks in 1980. Formalized training courses focused upon consumer services (the latest teaches customer service people operation of a new, on-line customer system using cathode ray tube terminals and a new computerized telephone system), management development, varied technical assignments, field instruction, new employee orientation, coping with personal stress and a host of other subjects. Also, a fully equipped training center for formal instruction of fossil plant and nuclear station employees was completed near the Oswego Steam Station.

In addition, the year saw planning-oriented achievements by the Company's Productivity Planning Department—serving as an in-house “consultant”—to upgrade use of manpower and physical resources through a new management uniform planning system. In this system, mathematical, physical and behavioral sciences are integrated with the latest industrial engineering methods to bring about productivity and cost-cutting improvements. Planning and operation of power transmission and distribution systems were among key review assignments by Productivity Planning in 1980. The department will continue to help management and supervisory employees streamline everyday planning, organizing, staffing and control work everywhere in the Corporation.

At the close of 1980, employees numbered 9,700, about the same as in 1973, while the sales, scope of operations and number of customers served has grown significantly.

Rescue Squad members Ted Collier, right, and Kenneth Plum respond to accident call while on night ambulance duty in northern New York Town of Norfolk. Collier, a Niagara Mohawk Station Maintenance Mechanic, is among many Company employees serving as medical emergency volunteers and contributing personal time toward the safety and well-being of their communities.

On June 1, 1980, a new two-year contract went into effect with 12 local unions of System Council U-11, International Brotherhood of Electrical Workers (AFL-CIO). Provisions of the pact, all within Federal Wage Guidelines, affect some 7,600 in the work force and include yearly wage increases of 8.5 percent.

As one of upstate New York's largest employers, Niagara Mohawk recognizes its responsibility to provide equal job opportunities. The Company is continuing to improve representation of minority groups among its employees and, in the same light, has long been recognized for leadership in community volunteer projects involving employment and job training.

Employees desiring to upgrade their formal education in job-related fields enroll in a Company Aid-to-Education plan which provides substantial financial assistance. About 800 employees took advantage of the Plan in 1980. The Corporation's Scholarship Program assists employees in providing their sons and daughters an opportunity to obtain a college education or go on to graduate study in engineering, business and finance. Four undergraduate scholarships, each with a total value of \$8,000, are awarded annually, and one \$5,000 graduate fellowship is granted every two years under the Program.

The Employee Saving Fund Plan is subscribed to by 6,700 or 76 percent of all eligible personnel. They allocate from 2 percent to 6 percent of their wages toward purchase of common stock or U.S. Government Bonds. The Company matched employee contributions by 50 percent for a total \$3,682,000 in 1980. The Plan holds 6,907,000 shares or 9% of the outstanding common stock. In addition, employees may make unmatched contributions of up to 4% of their wages.

The reorganized Public Affairs and Corporate Communications Department has broadened activities to better communicate with stockholders and the professional investment community. For the third year, members of senior management made informative presentations to stockholders at regional meetings in key communities in upstate New York. The number of persons attending these sessions and their enthusiasm indicate that stockholders want the latest information

on Niagara Mohawk and wish to hear its position on energy issues and current events. In further response to this need, the Company initiated its "In-the-Know" communications program in 1980 to keep stockholders updated on energy developments, financial affairs and stockholder services. In addition, "NMK Digest," a newsletter distributed to security analysts, brokers and interested stockholders, is published periodically. For information on any of these activities, write John W. Powers, Treasurer, 300 Erie Boulevard West, Syracuse, NY 13202.

The Association of Investors in New York Utilities, Inc., formed in 1979 as a "grass roots" stockholder organization, already has grown to nearly 1,700 members, with the majority owning Niagara Mohawk shares. AINYU is a non-profit, independent group of owners of stocks, bonds or other securities in investor-owned, tax-paying N.Y. State utilities. Among its objectives—through collective action—are "protecting the financial integrity of utilities to assure continued supply of power at reasonable cost to consumers and at reasonable profit to owners." Other goals include "improving the regulatory climate of administrative bodies and to preserve the free-enterprise, tax-paying system in the generation and distribution of power in New York State." Information on AINYU is available by writing to its corporate office at Old Camby Road, Verbank, NY 12585.

The proven success of the constantly growing Dividend Reinvestment and Stock Purchase Plan continued as participation rose 15 percent in 1980. Holders of both common and preferred stock are eligible. The limit on optional cash investments has been increased to \$30,000 per year. Under the Plan, purchases of newly issued stock are made directly from the Company—without incurring brokerage commissions or service charges. The purchases are made from the reinvestment of dividends and optional cash payments from the participants. The Plan also provides the Company funds for financing. In 1980, 39,000 participants, representing 18 percent of all common stockholders, invested \$18,909,000 in new common shares. Literature and application forms are available by writing NMPC Dividend Reinvestment Plan, P.O. Box 131, Syracuse, NY 13201.

In another action to plan and to meet the challenges of managing the Corporation in today's business climate, major modifications in our senior management structure were implemented in 1980. Changes involved the election of John G. Haehl, Jr., to Chairman of the Board and Chief Executive Officer and William J. Donlon to succeed Mr. Haehl as President. At the same time, Richard C. Clancy, John M. Endries and John M. Haynes were elected senior vice presidents. Donald L. MacVittie was elected Vice President of Fossil Generation; Thomas E. Lempges, Vice President of Nuclear Generation; Anthony J. Baratta, Jr., Controller; John W. Powers, Treasurer; and Richard N. Wescott, Assistant Treasurer. Later in the year, Nicholas L. Prioletti, Jr., was elected an Assistant Controller.■



Membership growth in Association of Investors in New York Utilities, Inc., is reviewed, from left, by AINYU Executive Vice President John Howley, Vice Presidents Joseph L. Ottenheimer and Karr Parker, Jr., Treasurer Ruth Kovacs and President A. B. Wellborn. First formed in 1979 by security holders with interest in investor-owned utilities, AINYU has grown to nearly 1,700 members.



Management's discussion and analysis of financial condition and results of operations

Results of operations

Niagara Mohawk's earnings in 1980 were \$1.87 per share, down \$.13 from 1979, \$.02 below those of 1978 and up \$.13 from 1977 earnings when fewer shares were outstanding.

The decrease in the Company's earnings per share for 1980 from 1979 came primarily from a 2.1% decrease in electric sales to ultimate consumers; an increase of 19% (net of change in capitalization policy discussed below) in inflation-fed operating expenses; and a 14% rise in Federal income and other taxes. In addition, financing costs were approximately 18% higher due to higher debt levels, caused by increased working capital and construction needs, and due also to historically high interest rates. These factors were only partially offset by new electric and gas rates, which became effective in March 1980. Also, the Company changed its capitalization policy with regard to certain other operation and maintenance expenses arising as a result of construction activities. These costs are now being capitalized, whereas in prior years they were charged to other operation and maintenance expenses. The impact of this change was to increase net income and earnings per share for the year ended December 31, 1980 by approximately \$4,700,000 and \$.07 per share, respectively. The prospective impact of this change has been considered in the Company's pending rate proceeding.

The Company's Rate of Return on Equity fell to 10.8% for 1980 after showing a steady increase from 10.4% in 1977, to 11.1% in 1978 and to 11.4% in 1979. The Company's current Rate of Return on Equity is well below the 14.0% approved by the New York State Public Service Commission (PSC) for the rate year beginning March 1980. Recent awards have not provided an adequate return on equity or recovery of steadily increasing costs resulting from inflation, thus necessitating annual petitions for rate increases.

The discussion and analysis that follows highlights items that have had a significant effect on operations during the three-year period. This discussion and analysis should be read in conjunction with the Notes to Consolidated Financial Statements and other financial and statistical information appearing elsewhere in this report and may not be indicative of future operations or earnings.

Electric revenues increased \$406 million or 41% over the three-year period. This increase is largely attributable to recovery of increased fuel and purchased power costs and, to a lesser extent, to rate relief, as indicated by the table below:

ELECTRIC Revenues	Increase (decrease) from prior year In millions of dollars			
	1980	1979	1978	Total
Increase in base rates	\$ 80.8	\$ 24.5	\$ 14.9	\$120.2
Fuel and purchased power cost increases .	69.9	108.8	(2.6)	176.1
Sales to ultimate consumers	1.1	20.7	16.7	38.5
Sales to other electric systems	23.2	23.7	0.8	47.7
Miscellaneous operating revenues	7.4	13.1	2.8	23.3
	<u>\$182.4</u>	<u>\$190.8</u>	<u>\$ 32.6</u>	<u>\$405.8</u>

Electric kilowatt-hour sales were 32.6 billion in 1980, a decrease of 2.2% from 1979, reflecting both the effects of a recessionary economy in the Company's service area and conservation efforts by our customers. Details of the changes in our electric revenues and kilowatt-hour sales by customer group are highlighted in the table below:

Class of service	1980 % of electric revenues	% increase (decrease) from prior year					
		1980		1979		1978	
		Revenues	Sales	Revenues	Sales	Revenues	Sales
Residential	29.1%	13.2%	0.7%	11.9%	1.7%	5.1%	2.9%
Commercial	33.2	17.8	0.9	17.8	1.8	2.4	4.0
Industrial	24.7	10.0	(6.2)	20.9	2.3	2.0	2.6
Municipal service	2.0	13.9	(0.4)	10.8	(0.7)	2.9	—
Total to ultimate consumers .	89.0	14.0	(2.1)	16.5	2.0	3.2	3.1
Other electric systems	7.6	27.9	(3.3)	39.9	13.0	1.4	5.0
Miscellaneous	3.4	18.4	—	48.0	—	11.6	—
Total	100.0%	15.1%	(2.2)%	18.7%	2.9%	3.3%	3.2%

Gas revenues increased \$146 million or 61% over the three-year period. As shown by the table below, this rise is almost entirely from increased costs of purchased gas recovered from customers through the purchased gas adjustment clause.

GAS Revenues	Increase (decrease) from prior year In millions of dollars			
	1980	1979	1978	Total
Increase in base rates	\$ 1.2	\$ 4.6	\$ 2.2	\$ 8.0
Purchased gas cost increases .	67.3	42.3	9.8	119.4
Gas sales	9.7	(1.4)	9.9	18.2
	<u>\$78.2</u>	<u>\$45.5</u>	<u>\$21.9</u>	<u>\$145.6</u>

Gas sales were 101.3 million dekatherms in 1980, a 4.9% increase from 1979. The changes in sales during the last three years generally follow the weather pattern offset by customer conservation efforts. The increase in 1980 industrial revenues and sales is attributable in part to an increase in boiler conversions from oil to gas. Changes in gas revenues and dekatherm sales by customer group are detailed in the table below:

Class of service	1980 % of gas revenues	% increase (decrease) from prior year					
		1980		1979		1978	
		Revenues	Sales	Revenues	Sales	Revenues	Sales
Residential	54.6%	18.6%	(1.5)%	11.3%	(5.3)%	5.4%	1.2%
Commercial	23.2	25.2	1.8	17.0	(1.3)	18.0	13.7
Industrial	18.1	50.3	26.5	42.7	9.5	10.5	4.7
Total to ultimate consumers .	95.9	25.2	4.5	16.7	(1.8)	8.8	4.7
Other gas systems	3.5	34.4	12.4	46.0	9.2	22.6	13.0
Miscellaneous6	50.0	—	15.3	—	12.8	—
Total	100.0%	25.6%	4.9%	17.5%	(1.4)%	9.2%	5.0%

In summary, total operating revenues increased \$551 million, or 45% over the three-year period, this rise largely represents recoveries of fuel and purchased gas costs through fuel adjustment clauses. Through our energy and purchased gas adjustment clauses, costs of fuel, purchased power and gas purchased, above or below the levels allowed in approved rate schedules, are billed or credited to customers.

