

REGULATORY INFORMATION DISTRIBUTION SYSTEM (RIDS)

ACCESSION NBR: 8503180271 DUC. DATE: <sup>85/03/11</sup> ~~84/12/31~~ NOTARIZED: NO DOCKET #  
 FACIL: 50-220 Nine Mile Point Nuclear Station, Unit 1, Niagara Power 05000220  
 50-410 Nine Mile Point Nuclear Station, Unit 2, Niagara Moha 05000410  
 AUTH. NAME AUTHOR AFFILIATION  
 HAEHL, J. G. Niagara Mohawk Power Corp.  
 DONLON, W. J. Niagara Mohawk Power Corp.  
 LEMPGES, T. E. Niagara Mohawk Power Corp.  
 RECIP. NAME RECIPIENT AFFILIATION

SUBJECT: Annual Financial Rept, 1984, W/850311 ltr.

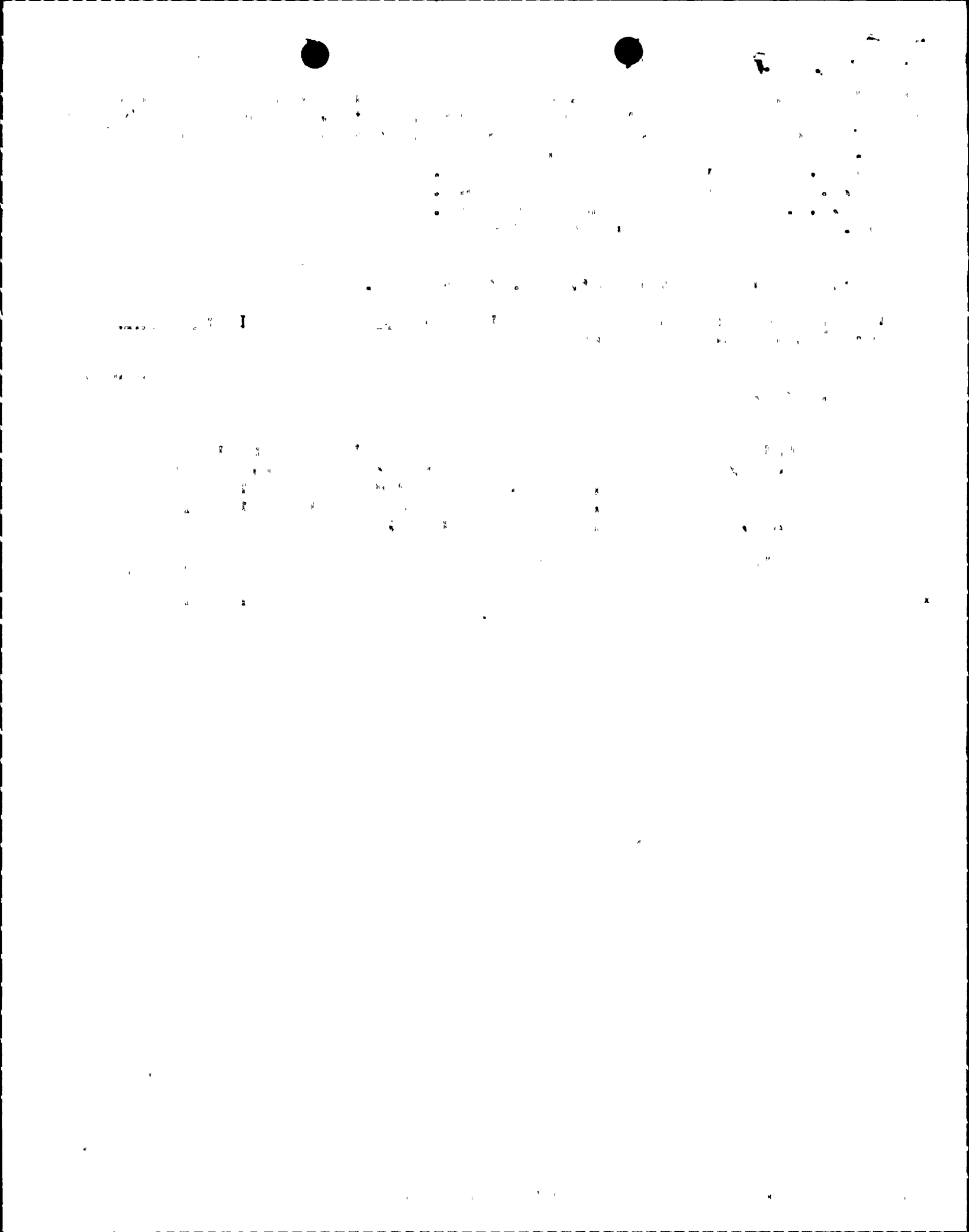
DISTRIBUTION CODE: M004D COPIES RECEIVED: LTR 1 ENCL 10 <sup>ON SHELF</sup> SIZE: 42  
 TITLE: Annual Financial Reports