On February 29, 1980, the PSC approved rate increases to provide the Company additional annual revenues of \$122,577,000 (11.5%) for electric and \$3,263,000 (1.0%) natural gas. These new rates became effective March 7, 1980. In addition, the PSC ordered the flow-through to customers of \$21.6 million in income tax refunds and interest (see Note 10 of the Notes to Consolidated Financial Statements) of which \$6.8 million was refunded during 1980.

Further rate action, made necessary by a recessionary economy, record inflation and unprecedented high interest rates, was requested on April 18, 1980 when the Company filed for an annual increase of \$231 million, including \$214 million (14.1%) electric and \$17 million (4.2%) gas. In December 1980, a PSC Administrative Law Judge recommended rate increases of \$149.7 million (9.5%) electric and \$11 million (2.5%) gas or about 70% of what the Company had requested. Because of the nearly year-long regulatory process for any rate proceeding, any increase determined by the PSC will not be reflected in the Company's operations until the second quarter of 1981.

In 1980, fuel and purchased power costs continued to increase sharply, from \$404 million in 1977, to \$411 million in 1978, to \$540 million in 1979 and to \$644 million in 1980. The continued increases result primarily from higher coal, oil and purchased power costs and changes in the mix of generation resources. (See Electric and Gas Statistics—Electricity generated and purchased). The average cost per ton of coal burned was \$41.95 in 1980 compared to \$39.08 in 1979, \$37.11 in 1978 and \$34.00 in 1977; the average cost per barrel of oil burned was \$23.72 in 1980 compared to \$16.34 in 1979, \$12.58 in 1978 and \$12.94 in 1977. The average unit cost of purchased power was 13.6 mills per kilowatt-hour in 1980 compared to 12.1 mills in 1979, 8.8 mills in 1978 and 7.9 mills in 1977. In addition, the Company's Nine Mile Point Nuclear Station Unit No. 1 was out of service for several months in 1979 for scheduled refueling and maintenance. This scheduled outage

required the replacement of low-cost nuclear generation with fossil fuel generation and purchased power.

The total cost of gas purchased by the Company from Consolidated Gas Supply Corp. rose 41% in 1980, 24% in 1979 and 11% in 1978. These increases are primarily the result of deregulation of wellhead prices which increased the Company's cost per dekatherm purchased to \$2.59 in 1980 from \$2.00 in 1979, \$1.57 in 1978 and \$1.52 in 1977.

Other operation and maintenance expenses increased 7.2% in 1980, 14.5% in 1979 and 4.8% in 1978, as a result of increases in wages and associated benefits, higher costs charged by our suppliers and increased levels of maintenance, partially offset by a change in the Company's capitalization policy discussed previously. In May 1980, the Company entered a two-year labor agreement providing for increased wages and supplementary benefits of 9.64% and 9.25% in June 1980 and 1981, respectively. The increase in other operation and maintenance expenses in 1979 was also attributable, in part, to the refueling of Nine Mile Point Nuclear Station Unit No. 1, discussed above.

In July 1980, the Company placed its Oswego Steam Station Unit No. 6 in commercial operation. This oil-fired unit, of which 24% is owned by Rochester Gas and Electric Company, was completed at a cost to the Company of approximately \$239.5 million, including allowance for funds used during construction (AFC). The effect of adding this unit to our plant in service is reflected in increased depreciation expense.

Federal and Canadian income taxes rose in 1980, 1979 and 1978 as a result of increased operating income and an increase in the amounts on which deferred taxes are provided. The increase in other taxes in these same three years is due principally to higher property taxes resulting from property additions and higher state and local gross income taxes resulting from increased revenues.

The Company's revenues and costs of operation over the past three years show substantial increases in several respects, due primarily to the effect of general inflation and higher fuel costs. Inflation has eroded the purchasing power of the dollar, as measured by the Consumer Price Index, to about three-fourths of its 1978 value. The Company is especially sensitive to inflation because of the large amount of capital it must raise to finance its construction program and because its prices are regulated using a rate base that reflects the historical cost of its plant.

When this apparently substantial growth in operating revenues is adjusted for the current purchasing power of the dollar, a more realistic picture for the three-year period is presented. Adjusted to 1980 dollars, operating revenues increased in 1980 from 1977 by \$110 million or 7%, while net income declined substantially due to the effects of depreciation stated in terms of the current cost of plant in service. Over the same period cash dividends per share declined \$.29 when the relative purchasing power of the dollar is considered. Inflation information in Note 11 of the Notes to Consolidated Financial Statements indicates the approximate effect of inflation on these and certain other aspects of the Company's operations and financial position.

Liquidity and capital resources

As is common in the utility industry, internal funds generated from operations are insufficient to meet the Company's capital requirements. Therefore, significant funds from external sources are required on an annual basis. External capital needs are first met through utilization of short-term borrowing arrangements, including bank lines of credit, commercial paper and bankers acceptances. These short-term borrowings are repaid through the issuance of securities, including intermediate and long-term debt, preferred and preference stocks and common stock.

Capital resources from internal and external sources are used to pay for the Company's construction program, working capital needs, maturing debt issues and sinking fund provisions of outstanding debt and preferred stocks. Sources and uses of funds during the past three years are reported in the Consolidated Statement of Changes in Financial Position at page 21.

The Company presently has bank credit arrangements aggregating \$300 million. At December 31, 1980, \$123.3 million of such arrangements were in use. The Company generally issues long-term debt secured by a mortgage on the Company's properties. In 1980, the Company also borrowed \$80 million under new seven-year bank revolving credit and term loan borrowing agreements (of a total amount available under these agreements of \$90 million). Preferred stock issues in recent years have typically been of \$25 par value and redeemable at specified dates and prices. Common stock is sold through periodic public offerings as well as under the Company's Dividend Reinvestment,

Employee Savings Fund and Employee Stock Ownership plans.

During 1980, Niagara Mohawk completed \$265,650,000 of financing as detailed below and increased short-term debt by \$41.3 million.

Seven-Year Bank Revolving Credit and Term Loan: Borrowing		\$ 80,000,000
12.95% First Mortgage Bonds (1)		66,350,000
9.75% Preferred Stock		25,500,000
Common Stock (2)		93,800,000
		<u>\$265,650,000</u>

(1) Excludes \$13,650,000 scheduled for March 1981 delivery at the same interest rate.

(2) Includes public sale of 4 million shares at \$14.125 per share and proceeds from sales through dividend reinvestment, employee savings fund and employee stock ownership plans at varying prices.

Approximately \$99.5 million of these funds were used to pay maturing bonds and to provide for sinking fund requirements. Total financing for 1981 is estimated to exceed \$400 million. Of this amount, requirements for maturing bonds and preferred stock sinking funds total approximately \$149.5 million.

The Company has endeavored to strengthen its capitalization structure through the reduction of long-term debt as a percent of total capitalization. The proportion of long-term debt to total capitalization has decreased from 49.0% at the end of 1978 to 48.0% at the end of 1980 while common equity as a percent of total capitalization has increased from 36.9% from the end of 1978 to 39.4% in 1980.

Construction and other capital requirements continue to increase. Net additions for construction and nuclear fuel, excluding financing costs, totaled \$319.7 million in 1980, \$316.9 million in 1979 and \$271.3 million in 1978. In recent years, the largest cost component of construction programs has been the cost of new generating stations. The Company's Oswego Steam Station Unit No. 6 attained commercial operation status in July, 1980. The principal new station presently under construction is Nine Mile Point Unit No. 2, scheduled for completion in late 1986, in which the Company had invested about \$400 million through December 31, 1980 (See Note 12 of Notes to Consolidated Financial Statements). Outlays associated with construction of this nuclear unit, along with other facilities requirements, are expected to increase overall construction expenditures in future years.

Financial resources provided internally from operations consist of net income, adjusted for non-cash expenses, such as depreciation, amortization of nuclear fuel and deferred income taxes, and non-cash income, such as allowance for funds used during construction (AFC). AFC represents the financing costs of the Company's construction program and is added to the cost of construction until such time as the capital projects are completed, and is then recovered through depreciation included in rates charged to customers. While financial resources from operations, as determined above, have been increasing in recent years, such increases have not kept pace with the Company's construction and other requirements, thus necessitating increasing amounts of outside financing.

The Company and other investor-owned utilities have filed testimony with the PSC to seek regulatory policy changes which would improve cash flow. Additionally, the Company is seeking adequate overall earnings levels and cash flow improvements in its periodic rate filings.

The Company's requirement for funds may be affected by possible increases in construction costs brought on by inflation and regulatory requirements, among other factors. Continued increases in internally generated funds and their adequacy in relation to the Company's needs depend partly on the results of current and future rate cases and the extent to which increased rates can be translated into improved earnings. The cost and availability of external sources of funds will be affected by the retention and maintenance of an adequate credit rating by the Company and conditions in the financial markets. Financial market conditions, among other factors, influence the timing and types of securities to be offered, repayment terms and the decision to place such offerings privately with investors or publicly through underwriters. Any of these factors could have an adverse effect on the Company's ability to fully implement its intended construction and financing programs. The Company will continue to explore and utilize other methods of financing, such as the Euro-dollar market, tax exempt financing methods, leasing of equipment and similar non-traditional sources of funds. However, management believes that traditional sources of funds will provide the majority of its needs. ■

Market price of common stock and related stockholder matters

The Company's common stock and certain of its preferred series are listed on the New York Stock Exchange. The common stock is also traded on the Amsterdam (Netherlands), Boston, Cincinnati, Detroit, Midwest, Pacific Coast and PBW stock exchanges. The ticker symbol is "NMK."

Preferred and common stock dividends were paid on March 31, June 30, September 30 and December 31. The Company presently estimates that 65% of the 1980 and 1979 common stock dividends is a return of capital and therefore is not taxable as dividend income for income tax purposes. The remaining percentage on common dividends and 100% of preferred stock dividends are taxable as dividend income.

The table below shows dividends per share for our common stock and quoted market prices:

1980	Dividend paid per share	Price range	
		High	Low
1st quarter	\$.36	\$13	\$10½
2nd quarter	.38	14¼	10½
3rd quarter	.38	14	12
4th quarter	.38	12½	10
	<u>\$1.50</u>		
1979			
1st quarter	\$.36	\$15½	\$13½
2nd quarter	.36	14¼	13
3rd quarter	.36	14½	12¾
4th quarter	.36	14	12
	<u>\$1.44</u>		

While the Company intends to continue the practice of paying cash dividends quarterly, declarations of future dividends are necessarily dependent upon future earnings, financial requirements and other factors, including restrictions in governing instruments.