NOTES:

05000220

OL: 08/22/69

RECIPIENT		COPIES		RECIPIENT		COPIES	
ID	CODE/NAME	LTTR	ENCL	ID	CODE/NAME	LTTR	ENCL
NRR	ORB2 BC	1	0	NRR	LB2 BC	1	0
NRR	ORB2 LA 01	1	1	NRR	LB2 LA 01	1	1
HERMANN, R		1	0	HAUGHEY, M		1	0
INTERNAL: <u>REG. FILE</u>	04	1	1	SP.		1	1
EXTERNAL: LPDR	03	1	1	NRC PDR	02	1	1



NIAGARA MOHAWK POWER CORPORATION

NIAGARA  MOHAWK

300 ERIE BOULEVARD WEST  
SYRACUSE, N.Y. 13202

THOMAS E. LEMPGES  
VICE PRESIDENT—NUCLEAR GENERATION

March 11, 1985

Director  
Office of Nuclear Reactor Regulations  
c/o Distribution Services Branch, DDC, ADM  
U.S. Nuclear Regulatory Commission  
Washington, DC 20555

Dear Sir:

As required in Title 10, Chapter I, Code of Federal Regulations, Section 50.71(b), and compiled in Regulatory Guide 10.1, enclosed are ten (10) copies of Niagara Mohawk Power Corporation's 1984 Annual Report.

Cordially,

*Thomas E. Lempges*

TEL/jrs

Enclosures (10)

*M004  
1/10*



# Niagara Mohawk Power Corporation 1984 Annual Report

50-220

HR 12/31/84

## - NOTICE -

8503180771

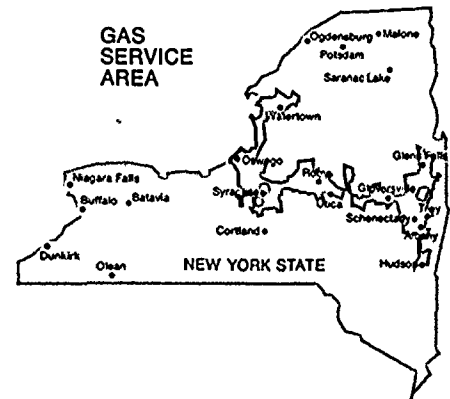
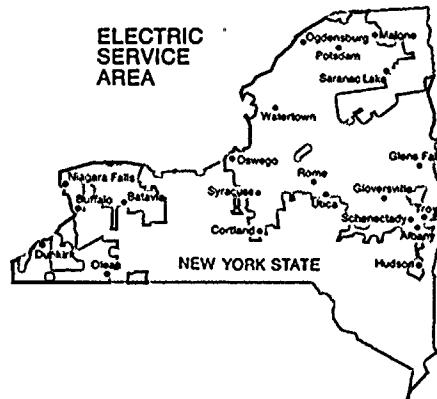
THE ATTACHED FILES ARE OFFICIAL RECORDS OF THE INFORMATION & RECORDS MANAGEMENT BRANCH. THEY HAVE BEEN CHARGED TO YOU FOR A LIMITED TIME PERIOD AND MUST BE RETURNED TO THE RECORDS & ARCHIVES SERVICES SECTION, T5 C3. PLEASE DO NOT SEND DOCUMENTS CHARGED OUT THROUGH THE MAIL. REMOVAL OF ANY PAGE(S) FROM DOCUMENT FOR REPRODUCTION MUST BE REFERRED TO FILE PERSONNEL.