The holders of Common Stock are entitled to one vote per share and may accumulate their votes for the election of Directors. Whenever dividends of Preferred Stock are in default in an amount equivalent to four full quarterly dividends and thereafter until all dividends thereon are paid or declared and set aside for payment, the holders of such stock can elect a majority of the Board of Directors. Whenever dividends on any issued Preference Stock are in default in an amount

equivalent to six full quarterly dividends and thereafter until all dividends thereon are paid or declared and set apart for payment, the holders of such stock can elect two members of the Board of Directors. No such dividends are now in arrears.

Upon any dissolution, liquidation or winding up of the Company's business, the holders of Common Stock are entitled to receive pro rata all of the Company's assets remaining and available for distribution after the full amounts to which holders of Preferred and Preference Stock, having priority over Common Stock, are entitled have been satisfied.

The indenture securing the Company's mortgage debt provides that surplus shall be reserved and held unavailable for the payment of dividends on Common Stock to the extent that expenditures for maintenance and repairs plus provisions for depreciation do not equal 2.25% of depreciable property as defined. Such provisions have never restricted the Company's surplus.

About 211,000 stockholders presently own common shares of Niagara Mohawk and 11,000 hold preferred and preference stock. The chart below summarizes common stockholder ownership by size of holding:

Size of holding (Shares)	Total stockholders	Total shares held
1 to 99	60,081	2,049,822
100 to 999	142,628	33,600,937
1,000 or more	8,089	39,580,385
	<u>210,798</u>	<u>75,231,144</u>

Report of management

The consolidated financial statements of Niagara Mohawk Power Corporation and its subsidiaries were prepared by and are the responsibility of management. Financial information contained elsewhere in this Annual Report is consistent with that in the financial statements.

To meet its responsibilities with respect to financial information, management maintains and enforces a system of internal accounting controls, which is designed to provide reasonable assurance, on a cost effective basis, as to the integrity, objectivity and reliability of the financial records and protection of assets. This system includes communication through written policies and procedures, an organizational structure that provides for appropriate division of responsibility and the training of personnel. This system is also tested by a comprehensive internal audit program. In addition, the Company has a Code of Conduct which requires all employees to maintain the highest level of ethical standards and requires key management employees to formally affirm their compliance with the Code.

The financial statements have been examined by Price Waterhouse & Co., the Company's independent accountants, in

accordance with generally accepted auditing standards. As part of their examination, they made a study and evaluation of the Company's system of internal accounting control. The purpose of such study was to establish a basis for reliance thereon in determining the nature, timing and extent of other auditing procedures that were necessary for expressing an opinion as to whether the financial statements are presented fairly. Their examination resulted in the expression of their opinion which follows this report. The independent accountants' examination does not limit in any way management's responsibility for the fair presentation of the financial statements and all other information, whether audited or unaudited, in this Annual Report.

The Audit Committee of the Board of Directors, consisting of three directors who are not employees, meets regularly with management, internal auditors and Price Waterhouse & Co., to review and discuss internal accounting controls, audit examinations and financial reporting matters. Price Waterhouse & Co. and the Company's internal auditors have free access to meet individually with the Audit Committee at any time, without management present.■

Report of independent accountants

PRICE WATERHOUSE & CO.

To the Stockholders and the Board of
Directors of Niagara Mohawk Power Corporation

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income and retained earnings and of changes in financial position present fairly the financial position of Niagara Mohawk Power Corporation and its subsidiaries at December 31, 1980 and 1979, and the results of their operations and the changes in their financial position for each of the three years in the period ended December 31, 1980, in conformity with generally accepted accounting principles consistently applied. Our examinations of these statements 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.

Price Waterhouse & Co.

Syracuse, New York
January 28, 1981

Consolidated statement of income and retained earnings

NIAGARA MOHAWK POWER CORPORATION AND SUBSIDIARIES

	For the year ended December 31,	1980	In thousands of dollars 1979	1978
Operating revenues:				
Electric		\$1,393,467	\$1,211,068	\$1,020,313
Gas		383,648	305,435	259,935
		1,777,115	1,516,503	1,280,248
Operating expenses:				
Operation:				
Fuel for electric generation		462,573	380,101	311,000
Electricity purchased		181,223	159,453	99,536
Gas purchased		276,680	196,711	158,229
Other operation expenses (Note 1)		221,879	200,917	181,995
Maintenance (Note 1)		100,470	99,857	80,759
Depreciation (Note 2)		92,210	84,212	80,683
Federal and Canadian income taxes (Note 10)		43,498	34,646	31,123
Other taxes		186,830	166,666	152,550
		1,565,363	1,322,563	1,095,875
Operating income		211,752	193,940	184,373
Other income and deductions:				
Allowance for other funds used during construction (Note 1)		38,209	39,063	28,971
Federal income tax credits (Note 1)		15,651	13,782	11,690
Other items (net)		5,995	524	1,545
		59,855	53,369	42,206
Income before interest charges		271,607	247,309	226,579
Interest charges:				
Interest on long-term debt		115,809	105,399	99,874
Other interest		13,766	4,416	1,573
Allowance for borrowed funds used during construction (Note 1)		(20,607)	(18,536)	(16,030)
		108,968	91,279	85,417
Net income		162,639	156,030	141,162
Dividends on preferred stock		29,438	27,844	28,660
Balance available for common stock		133,201	128,186	112,502
Dividends on common stock		106,967	92,136	81,261
Retained earnings for the year		26,234	36,050	31,241
Miscellaneous charges (Note 6)		—	—	(1,180)
Retained earnings at beginning of year		403,945	367,895	337,834
Retained earnings at end of year		\$ 430,179	\$ 403,945	\$ 367,895
Average number of shares of common stock outstanding (in thousands)		71,257	63,976	59,661
Per average share of common stock:				
Balance available for common stock		\$ 1.87	\$ 2.00	\$ 1.89
Dividends paid		\$ 1.50	\$ 1.44	\$ 1.36½

() Denotes deduction.

Consolidated balance sheet

NIAGARA MOHAWK POWER CORPORATION AND SUBSIDIARIES

	At December 31,	In thousands of dollars	
		1980	1979
ASSETS			
Utility plant, at original cost (Note 3 and Page 31)		\$4,563,309	\$4,218,528
Less accumulated depreciation and amortization (Note 2)		1,232,675	1,110,563
		3,330,634	3,107,965
Other property and investments		16,451	16,149
Current assets:			
Cash, including time deposits of \$1,809 and \$650, respectively		13,829	8,527
Accounts receivable (less allowance for doubtful accounts of \$2,800 and \$2,400, respectively)		198,150	179,490
Materials and supplies, at average cost:			
Coal and oil for production of electricity		107,508	109,278
Other		48,175	35,543
Prepayments		9,187	6,709
		376,849	339,547
Deferred debits:			
Unamortized debt expense		14,041	14,124
Deferred recoverable energy costs		61,839	44,170
Other		9,005	6,982
		84,885	65,276
		\$3,808,819	\$3,528,937

CAPITALIZATION AND LIABILITIES

Capitalization (Note 6):

Common stockholders' equity:

Common stock—\$1 par value; authorized 85,000,000 shares; issued 75,231,144 shares and 67,952,043 shares, respectively	\$ 75,231	\$ 67,952
Premium on capital stock	802,954	716,386
Capital stock expense	(10,363)	(10,558)
Retained earnings (Page 19)	430,179	403,945
	1,298,001	1,177,725
Redeemable preferred stock (Note 7 and Page 30)	205,924	189,650
Non-redeemable preferred stock (Page 30)	210,000	210,000
Long-term debt (Page 30)	1,443,607	1,443,056
Total capitalization	3,157,532	3,020,431

Current liabilities:

Short-term debt (Note 4)	123,300	82,040
Long-term debt due within one year (Page 30)	142,500	88,500
Sinking fund requirements on redeemable preferred stock (Note 7)	6,950	6,950
Accounts payable	144,876	118,727
Customers' deposits	4,952	4,934
Accrued taxes	27,837	25,537
Accrued interest	32,818	30,727
Accrued vacation pay	16,406	14,569
Other	16,568	17,315
	516,207	389,299

Deferred credits:

Income tax refunds (Note 10)	1,772	21,606
Other	9,064	11,933
	10,836	33,539

Mandated refunds to customers (Note 10)	25,326	—
Accumulated deferred Federal income taxes (Note 10)	98,918	85,668
Commitments and contingencies (Note 12)	—	—
	\$3,808,819	\$3,528,937

() Denotes deduction.

Consolidated statement of changes in financial position

NIAGARA MOHAWK POWER CORPORATION AND SUBSIDIARIES

	For the year ended December 31,	1980	In thousands of dollars 1979	1978
Financial resources were provided by:				
Operations:				
Net income		\$162,639	\$156,030	\$141,162
Charges (credits) to income not requiring (not providing) working capital—				
Depreciation		92,210	84,212	80,683
Allowance for funds used during construction		(58,816)	(57,599)	(45,001)
Amortization of nuclear fuel		48,829	28,090	27,107
Provision for deferred Federal income taxes (net)		20,895	14,566	7,955
		265,757	225,299	211,906
Outside financing:				
Sale of common stock		93,823	75,266	70,462
Sale of preferred stock		25,500	—	74,000
Sale of mortgage bonds		66,350	118,500	31,500
Borrowings under revolving credit and term loan agreements (Note 14)		80,000	—	—
Increase (decrease) in short-term debt		41,260	58,040	(15,200)
		306,933	251,806	160,762
Other sources:				
Sale of utility plant (Note 5)		—	—	34,955
Deferred recoverable energy costs		(17,669)	(16,204)	(3,015)
Mandated refunds to customers (Note 10)		(6,758)	—	—
Income tax refunds		—	—	1,885
Sale of uranium (Note 3)		13,983	35,987	—
(Increase) decrease in working capital other than short-term debt (see below)		48,346	33,660	22,006
Miscellaneous (net)		113	5,313	(5,049)
		38,015	58,756	50,782
Total resources provided		\$610,705	\$535,861	\$423,450
Financial resources were used for:				
Construction additions		\$341,237	\$347,544	\$277,758
Nuclear fuel		37,266	26,986	38,522
Allowance for funds used during construction		(58,816)	(57,599)	(45,001)
Net additions		319,687	316,931	271,279
Reduction of long-term debt		145,387	90,000	10,450
Reduction of preferred stock (Note 6)		9,226	8,950	31,800
Dividends		136,405	119,980	109,921
Total resources used		\$610,705	\$535,861	\$423,450
(Increase) decrease in working capital other than short-term debt:				
Cash		\$ (5,302)	\$ 2,259	\$ (4,207)
Accounts receivable		(18,660)	(52,271)	(5,364)
Income tax refund claims		—	—	8,391
Coal and oil for production of electricity		1,770	(39,046)	9,710
Other materials and supplies		(12,632)	(5,807)	(3,369)
Long-term debt due within one year		54,000	78,050	200
Sinking fund requirements on redeemable preferred stock		—	5,150	—
Accounts payable		26,149	31,873	7,823
Accrued taxes and interest		4,391	5,475	4,349
Other (net)		(1,370)	7,977	4,473
		\$ 48,346	\$ 33,660	\$ 22,006

Notes to consolidated financial statements

NOTE 1. Summary of Significant Accounting Policies

The Company is subject to regulation by the New York State Public Service Commission (PSC) and the Federal Energy Regulatory Commission (FERC) with respect to its rates for service and the maintenance of its accounting records. The Company's accounting policies conform to generally accepted accounting principles, as applied to regulated public utilities, and are in accordance with the accounting requirements and ratemaking practices of the regulatory authorities. (See Note 12.)

Principles of Consolidation: The consolidated financial statements include the Company and its three wholly-owned subsidiaries. All significant intercompany balances and transactions have been eliminated.

Utility Plant: The cost of additions to utility plant and of replacements of retirement units of property is capitalized. Cost includes direct material, labor, overhead and an allowance for funds used during construction (AFC). The cost of current repairs and maintenance is charged to expense. Whenever utility plant is retired, its original cost, together with the cost of removal, less salvage, is charged to accumulated depreciation.

Other Operation and Maintenance Expenses: During 1980, the Company changed its capitalization policy with regard to certain Engineering, Quality Assurance and Transmission and Distribution costs arising as a result of construction activities, thus achieving a more proper capitalization of these costs. This change in capitalization policy, net of Federal income taxes, resulted in an increase in net income for 1980 of approximately \$4,700,000 (\$.07 per share). The prospective impact of this change has been considered in the Company's pending rate proceeding.

Allowance for Funds Used During Construction: The Company capitalizes AFC in amounts equivalent to the cost of funds devoted to plant under construction. AFC rates are determined in accordance with FERC and PSC regulations. As a result of rate proceedings, the Company began computing AFC at a rate which is reduced to reflect the income tax effect of the borrowed funds component of AFC, for its Oswego Steam Station Unit #6 and Nine Mile Point Nuclear Station Unit #2 on December 1, 1976 and for capitalized costs associated with its investment in N M Uranium, Inc. on July 1, 1978 (See Note 3). The AFC rates in effect during the three-year period ended December 31, 1980 were:

Period	AFC rate	Net of tax AFC rate
January 1, 1978 through December 31, 1978 . . .	9.00%	7.20%
January 1, 1979 through October 31, 1979	9.25	7.50
November 1, 1979 through December 31, 1979 .	9.60	7.75
January 1, 1980 through February 29, 1980	10.00	7.90
March 1, 1980 through June 30, 1980	11.00	8.40
July 1, 1980 through September 30, 1980	10.00	8.20
October 1, 1980 through December 31, 1980 . . .	10.25	8.30

AFC is segregated into its two components, borrowed funds (which are reflected in the Interest Charges section of the income statement) and other funds (which are reflected in the Other Income and Deductions section of the income statement).

Depreciation and Nuclear Generating Plant Decommissioning Costs: For accounting purposes, depreciation is computed on the straight-line basis using the estimated useful lives by classes of depreciable property. For Federal income tax pur-

poses, the Company computes depreciation using accelerated methods and shorter allowable depreciable lives.

As a result of a PSC rate decision, estimated decommissioning costs (costs to take the plant out of service in the future) of the Company's Nine Mile Point Nuclear Station Unit #1 began to be recovered in rates and charged to operations in July 1978 through revised depreciation charges. The change in the annual nuclear plant depreciation rate, from 4.00% to 4.33%, reflects an increase in the estimated service life of the plant from 25 to 30 years and the establishment of an allowance for decommissioning costs at the annual rate of 1% of the plant's cost. Prior to July 1978, decommissioning costs were not charged to current operations and were not recognized in rates charged to customers. There is no assurance that the additional revenues provided by the decommissioning allowance will ultimately aggregate a sufficient amount to decommission the plant. The Company believes that decommissioning costs, if higher than currently provided, will ultimately be recovered in the rate process, although no such assurance can be given.

Amortization of Nuclear Fuel: The cost of nuclear fuel, plus estimated disposal cost, is charged to operating expenses on the basis of the quantity of heat produced for the generation of electric energy. These costs are charged to customers through base rates or through the fuel adjustment clause. Until June 1979, the Company had assumed that spent nuclear fuel would be disposed of by reprocessing and that uranium recovered through such reprocessing would have value. At that time, because of proposed Federal action and because there is no reprocessing facility in operation, the Company abandoned its reprocessing plans in favor of a permanent storage assumption. The Company believes that nuclear fuel disposal costs, which may be higher than presently estimated, will continue to be recovered in the rate process, although no such assurance can be given.

Revenues: Revenues are based on cycle billings rendered to certain customers monthly and others bi-monthly. The Company does not accrue revenues for energy consumed and not billed at the end of any fiscal period. The Company's tariffs include electric and gas adjustment clauses under which energy and purchased gas cost, respectively, above or below the levels allowed in approved rate schedules are billed or credited to customers. The Company, as authorized by the PSC, charges operations for energy and purchased gas cost increases in the period of recovery. The PSC has periodically authorized the Company to make changes in its electric adjustment clause. As a result of such changes, a portion of deferred energy costs would not be recovered under the normal operation of the electric adjustment clause. However, the Company has been permitted to amortize and bill such portions to customers, through the electric adjustment clause, over 36 months from the effective date of each change.

Federal Income Taxes: The general policy, in accordance with PSC requirements, is to flow through the tax effect of timing differences between book and taxable income, that is, to record only income taxes currently payable. However, deferred taxes are provided on benefits realized from the class life system of depreciation permitted under the Revenue Act of 1971 (shorter depreciable lives, repair allowance and cost of removal), on deferred energy and purchased gas costs, on nuclear fuel disposal costs and on certain other items, as approved by the PSC (see Notes 3 and 10). No deferred taxes are provided for other depreciation differences (including accelerated methods of depreciation), except under necessity certificates in prior years, or for other items (such as taxes, a portion of AFC, pensions and cer-

tain other employee benefits) which are deductions currently for tax purposes but capitalized for accounting purposes.

The benefits resulting from an increase in the investment tax credit from 4% to 10% and from the change in the limitation on the amount of credit which may be claimed in any year have been deferred and are being amortized over the book life of the property which gives rise to such credits. One-half of the 4% investment tax credits realized have been allocated to Other Income and Deductions, consistent with PSC directives. For the major projects specified in the AFC section above, the imputed tax benefit of the borrowed funds component of AFC has been credited to Other Income and Deductions.

As directed by the PSC, the Company deferred a portion of the increase in Federal income taxes for the year 1978 associated with the tax gain on the sale of a portion of its interest in the Roseton Steam Station. The PSC authorized the Company to recover such increased taxes through its electric adjustment clause over a one-year period commencing July 1978.

Oswego Steam Station Unit #6 attained in-service status for Federal income tax purposes in 1979 and generated investment tax credits amounting to \$14,400,000. During 1979, the year in which these credits would normally be recognized under the Company's previously described Federal Income Tax accounting policies, the Company deferred the effect of these credits, subject to the final decision of the PSC in a pending rate case where the treatment of such credits was at issue. The effect of such deferral on the 1979 results of operations was to increase tax expense and thereby decrease income by \$6,500,000 (\$10 per share). In accordance with a February 1980 PSC Opinion and Order and consistent with the Company's 1979 deferral, the deferred investment tax credits attributable to the 4% portion are being amortized over three years and, effective July 1, 1980, the additional 6% portion is being amortized over the book life of the plant.

Amortization of Debt Issue Costs: The premium or discount on long-term debt issues is amortized ratably over the lives of the issues.

Pension Plans: The cost of pension plans is based upon current costs, amortization of unfunded past service benefits over periods ranging from 15 to 40 years and amortization over 15 years of unfunded past service benefits arising from plan amendments. The Company's policy is to fund pension costs accrued.

NOTE 2. Depreciation

The total provision for depreciation, including amounts charged to clearing accounts, was \$93,848,000 for 1980, \$86,178,000 for 1979 and \$83,117,000 for 1978. The percentage relationship between the total provision for depreciation and average depreciable property was 2.7% in each year. The Company makes depreciation studies on a continuing basis and, when considered appropriate, adjusts the rates of its various classes of depreciable property. Such adjustments are subject to PSC approval.

NOTE 3. N M Uranium, Inc.

During 1976, through a wholly-owned subsidiary, N M Uranium, Inc. (NMU), the Company purchased a 50 percent undivided interest in uranium deposits and associated mining equipment to be held by a jointly-owned mining venture. The venture is an operating arrangement whereby the Company pays its share of the capital and operating costs and in turn receives its proportionate share of production. Although acquisition of this interest was made primarily to provide a more as-

sured future supply of nuclear fuel for the Nine Mile Point Nuclear Station Units #1 and #2, the Company has indicated it would sell a portion of the output to reduce net assets and associated carrying charges. In connection therewith, during 1980 and 1979 the Company sold uranium produced by NMU for approximately \$14,000,000 and \$36,000,000, respectively. The Company expects to sell additional portions of the NMU output in the future, subject to market conditions. The investment in the subsidiary, which includes costs incurred since acquisition and AFC, has been reduced by the proceeds from the sale of uranium, net of tax. Such investment totaled \$73,800,000 and \$72,000,000 at December 31, 1980 and 1979, respectively, and is included in the consolidated financial statements as part of the nuclear fuel component of utility plant.

On September 8, 1978, the PSC issued an order approving the Company's investment in NMU, its guaranty of certain NMU notes and permitting, with prior approval, such subsequent advances as may be necessary to finance the uranium project. Further, effective July 1, 1978, all benefits associated with NMU accounting-tax timing differences have been deferred. The approval was subject to the condition that rates which the PSC will approve in the future will reflect the cost of NMU uranium at the lower of cost or the market price. Subject to PSC approval, the comparison of cost to market will be on an aggregate basis over the life of the project.

Recently, because of unsettled conditions in the uranium industry, the market price of uranium continues to be depressed below levels anticipated by the Company at the time of its investment. The market price of uranium has fallen to \$27.00 per lb. at December 31, 1980 from approximately \$43.00 per lb. during 1979. Management is continually evaluating the status of this mining operation to assure maximum recovery of the Company's investment. However, due to regulatory restrictions on the extent to which the costs of uranium produced by this mining operation will be allowed in future rates and due to the current market price level, a substantial portion of the Company's investment may not be recoverable.

NOTE 4. Short-term Debt and Compensating Balances

At December 31, 1980, the Company had available \$300,000,000 of bank credit arrangements consisting of a \$70,000,000 contractual commitment with several banks under Credit Agreements, lines of credit of \$105,000,000, and a Bankers Acceptance Facility Agreement of \$125,000,000. All of these arrangements are renewable on an annual basis. The Credit Agreement and most of the lines of credit require the Company to maintain compensating balances which are averaged over time. Net of "float," approximately \$1,900,000 of cash at December 31, 1980 represented compensating balances. The Company has elected to pay fees in lieu of maintaining compensating balances on its other lines of credit. The Bankers Acceptance Facility Agreement provides for the payment of fees only upon the issuance of each acceptance. Acceptances are used to finance the fuel oil inventory for one of the Company's generating stations.