## - NOTICE -

## SERVING UPSTATE NEW YORK

Ranked as one of the most prominent investor-owned utilities in the United States, Niagara Mohawk Power Corp. serves an area encompassing more than half the land mass of New York State. Our electric system extends from Lake Erie to New England's borders, to Canada and Pennsylvania, and meets the diversified needs of nearly 1.4 million customers. Our natural gas system serves 433,000 customers in central, eastern and northern New York, nearly

all within our electric territory. Two Canadian companies, St. Lawrence Power Co. and Canadian Niagara Power Company, Ltd. owned by our subsidiary, Opinac Investments, Ltd., provide energy to portions of Ontario. Other subsidiaries are Hydra-Co Enterprises, Inc., N M Uranium, Inc. and Niagara Mohawk Finance, N.V. Our corporate headquarters are 300 Erie Boulevard West, Syracuse, N.Y. 13202.



## CORPORATE MISSION STATEMENT

Niagara Mohawk is an energy company with diversified interests and resources committed to providing for the current and future needs of customers through economical products and services of superior quality.

The Company is dedicated to maintaining an efficient, progressive, cost-conscious organization that provides a fair and equitable return to its owners.

Management is committed to retaining and motivating talented, productive, effective employees by providing reasonable compensation, incentives and a good working environment.

The Company pursues opportunities to improve the economic climate and well-being of citizens, industry and business within the markets served. Appropriate actions are taken to meet

socioeconomic responsibilities, including seeking necessary improvements in the regulatory and legislative environment that best serve interests of the Company's customers, employees, and owners.

Management maintains high ethical standards and strives for open communications with all its constituencies.

The Company takes an active role in the development of technologies and opportunities advantageous to customers and owners. It is dedicated to maintaining and developing dependable energy resources and delivery systems that are safe and environmentally sound.

Management will actively pursue strategies in support of objectives to accomplish this mission.

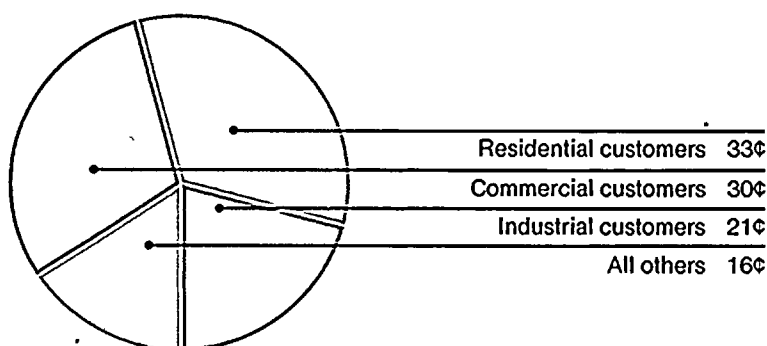
## CONTENTS

2	To our stockholders
4	Year of enterprise
18	Market price of common stock and related stockholder matters
18	Management's discussion and analysis of financial condition
23	Report of management and independent accountants
24	Consolidated financial statements
27	Notes to consolidated financial statements
39	Statistics
41	Officers, directors, corporate information