In March 1979, the Company entered into arrangements with Oswego Facilities Trust (OFT) providing for OFT to finance the acquisition of a fuel oil storage terminal at Oswego, New York and for construction of certain railroad loading and unloading facilities associated with the terminal. OFT has a \$25,000,000 Letter of Credit Facility and Revolving Credit Agreement which are used to support its commercial paper obligations. The Company is obligated, under a Distribution Contract with OFT, to make certain payments for its use of these facilities and to purchase, or otherwise arrange for, the disposition of the facilities

upon the termination of the Trust. The Letter of Credit Facility and Revolving Credit Agreement of OFT require payment of fees which are based upon the amount of commercial paper outstanding.

The following table summarizes additional information applicable to short-term debt:

	<i>In thousands of dollars</i>	
	1980	1979
At December 31:		
Short-term debt:		
Notes payable	\$ 26,000	\$ —
Commercial paper, including Oswego Facilities Trust	57,300	68,040
Bankers Acceptances	40,000	14,000
	\$123,300	\$ 82,040
Weighted average interest rate (1)	17.53%	13.85%
For year ended December 31:		
Daily average outstanding	\$ 93,327	\$ 35,888
Daily weighted average interest rate (1)	13.78%	11.40%
Maximum amount outstanding	\$175,660	\$102,100

(1) Excluding compensating balances and fees.

NOTE 5. Jointly-Owned Generating Facilities

The following table reflects the Company's share of jointly-owned generating facilities at December 31, 1980. The Company is required to provide financing for the unit in process of construction and for any additions to the units in service. The Company's share of expenses associated with the Roseton units and Oswego Steam Station Unit #6, which attained commercial operation status on July 3, 1980, are included in the appropriate operating expenses in the consolidated statement of income.

	<i>In thousands of dollars</i>			
	Percentage ownership	Utility plant	Accumulated depreciation	Construction work in progress
Roseton Steam Station Units #1 and 2 (a)	30	\$101,848	\$17,118	\$ 1,970
Oswego Steam Station Unit #6 (b)	76	244,166	3,497	1,663
Nine Mile Point Nuclear Station Unit #2 (b) (c) (d)	41	—	—	398,609

(a) The Company sold to Central Hudson Gas and Electric Corporation ¼ of its original 40% ownership for book value of approximately \$30,400,000 in 1978. Central Hudson is obligated to acquire an additional ¼ of the Company's original interest in this unit in 1982.

(b) In 1978, the Company sold certain common facilities associated with these units, for book value of approximately \$4,600,000.

(c) See Note 12.

(d) Excludes amounts spent for nuclear fuel.

NOTE 6. Capital Stock

Premium on capital stock increased \$86,500,000 in 1980, \$69,500,000 in 1979 and \$65,400,000 in 1978 from the sale of 7,279,101, 5,771,766 and 5,057,636 shares of common stock, respectively. As a result of the foregoing, and as a result of the 1980 issuance of 1,020,000 shares of \$25 par value preferred stock, second 9.75% series, the 1978 issuance of 1,600,000 shares of \$25 par value preferred stock, 8.375% series and the issuance of 1,360,000 shares of \$25 par value preference stock, 7.75% series, capital stock expense increased \$400,000 in 1980, \$200,000 in 1979 and \$600,000 in 1978.

In 1978, \$30,000,000 (300,000 shares) of 11.75% series preferred stock was redeemed. In accordance with a PSC directive, the \$3,500,000 call premium on the redemption was charged to capital stock expense and is being amortized over the life of the

7.75% preference series. Expenses of issuing the 11.75% preferred series of \$1,200,000 were charged to retained earnings.

NOTE 7. Sinking and Debt Retirement Fund Requirements of Redeemable Preferred Stock and Mortgage Bonds

Certain of the Company's preferred and preference stock series and mortgage bonds provide for a mandatory sinking fund for annual redemption, at par, as follows:

	Number of shares or principal amount in thousands of dollars	Commencing
Preferred \$100 par value:		
7.45% Series	18,000	June 30, 1977
10.60% Series	20,000	March 31, 1980
Preferred \$25 par value:		
8.375% Series	100,000	April 1, 1983
9.75% Series	66,000	October 1, 1980
9.75% Second Series	204,000	April 1, 1986
Preference \$25 par value:		
7.75% Series	140,000*	September 30, 1980
Mortgage Bonds:		
10.20% Series due March 1, 2005	\$1,500	March 1, 1978
8.35% Series due August 1, 2007	750	August 1, 1982
8.625% Series due December 1, 2007	2,000	December 1, 1983
9.50% Series due December 1, 2003	2,941	December 1, 1987
9.95% Series due September 1, 2004	5,000	September 1, 1985
12.95% Series due October 1, 2000	5,333	September 30, 1986

*Increases to 160,000 shares at September 30, 1982 and 240,000 shares at September 30, 1984.

These series also have optional sinking funds through which the Company may redeem, at par, a like amount of additional shares or bonds (limited to 120,000 shares of the 7.45% series and 300,000 shares of the 9.75% series). The option to redeem additional amounts is not cumulative.

The Company's five-year mandatory sinking fund redemption requirements are as follows:

	<i>In thousands of dollars</i>				
	1981	1982	1983	1984	1985
Preferred Stock					
\$100 par value:					
7.45%	\$1,800	\$1,800	\$ 1,800	\$ 1,800	\$ 1,800
10.60%	*	2,000	2,000	2,000	2,000
\$25 par value:					
8.375%	—	—	2,500	2,500	2,500
9.75%	1,650	1,650	1,650	1,650	1,650
Preference Stock					
\$25 par value:					
7.75%	3,500	4,000	4,000	6,000	6,000
	\$6,950	\$9,450	\$11,950	\$13,950	\$13,950
Mortgage Bonds					
10.20% Series ..	*	\$1,500	\$1,500	\$1,500	\$1,500
8.35% Series ..	—	750	750	750	750
8.625% Series ..	—	—	2,000	2,000	2,000
9.95% Series ..	—	—	—	—	5,000
	\$ —	\$2,250	\$4,250	\$4,250	\$9,250

*Requirements for 1981 have been met by advance purchases during 1980.

The remaining series of mortgage bonds provide for a debt retirement fund whereby payment requirements may be made in lieu of cash, by the certification of additional property, the waiver of additional bonds or the retirement of outstanding bonds. The 1980 requirements for these series were satisfied by the certification of additional property. The Company anticipates that the 1981 requirements for these series will be satisfied by other than payment in cash.

Total sinking and debt retirement fund requirements of mortgage bonds aggregated \$10,400,000 for the year ended December 31, 1980 and, based upon the mortgage bonds then outstanding, are \$10,400,000, \$11,150,000, \$13,150,000, \$13,150,000 and \$18,150,000 for the years 1981 through 1985, respectively.

NOTE 8. Pension Plans

The Company and its subsidiaries have non-contributory pension plans covering substantially all their employees. The total pension cost was \$32,100,000 for 1980, \$28,900,000 for 1979 and \$25,700,000 for 1978 (of which \$8,500,000 for 1980, \$6,800,000 for 1979 and \$5,800,000 for 1978 was included in construction costs).

Preliminary studies indicate that the accumulated plan benefits, as determined by consulting actuaries, and plan net assets for the Company's plans at December 31, 1980 are as follows:

<i>In thousands of dollars</i>	
Actuarial present value of accumulated plan benefits:	
Vested	\$244,000
Non-vested	10,000
Total	\$254,000
Net assets available for plan benefits	\$248,000

The weighted average assumed rate of return used in determining the actuarial present value of accumulated plan benefits was 7%.

As prescribed by Statement of Financial Accounting Standards No. 36, effective in 1980, the above table summarizes accumulated plan benefits attributable to employee wage levels and service rendered through December 31, 1980. These amounts do not take into consideration expected future service and applicable actuarial assumptions which are considered in funding the Company's ongoing pension plans.

NOTE 9. Information Regarding the Electric and Gas Businesses

The Company is engaged in the electric and gas utility businesses. Certain information regarding these segments is set forth in the following table. General corporate expenses, property common to both segments and depreciation of such common property have been allocated to the segments in accordance with practices established for regulatory purposes. Identifiable assets include net utility plant, materials and supplies and deferred recoverable energy costs. Corporate assets consist of other property and investments, cash, accounts receivable, prepayments, unamortized debt expense and other deferred debits.

	<i>In thousands of dollars</i>		
	1980	1979	1978
Operating revenues: Electric	\$1,393,467	\$1,211,068	\$1,020,313
Gas	383,648	305,435	259,935
Total	\$1,777,115	\$1,516,503	\$1,280,248
Operating income before taxes: Electric	\$ 235,811	\$ 200,718	\$ 188,236
Gas	19,439	27,868	27,260
Total	\$ 255,250	\$ 228,586	\$ 215,496
Pretax operating income, including AFC: Electric	\$ 294,039	\$ 257,954	\$ 233,006
Gas	20,027	28,231	27,491
Total	314,066	286,185	260,497
Income taxes	43,498	34,646	31,123
Other income and deductions	21,646	14,306	13,235
Interest charges	129,575	109,815	101,447
Net income	\$ 162,639	\$ 156,030	\$ 141,162
Depreciation: Electric	\$ 82,188	\$ 74,957	\$ 71,750
Gas	10,022	9,255	8,933
Total	\$ 92,210	\$ 84,212	\$ 80,683
Construction expenditures (including nuclear fuel):			
Electric	\$ 347,182	\$ 351,972	\$ 301,583
Gas	31,321	22,558	14,697
Total	\$ 378,503	\$ 374,530	\$ 316,280
Identifiable assets: Electric	\$3,203,737	\$2,981,005	\$2,717,224
Gas	344,419	315,951	294,667
Total	3,548,156	3,296,956	3,011,891
Corporate assets	260,663	231,981	177,221
Total assets	\$3,808,819	\$3,528,937	\$3,189,112

NOTE 10. Federal and Canadian Income Taxes

Current Federal Tax Expense: The current Federal tax expense for 1979 includes credits of \$2,600,000 for investment tax credit generated in 1979 and carried back to 1978.

Income Tax Refunds: In 1974, 1975 and 1978, the Company received refunds resulting primarily from the adoption of the "guide-line" method of depreciation. These refunds, including interest net of tax, less principally amounts representing prior tax deficiencies paid, were recorded in Deferred Credits and totaled approximately \$21,600,000 at December 31, 1979.

In a PSC Opinion and Order issued in February 1980, the Commission ordered the flow-through to customers of the \$21,600,000 (Electric customers—\$13,300,000, Gas customers—\$8,300,000). The entire amount, together with other mandated items and related tax effects, was recorded in Mandated Refunds to Customers and, commencing in March 1980, is being refunded to electric customers over three years and to gas customers over two years.

Income Tax Assessment: In October 1972, the Company paid a net assessment of \$16,800,000 for the years 1957 through 1962 relating to the deductions taken for the loss of the Company's water rights at Niagara Falls terminated in connection with the

redevelopment of Niagara power by the Power Authority of the State of New York. The Company has instituted suit for recovery of this amount.

Investment Tax Credits: The Company has deferred the net benefit of investment tax credits of approximately \$8,000,000 (\$.11 per share), \$15,100,000 (\$.24 per share), \$6,900,000 (\$.12 per share) for the years ended December 31, 1980, 1979 and 1978, respectively, in accordance with the general policy as stated in Note 1.

The Company has unused credits at December 31, 1980 of approximately \$26,500,000 which may be utilized to reduce current tax expense in subsequent years, of which \$14,100,000 expires in 1986 and \$12,400,000 expires in 1987.

The following represents the U.S. and Canadian components of income before income taxes:

	<i>In thousands of dollars</i>		
	1980	1979	1978
United States	\$185,026	\$172,215	\$156,725
Canada	10,769	9,527	7,838
Consolidating eliminations	(5,309)	(4,848)	(3,968)
Income before income taxes	\$190,486	\$176,894	\$160,595

Summary Analysis:

	<i>In thousands of dollars</i>		
	1980	1979	1978
Components of Federal and Canadian income taxes			
Current tax expense:			
Federal	\$ 1,492	\$ 1,618	\$ 7,608
Canadian	5,460	4,680	3,870
	6,952	6,298	11,478
Deferred Federal income tax expense	36,546	28,348	19,645
Income taxes included in operating expenses	43,498	34,646	31,123
Federal income tax credits included in Other Income and Deductions	(15,651)	(13,782)	(11,690)
Total	\$27,847	\$20,864	\$19,433
Timing differences resulting in deferred Federal income taxes (Note 1)			
Depreciation	\$12,834	\$ 8,227	\$22,753
Cost of removal of property	(127)	(1,010)	2,310
Investment tax credit	7,985	15,149	6,899
Recoverable energy and purchased gas costs	7,236	(239)	7,012
Necessity certificates	(700)	(700)	(700)
Nuclear fuel disposal cost	(12,383)	(5,388)	(28,411)
Sales and loans of nuclear fuel	(1,304)	(5,678)	—
Sterling abandonment	5,195	—	—
Gain on Roseton sale	—	3,962	(3,962)
Other	2,159	243	2,054
Deferred Federal income taxes (net)	\$20,895	\$14,566	\$ 7,955
Reconciliation between Federal and Canadian income taxes and the tax computed at prevailing U.S. statutory rate on income before income taxes			
Computed tax	\$87,624	\$81,372	\$77,086
Reduction attributable to flow-through of certain tax adjustments:			
Depreciation	8,616	13,329	13,931
Allowance for funds used during construction	27,056	26,496	21,601
Taxes, pensions and employee benefits capitalized for accounting purposes	11,429	10,202	8,537
Real estate taxes on an assessment date basis	3,458	2,178	560
Investment tax credit	1,289	2,775	10,874
Deferred taxes provided at other than the statutory rate	743	6,752	1,824
Other	7,186	(1,224)	326
	59,777	60,508	57,653
Federal and Canadian income taxes	\$27,847	\$20,864	\$19,433

NOTE 11. Supplementary Information to Disclose the Effects of Changing Prices (Unaudited)

Continued inflation, resulting in a decline in the purchasing power of the dollar, is one of our nation's principal concerns. Inflation has an enormous impact on all sectors of the economy, including consumers, wage earners, investors, government and industry.

The Company's consolidated financial statements are based on historical events and transactions when the purchasing power of the dollar was substantially different than at the present. The effects of inflation on most utilities, including Niagara

Mohawk, are most significant in the areas of depreciation and utility plant and amounts owed on borrowed funds.

In recognition of the fact that users of financial reports need to have an understanding of the effects of inflation on a business enterprise, the following supplementary information is supplied for the purpose of providing certain information about the effects of both general inflation and changes in specific prices. It should be viewed as an estimate of the approximate effect of inflation, rather than as a precise measure.

Statement of income from continuing operations adjusted for changing prices for the year ended December 31, 1980

	Conventional historical cost	In thousands of dollars Constant dollar average 1980 dollars	Current cost average 1980 dollars
Operating revenues	\$1,777,115	\$1,777,115	\$1,777,115
Fuel for electric generation	462,573	462,573	462,573
Electricity purchased	181,223	181,223	181,223
Gas purchased	276,680	276,680	276,680
Depreciation	92,210	230,881	285,729
Other operating and maintenance expenses	509,179	509,179	509,179
Federal and Canadian income taxes	43,498	43,498	43,498
Interest charges	108,968	108,968	108,968
Other income and deductions—net	(59,855)	(59,855)	(59,855)
	1,614,476	1,753,147	1,807,995
Income (loss) from continuing operations (excluding reduction to net recoverable cost)	\$ 162,639	\$ 23,968*	\$ (30,880)
Increase in specific prices (current cost) of utility plant held during year** .			\$ 424,206
Increase (reduction) to net recoverable cost		\$ (255,294)	144,928
Effect of increase in general price level			(769,580)
Excess of increase in general price level over increase in specific prices after increase to net recoverable cost			(200,446)
Gain from decline in purchasing power of net amounts owed		209,546	209,546
Net		\$ (45,748)	\$ 9,100

*Including the reduction to net recoverable cost, the income (loss) from continuing operations on a constant dollar basis would have been \$(231,326) for 1980.

**At December 31, 1980, current cost of utility plant, net of accumulated depreciation, was \$6,940,885 while historical cost or net cost recoverable through depreciation was \$3,443,376.

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

The current cost of utility plant net of accumulated depreciation and amortization, represents the estimated cost of replacing existing plant assets in kind. Since existing utility plant is not expected to be replaced precisely in kind due to technological changes, current cost does not necessarily represent the replacement cost of the Company's utility plant. The portion of the accumulated amortization relating to disposal costs of nuclear fuel was not used in the calculation of current costs but rather reclassified to a monetary liability. In most cases, current costs were determined by indexing surviving plant dollars by the Handy-Whitman Index of Public Utility Construction Costs. However, when an account could not be indexed by Handy-Whitman, other appropriate indices were used. The current year's provision for depreciation and amortization on the constant dollar and current cost amounts of utility plant was deter-

mined by applying the Company's average annual depreciation rates to the indexed plant amounts.

Fuel inventories, the cost of fuel used in generation, and electricity and gas purchased have not been restated from their historical cost in nominal dollars. The recovery of energy and purchased gas costs are limited to historical costs through the operation of the Company's electric and gas adjustment clauses. For this reason fuel inventories and deferred recoverable energy costs are effectively monetary assets. Income taxes have not been adjusted.

The Company is subject to the jurisdiction of regulatory commissions in the determination of a fair rate of return on its investment. Current ratemaking policy provides for the recovery of historical costs. Therefore, any difference between the historical cost of utility plant and utility plant stated in terms of constant dollars or current cost not presently includible in rates as depreciation, is reflected as an increase (reduction) to net recoverable cost. While the ratemaking process gives no recognition to the current cost of replacing utility plant, based on past practices, the Company believes it will be allowed to earn on the increased cost of its net investment when replacement of facilities actually occurs.

To properly reflect the economics of rate regulation in the

Statement of Income from Continuing Operations, the increase (reduction) of net utility plant to net recoverable cost should be adjusted by the gain from the decline in purchasing power of net amounts owed on borrowed funds. During a period of inflation, holders of monetary assets suffer a loss of general purchasing power while holders of monetary liabilities experience a gain. The gain from the decline in purchasing power of net amounts

owed is primarily attributable to the substantial amount of debt which has been used to finance utility plant. Since the depreciation on this plant is limited to the recovery of historical costs, the Company does not have the opportunity to realize a holding gain on debt and is limited to recovery only of the embedded cost of debt capital.

Five year comparison of selected supplementary financial data adjusted for effects of changing prices

For the year ended December 31,	1980	In thousands of average 1980 dollars			
		1979	1978	1977	1976
Operating revenues	\$1,777,115	\$1,721,587	\$1,617,017	\$1,666,861	\$1,559,298
<i>Historical cost information adjusted for general inflation</i>					
Income (loss) from continuing operations (excluding reduction to net recoverable cost)	\$ 23,968	\$ 61,087			
Income (loss) per common share (after dividend requirements on preferred stock and excluding reduction to net recoverable cost)	\$ (0.08)	\$ 0.46			
Net assets at year-end at net recoverable cost	\$1,443,657	\$1,481,401			
<i>Current cost information</i>					
Income (loss) from continuing operations (excluding reduction to net recoverable cost)	\$ (30,880)	\$ (2,286)			
Income (loss) per common share (after dividend requirements on preferred stock and excluding reduction to net recoverable cost)	\$ (0.85)	\$ (0.53)			
Excess of increase in general price level over increase in specific prices after reduction to net recoverable cost	\$ 200,446	\$ 286,916			
Net assets at year-end at net recoverable cost	\$1,443,657	\$1,481,401			
<i>General information</i>					
Gain from decline in purchasing power of net amounts owed ..	\$ 209,546	\$ 241,426			
Cash dividends declared per common share	\$ 1.50	\$ 1.63	\$ 1.72	\$ 1.79	\$ 1.79
Market price per common share at year-end	\$ 11.13	\$ 14.34	\$ 17.68	\$ 21.25	\$ 20.82
Average consumer price index	246.8	217.4	195.4	181.5	170.5

NOTE 12. Commitments and Contingencies

Construction Program: The Company presently estimates that the construction program for the years 1981 through 1983 will require approximately \$964,000,000, excluding AFC and certain overheads capitalized. By years the estimates are \$289,000,000, \$327,000,000 and \$348,000,000, respectively. At December 31, 1980, substantial construction commitments existed, including those for the Company's share of Unit #2 at Nine Mile Point Nuclear Station.

Sterling Nuclear Station: As a result of a January 1980 decision by the New York State Board on Electric Generation Siting and the Environment to vacate the construction permit it had previously issued because it could no longer find a public need for the proposed jointly-owned Sterling Nuclear Station generating facility, the project was discontinued. Through December 31, 1980, the Company's costs associated with its 22% interest in the project, when reduced for Federal income taxes, approximated \$15,000,000. The Company, together with the other co-owners, has petitioned the PSC to seek recovery of these and all subsequently incurred costs associated with cancellation of this project. The PSC is currently holding hearings to determine the proper accounting treatment and ratemaking principles to be applied to the loss arising from regulatory rejection of this project. All costs are subject to a detailed audit during a later phase of the PSC's review of the petition. The PSC has permitted the Company to accrue AFC on the discontinued project and has determined that costs incurred through January 1978

(\$11,000,000) were prudently incurred in principle. The PSC has deferred a determination on costs incurred subsequent to January 1978 (\$4,000,000) and whether all costs should be shared between ratepayers and stockholders until further phases of their review are completed. While management believes all costs are fully recoverable, no such assurance can be given.

Nine Mile Point Nuclear Station Unit #2: Construction activities at this unit were slowed during 1980 pending completion of an overall project reevaluation. In early 1980, independent engineering and management consultants were engaged by the co-owners to review the project's estimated cost and scheduled in-service date, together with the status of engineering, construction and management systems at the project. Preliminary results indicate a new project cost, based on a 1986 commercial operation date, of approximately \$2,214 per kilowatt (for an estimated total cost to the Company of \$984 million), exclusive of allowance for funds used during construction and the cost of nuclear fuel. The increase from the November 1978 estimate (\$1,248 per kilowatt; \$554 million total cost to the Company) is attributable to a two-year extension of the in-service date from 1984 to 1986 and greater inflation, changes being made to accommodate new regulatory requirements in part resulting from the Three Mile Island incident, and various increases associated with the engineering and construction work programs.