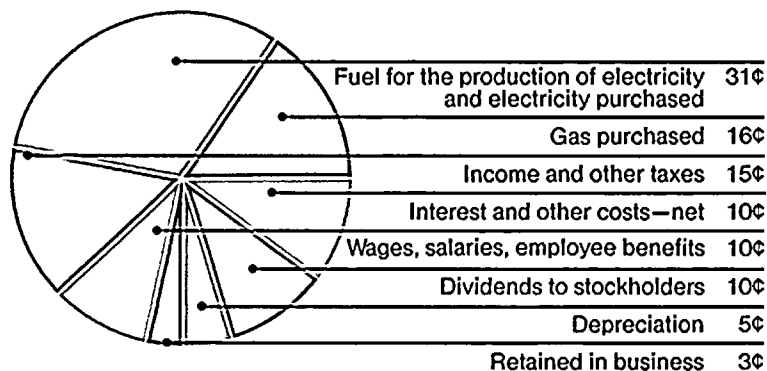
## HIGHLIGHTS OF 1984

	1984	1983	% Change
Total operating revenues .....	\$ 2,785,546,000	\$ 2,632,315,000	5.8
Income available for common stockholders ...	\$ 308,274,000	\$ 270,300,000	14.0
Earnings per common share .....	\$2.84	\$2.77	2.5
Dividends per common share .....	\$1.98	\$1.89	4.8
Common shares outstanding (average) .....	108,734,000	97,685,000	11.3
Utility plant (gross) .....	\$ 6,903,184,000	\$ 6,165,711,000	12.0
Gross additions to utility plant .....	\$ 769,846,000	\$ 691,464,000	11.3
Kilowatt-hour sales .....	37,086,000,000	34,732,000,000	6.8
Electric customers at end of year .....	1,405,000	1,392,000	0.9
Electric peak load (kilowatts) .....	5,526,000	5,625,000	(1.8)
Natural gas sales (dekatherms) .....	114,960,000	103,153,000	11.4
Gas customers at end of year .....	436,000	433,000	0.7
Maximum day gas sendout (dekatherms) .....	772,604	754,061	2.5

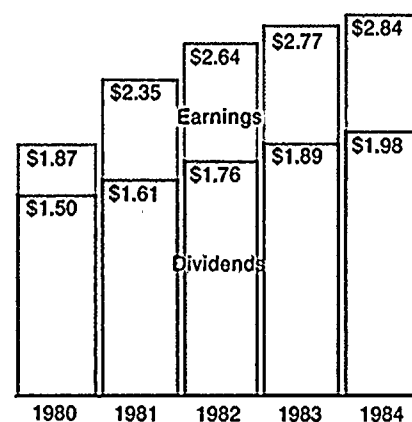
### THE 1984 REVENUE DOLLAR ...



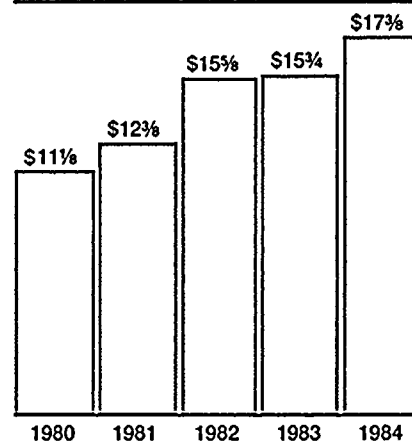
### AND WHERE IT WENT



### EARNINGS AND DIVIDENDS PAID PER COMMON SHARE



### MARKET PRICE OF COMMON STOCK AT YEAR END



# To our stockholders

We are pleased to report to you our fourth consecutive year of increased earnings.

In 1984, we achieved earnings of \$2.84 per share of common stock, compared with \$2.77 in 1983. This 2.5-percent growth stemmed primarily from a rise in revenues and gross margins from higher electric and gas sales and additional allowance for funds used during construction. The increase would have been higher, however, if we were not compelled at the year-end to record a one-time 10-cent per share offset related to a refund ordered by the N.Y. State Public Service Commission. We take strong exception to this mandate and plan to appeal it in the courts.

The year's electric sales grew nearly seven percent over 1983, including an impressive 23-percent upturn in sales to other utilities in the Northeast and increases ranging from three to more than four percent in industrial, commercial and residential categories. Also significant was an 11-percent overall rise in natural gas sales in 1984, with industrial gas sales alone climbing a dramatic 27 percent. Commercial and residential gas sales were up nearly four and six percent, respectively.

During 1984, the Board of Directors increased the dividend to a rate of \$2.00 per share from the previous \$1.92, reinforcing our long-standing policy of striving to make regular increases in our dividend. Quarterly dividends have been paid every year since the Company's incorporation in 1950, and this represents the 13th consecutive year of increases.