During 1980, the New York State Public Service Commission

authorized an audit of the Nine Mile Point Unit #2 project covering essentially the same areas as the co-owner initiated assessment. A report on the PSC mandated audit results is expected in early 1981. The resumption of full scale construction is anticipated in the spring of 1981, depending on the results of reassessments and audits initiated during the past year.

Long-term Contracts for the Purchase of Electric Power: At January 1, 1981 the Company had contracts to purchase electric power from the following generating facilities owned by the Power Authority of the State of New York (PASNY):

Facility	Expiration date of contract	Purchased capacity in Kw.	Estimated annual capacity cost
St. Lawrence—hydroelectric project ...	1985	115,000	\$ 1,380,000
Niagara Falls—hydroelectric project ...	1990	1,122,432	13,469,000
Blenheim-Gilboa—pumped storage generating station	2002	550,000	11,220,000
FitzPatrick—nuclear plant	year-to-year basis	141,000*	11,310,000
		1,928,432	\$37,379,000

*127,000 Kw. for winter of 1981-82

The purchased capacities shown above are based on the contracts currently in effect. The estimated annual capacity costs are subject to price escalation and are exclusive of applicable energy charges.

Litigation: Several electric customers have brought suit against the Company and PASNY requesting that certain power purchased from PASNY be allocated exclusively for their benefit and are asking monetary damages for the difference between rates charged by the Company and rates that would otherwise have been charged if this power had been furnished to them since the initiation of the suit in 1978 and for the six years prior thereto. In the opinion of management, the ultimate liability, if any, resulting from this suit will not materially affect the consolidated financial statements of the Company.

FERC Audit: During 1979, the staff of FERC conducted a compliance audit of the Company covering the years 1973 through 1978. All of the adjustments proposed by FERC have been resolved except certain adjustments concerning the base cost of nuclear fuel on which AFC should be applied. The resolution of these adjustments has been deferred pending the development of generic rulemakings by the FERC concerning accounting for nuclear fuel. If the associated recommended adjustments are sustained by FERC, the resulting reduction in retained earnings would approximate \$13,000,000 through 1978 and \$24,000,000 through 1980. The Company believes that the adjustments are not justified and is contesting them. The recommended adjustments result from FERC staff taking exception to regulatory accounting treatment prescribed by the PSC, the Company's primary rate setting body. Although FERC has ratemaking jurisdiction over only 10% of the Company's electric revenues, representing sales to other electric systems and revenues from transmission of energy, it has the power to prescribe books of account on which reports to stockholders are based. Due to the extensive jurisdiction which the PSC has over the Company's affairs, it is the opinion of the Company that the financial statements based on the requirements of the PSC represent the proper presentation of the financial position and the results of operations of the Company.

NOTE 13. Quarterly Financial Data (Unaudited)

Operating revenues, operating income, net income and earnings per common share by quarters for 1980, 1979 and 1978 are shown in the following table. The Company, in its opinion, has included all adjustments (consisting only of normal recurring accruals except for giving effect to the deferral of Oswego Unit #6 investment tax credit during the quarter ending December 31, 1979—see Note 1) necessary for a fair presentation of the results of operations for the quarters. Due to the seasonal nature of the utility business, the annual amounts are not generated evenly by quarter during the year.

Quarters ended	In thousands of dollars			
	Operating revenues	Operating income	Net income	Earnings per common share
December 31				
1980	\$479,512	\$52,085	\$37,756	\$.41
1979	416,066	41,570	28,005	.31
1978	321,788	33,881	26,977	.32
September 30				
1980	\$379,705	\$37,742	\$26,020	\$.25
1979	335,944	34,764	25,511	.29
1978	276,442	37,571	27,273	.32
June 30				
1980	\$425,238	\$57,729	\$44,701	\$.54
1979	352,107	50,114	41,878	.56
1978	309,666	47,976	35,527	.49
March 31				
1980	\$492,660	\$64,196	\$54,162	\$.69
1979	412,386	67,492	60,636	.86
1978	372,352	64,945	51,385	.78

NOTE 14. Revolving Credit and Term Loan Agreements

During 1980, the Company entered into several seven-year revolving credit and term loan agreements with seven banks aggregating \$90 million. Borrowings are initially made under two to three year revolving credit periods. Balances outstanding at the end of the revolving credit period are converted to four to five year term loans. The Company pays fees in lieu of maintaining compensating balances for the availability of these credit arrangements. Interest on borrowings during the revolving credit period approximate the domestic floating prime rate or, under a Eurodollar option, ½% above the London Interbank Offered Rate. Amounts converted to term loans are payable in equal installments during the remaining term of the agreements. There are no penalties for early termination or prepayment of these loans. At December 31, 1980, revolving credit loans amounted to \$80,000,000 with interest at the domestic floating prime rate.

Long-term debt

	At December 31,	In thousands of dollars			At December 31,	In thousands of dollars	
		1980	1979			1980	1979
First Mortgage Bonds:							
2¾% Series due January 1, 1980 ... \$	—	\$	40,000	8¼% Series due December 1, 2003 .	80,000		80,000
27½% Series due October 1, 1980 ...	—		40,000	9½% Series due December 1, 2003 .	50,000		50,000
12.6% Series due October 1, 1981 ...	125,000		125,000	9.95% Series due September 1, 2004	100,000		100,000
3¾% Series due December 1, 1981 .	15,000		15,000	10.2% Series due March 1, 2005	41,113		44,000
3½% Series due February 1, 1983 ..	25,000		25,000	8.35% Series due August 1, 2007	75,000		75,000
3¼% Series due October 1, 1983 ...	40,000		40,000	8½% Series due December 1, 2007 .	50,000		50,000
3½% Series due August 1, 1984	25,000		25,000	Paul Smith's Electric Light & Power & Railroad Company First Mortgage Bonds:			
10½% Series due September 1, 1985	47,000		47,000	5½% Series due May 1, 1985	450		450
3½% Series due May 1, 1986	30,000		30,000	Promissory Note, 8% Series A due			
47½% Series due September 1, 1987	50,000		50,000	June 1, 2004	46,600		46,600
37½% Series due June 1, 1988	50,000		50,000	Revolving Credit and Term Loan			
4¾% Series due April 1, 1990	50,000		50,000	Agreements (Note 14)	80,000		—
4½% Series due November 1, 1991 .	40,000		40,000	Notes payable:			
4½% Series due December 1, 1994 .	40,000		40,000	7¾% due November 1, 1980	—		6,000
57½% Series due November 1, 1996 .	45,000		45,000	Prime rate plus ½% (not to exceed			
6¼% Series due August 1, 1997	40,000		40,000	7½%) due in equal quarterly install-			
6½% Series due August 1, 1998	60,000		60,000	ments through April 1, 1984	8,750		11,250
9½% Series due December 1, 1999 .	75,000		75,000	Unamortized premium			
12.95% Series due October 1, 2000 ..	66,350		—		5,844		6,256
7¾% Series due February 1, 2001 ..	65,000		65,000	Total long-term debt			
7½% Series due February 1, 2002 ..	80,000		80,000		1,586,107		1,531,556
7¾% Series due August 1, 2002	80,000		80,000	Less long-term debt due within one year			
					142,500		88,500
					\$1,443,607		\$1,443,056

Preferred stock

Cumulative preferred stock, authorized 3,400,000 shares, \$100 par value and 9,600,000 shares, \$25 par value
Cumulative preference stock, authorized 4,000,000 shares, \$25 par value

	At December 31,	In thousands of dollars		Redemption price per share (Before adding accumulated dividends)	Eventual minimum
		1980	1979	December 31, 1980	
Non-redeemable (optionally redeemable)					
Preferred \$100 par value					
3.40% Series; 200,000 shares	\$	20,000	\$ 20,000	\$103.50	\$103.50
3.60% Series; 350,000 shares		35,000	35,000	104.85	104.85
3.90% Series; 240,000 shares		24,000	24,000	106.00	106.00
4.10% Series; 210,000 shares		21,000	21,000	102.00	102.00
4.85% Series; 250,000 shares		25,000	25,000	102.00	102.00
5.25% Series; 200,000 shares		20,000	20,000	102.00	102.00
6.10% Series; 250,000 shares		25,000	25,000	103.00	101.00
7.72% Series; 400,000 shares		40,000	40,000	107.37	102.36
		\$210,000	\$210,000		
Redeemable (mandatorily redeemable—Note 7)					
Preferred \$100 par value					
7.45% Series; 528,000 and 546,000 shares	\$	52,800	\$ 54,600	105.77	100.00
10.60% Series; 357,240 and 380,000 shares		35,724	38,000	110.60	102.65
Preferred \$25 par value					
8.375% Series; 1,600,000 shares		40,000	40,000	26.87	25.00
9.75% Series; 1,134,000 and 1,200,000 shares .		28,350	30,000	26.9275	25.00
9.75% Series(Second); 1,020,000 shares		25,500	—	*	25.00
Preference \$25 par value					
7.75% Series; 1,220,000 and 1,360,000 shares .		30,500	34,000	**	25.00
		212,874	196,600		
Less sinking fund requirements		6,950	6,950		
		\$205,924	\$189,650		

*Not redeemable until April 1, 1983.

**Not redeemable until October 1, 1981.

Summary of utility plant

At December 31,	In thousands of dollars		
	1980	%	1979
Utility plant:			
Electric plant	\$3,223,017	71	\$2,859,533
Nuclear fuel (Note 3)	230,780	5	206,206
Gas plant	390,237	9	367,652
Common plant	67,474	1	63,920
Construction work in progress	651,801	14	721,217
Total utility plant	\$4,563,309	100	\$4,218,528

Selected financial data

	1980	1979	1978	1977	1976
Operations: (000's)					
Operating revenues	\$1,777,115	\$1,516,503	\$1,280,248	\$1,225,832	\$1,077,230
Income from continuing operations	162,639	156,030	141,162	123,832	108,449
Common stock data:					
Book value per share at year-end	\$17.25	\$17.33	\$17.14	\$16.95	\$16.55
Earnings per average common share from continuing operations	1.87	2.00	1.89	1.74	1.61
Dividends paid per common share	1.50	1.44	1.36½	1.31½	1.24
Capitalization: (000's)					
Common equity	\$1,298,001	\$1,177,725	\$1,065,976	\$ 968,236	\$ 922,735
Non-redeemable preferred stock	210,000	210,000	210,000	240,000	240,000
Redeemable preferred stock	205,924	189,650	198,600	126,400	128,200
Long-term debt	1,443,607	1,443,056	1,414,997	1,394,387	1,268,269
Total	3,157,532	3,020,431	2,889,573	2,729,023	2,559,204
First mortgage bonds maturing within one year	140,000	80,000	—	—	—
Total	3,297,532	3,100,431	2,889,573	2,729,023	2,559,204
Capitalization ratios: (including first mortgage bonds maturing within one year):					
Common stock equity	39.4%	38.0%	36.9%	35.5%	36.0%
Preferred stock	12.6	12.9	14.1	13.4	14.4
Long-term debt	48.0	49.1	49.0	51.1	49.6
Financial ratios:					
Ratio of earnings to fixed charges	2.43	2.61	2.58	2.49	2.35
Ratio of earnings to fixed charges and preferred stock dividends	1.93	2.03	1.95	1.90	1.82
Other ratios-% of operating revenues:					
Fuel and purchased power	36.2	35.6	32.1	33.0	31.6
Purchased gas	15.6	13.0	12.4	11.6	11.6
Maintenance and depreciation	10.8	12.1	12.6	13.2	13.3
Taxes	13.0	13.3	14.3	14.0	13.9
Operating income	11.9	12.8	14.4	14.7	15.4
Balance available for common stock	7.5	8.5	8.8	8.0	7.9
Ratio of depreciation reserve to gross utility plant	27.0	26.3	26.2	25.6	25.3
Ratio of mortgage bonds to net utility plant	43.4	47.0	46.7	48.6	47.4
Miscellaneous: (000's)					
Gross additions to utility plant	\$ 378,503	\$ 374,530	\$ 316,280	\$ 289,931	\$ 282,702
Total utility plant	4,563,309	4,218,528	3,905,374	3,647,274	3,377,306
Accumulated depreciation and amortization	1,232,675	1,110,563	1,021,417	935,212	854,033
Total assets	3,808,819	3,528,937	3,189,112	3,019,054	2,816,300

Electric and gas statistics

Electric capability—

	At January 1,	Thousands of kilowatts			
	1981	%	1980	1979	
Thermal					
Coal fuel					
Huntley, Niagara River	785	10	785	785	
Dunkirk, Lake Erie	600	8	585	585	
Total coal fuel	1,385	18	1,370	1,370	
Residual oil fuel					
Albany, Hudson River	400	5	400	400	
Oswego, Lake Ontario	1,821	24	1,200	1,190	
Roseton, Hudson River	357	5	360	360	
Middle distillate oil fuel					
20 Combustion turbine and diesel units	310	4	354	354	
Total oil fuel	2,888	38	2,314	2,304	
Nuclear fuel					
Nine Mile Point, Lake Ontario	610	8	610	610	
Purchased— firm contract Power Authority— FitzPatrick, Lake Ontario	141	2	154	176	
Total nuclear fuel	751	10	764	786	
Total thermal sources	5,024	66	4,448	4,460	
Hydro					
Owned and leased hydro stations (81) .	733	10	733	733	
Purchased—firm contracts					
Power Authority—Niagara River	1,122	15	1,122	1,122	
Power Authority— St. Lawrence River	115	1	115	115	
Power Authority— Blenheim-Gilboa Pumped Storage Plant	550	7	550	550	
Other	75	1	76	76	
Total hydro sources	2,595	34	2,596	2,596	
Total capability*	7,619	100	7,044	7,056	

	1980	1979	1978
Electric peak load during year	5,403	5,641	5,485

*Available capability can be increased during heavy load periods by purchases from neighboring interconnected systems. Hydro station capability is based on average December stream-flow conditions.

Electricity generated and purchased (Millions of kw-hrs.)

	1980	%	1979	%	1978	%
Thermal						
Generated						
Coal	7,213	20	7,275	20	7,016	20
Oil	7,392	21	8,534	24	8,691	25
Nuclear	4,538	13	3,005	8	4,467	13
Purchased—						
Nuclear from Power Authority	934	2	722	2	886	2
Total thermal	20,077	56	19,536	54	21,060	60
Hydro						
Generated	3,175	9	3,641	10	3,472	10
Purchased from Power Authority	8,925	25	8,263	23	8,563	24
Total hydro	12,100	34	11,904	33	12,035	34
Other purchased power—various sources						
	3,616	10	4,621	13	2,118	6
Total generated and purchased	35,793	100	36,061	100	35,213	100

	1980	1979	1978
Electric sales (Millions of kw-hrs.)			
Residential	8,330	8,269	8,127
Commercial	9,361	9,279	9,117
Industrial	11,703	12,471	12,187
Municipal service ..	273	274	276
Other electric systems	2,921	3,022	2,675
	32,588	33,315	32,382

Electric revenues (Thousands of dollars)			
Residential	\$ 404,899	\$ 357,818	\$ 319,667
Commercial	463,315	393,173	333,862
Industrial	344,063	312,833	258,649
Municipal service ..	27,147	23,832	21,515
Other electric systems	106,429	83,188	59,445
Miscellaneous	47,614	40,224	27,175
	\$1,393,467	\$1,211,068	\$1,020,313

Electric customers (Average)			
Residential	1,217,214	1,206,469	1,197,060
Commercial	131,210	130,119	128,481
Industrial	2,896	2,906	2,873
Other	3,222	3,189	2,257
	1,354,542	1,342,683	1,330,671

Residential (Average)			
Annual kw-hr. use per customer	6,843	6,854	6,790
Cost to customer per kw-hr.	4.86¢	4.33¢	3.93¢
Annual revenue per customer	\$332.64	\$296.58	\$267.04

	1980	1979	1978
Gas sales (Thousands of dekatherms)			
Residential	51,121	51,895	54,793
Commercial	23,833	23,415	23,734
Industrial	21,647	17,109	15,630
Other gas systems .	4,720	4,199	3,845
	101,321	96,618	98,002

Gas revenues (Thousands of dollars)			
Residential	\$209,416	\$176,567	\$158,599
Commercial	89,088	71,139	60,794
Industrial	69,506	46,260	32,422
Other gas systems .	13,455	10,014	6,858
Miscellaneous	2,183	1,455	1,262
	\$383,648	\$305,435	\$259,935

Gas customers (Average)			
Residential	388,720	383,617	382,691
Commercial	29,682	29,009	28,451
Industrial	530	525	522
Other	2	2	2
	418,934	413,153	411,666

Residential (Average)			
Annual use per customer (dekatherms)	131.5	135.3	143.2
Cost to customer (per dekatherm)	\$4.10	\$3.40	\$2.89
Annual revenue per customer	\$538.73	\$460.27	\$414.43
Maximum day gas sendout (dekatherms)	740,594	750,666	655,408

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John G. Haehl, Jr.
Chairman of the Board and Chief Executive Officer, Syracuse

Edwin F. Jaeckle
Senior Partner, Jaeckle, Fleischmann & Mugel, attorneys-at-law, Buffalo

Lauman Martin
Consultant (formerly Senior Vice President and General Counsel), Syracuse

Baldwin Maull
Director of various corporations, New York

Martha Hancock Northrup
Housewife, former President, Crouse-Irving Memorial Hospital Board, Syracuse

Frank P. Piskor
President, St. Lawrence University, Canton

Donald B. Riefler
Chairman, Sources and Uses of Funds Committee, Morgan Guaranty Trust Company of New York, commercial bank, New York

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President, L. A. Swyer Company, Inc., builders and construction managers, Albany

John G. Wick
President and Chief Executive Officer, Merchants Insurance Group, Buffalo

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Baldwin Maull
John H. Terry, Secretary

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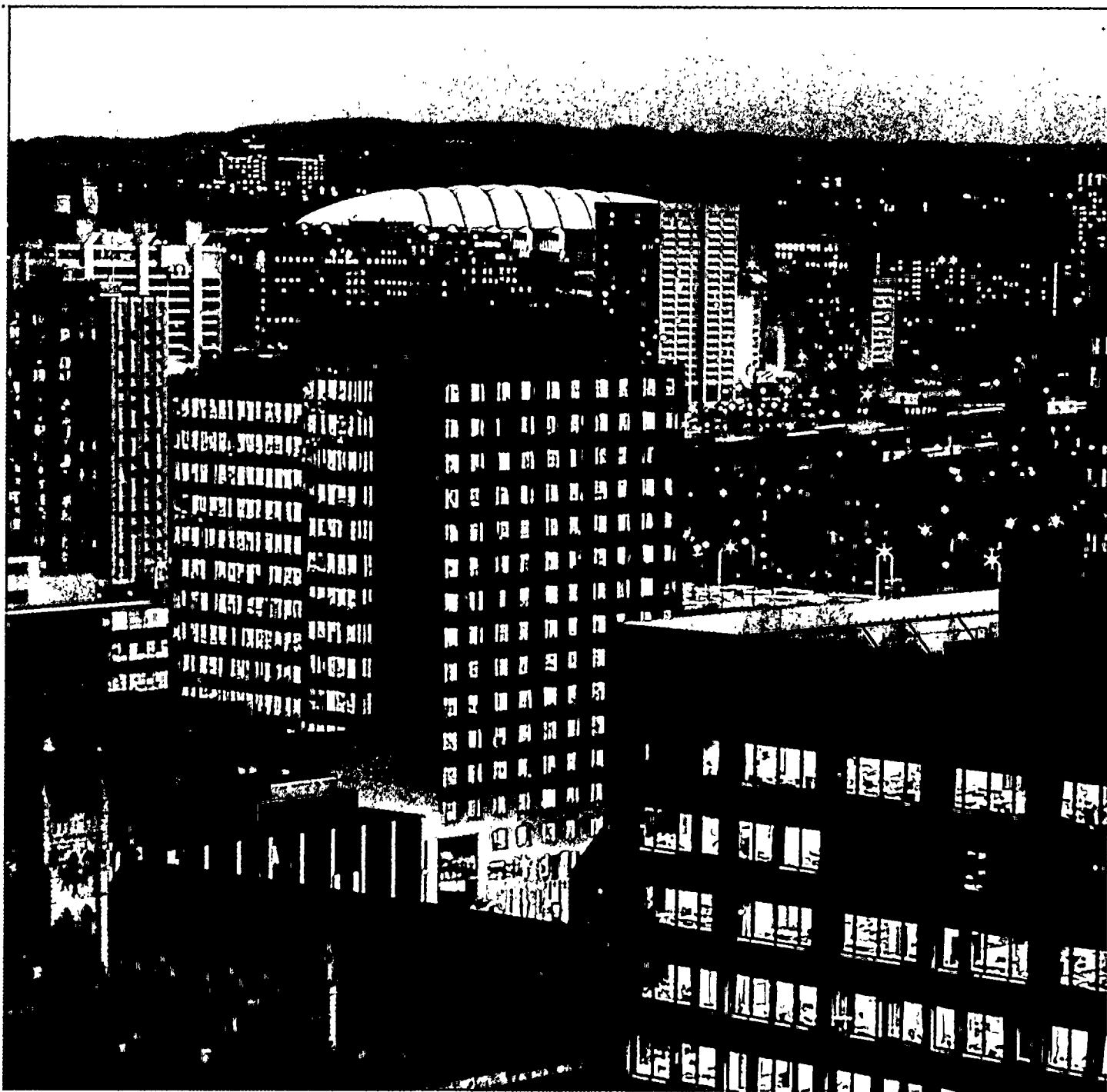
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NM NIAGARA MOHAWK

300 ERIE BOULEVARD WEST
SYRACUSE, NEW YORK 13202



With downtown Syracuse in foreground and central New York hill country as distant backdrop, new Carrier Dome appears in pale glow as evening arrives in city. Multipurpose Syracuse University sports arena has air-supported roof. Dome's electric needs are met by two Niagara Mohawk 13,200-volt feeders.