New electric and gas rates to yield additional revenues totaling \$95.5 million per year became effective in March 1984, as approved by the Public Service Commission. The Company is currently requesting further increases to produce approximately \$130 million annually, including adjustments to improve cash flow. We anticipate the PSC's decision in March 1985.

Historically, Niagara Mohawk's residential electric rates have been the lowest among major New York State utilities and below the national average. Despite general rate increases received, the overall costs per kilowatt-hour to our customers during 1984 were lower than in 1983, due to lower fuel costs, economic power purchases, generation

station improvements and our superior generation "mix" which emphasizes hydro, nuclear and coal. In addition, we were also able to lower our prices for gas customers in 1984 as we passed along savings from our wholesale gas supplier. Even with our proposed new rates, the prices paid by our customers are expected to remain very competitive in 1985.

In February 1984, we expressed concern over Long Island Lighting Company's withdrawal of its 18-percent share of funding in Nine Mile Point Nuclear Unit Two. To resolve this matter, and retain LILCO as an 18-percent owner of the plant, an agreement was reached in which Niagara Mohawk will advance up to \$250 million in funds for the account of LILCO, with LILCO issuing general and refunding bonds as security. This arrangement enables us to continue construction activity at Nine Mile Two without interruption, while providing Niagara Mohawk with security for the funds advanced.

Following a Nine Mile Two cost re-estimate in March, 1984, the Public Service Commission staff and the N.Y. State Energy Office conducted separate economic re-evaluations of the project. Both concluded there are economic benefits to the plant, and the Governor also indicated his agreement. A review by Niagara Mohawk of the economics also continues to support completion of Nine Mile Two.

During 1984, to supplement our own nuclear construction expertise, the Nine Mile Two project team was reinforced with seasoned veterans from the respected Management Analysis Company, which holds worldwide nuclear construction credentials. Primary emphasis on the project has shifted from bulk construction to finishing complex systems needed for pre-operational testing prior to actual start-up and power generation.

These and other events of 1984 served to bolster our resolve to finish Nine Mile Two and to bring it on line as rapidly as possible at the lowest possible cost—with strict attention to quality. We believe that the currently scheduled October, 1986 commercial operation date is difficult, but achievable. Even with the recent projected-cost increase of \$250 million to \$5.350 billion made in January,



1985, we remain within the Public Service Commission's mandated cost "cap" of \$5.4 billion. Extensive discussions regarding cost, schedule, regulatory matters and other important factors associated with the project are covered in Note 10 to our financial statements on page 34.

As an added source of capital and to increase our financing flexibility, we decided in 1984 to increase our available bank revolving credit and term loan agreements to \$445 million. We completed \$614 million of financing in 1984 and will need to raise approximately \$670 million during 1985, including amounts we will be advancing to the Nine Mile Two project on behalf of LILCO. After the project is completed, our capital requirements and external financing should decline sharply.

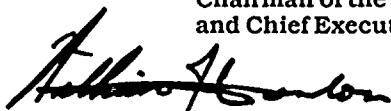
Throughout this Report appear frequent references to our Corporate Strategic Plan, which provides a central theme for Niagara Mohawk management. The accomplishments, plans — and hopes — presented on these pages are all elements in this formula for excellence.

One far-reaching action by management under the Plan's objectives was the creation of a new Corporate Development Department to seize whatever opportunities tomorrow may offer in emerging marketing, conservation, economic development and related horizons. Our commitment to advancement of technology is self-evident in this Annual Report, while our new "Think Customer" and "Care & Share" programs devoted to consumer and community assistance also resulted from the Strategic Plan.

On behalf of the Board of Directors and management, we offer our sincerest appreciation to our stockholders and employees for their loyalty and support in these promising, yet demanding, times.



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



William J. Donlon  
President



John G. Haehl, Jr. and William J. Donlon

February 11, 1985

# Year of enterprise

Constant attention to planning and aggressive decision-making by Niagara Mohawk's management team made 1984 a good year for us, with clearly visible results.

Positive modifications and improvements — some of these the fruits of high-technology, first envisioned or underway since the early 1980s — are now yielding marked benefits in productivity and efficiency throughout our operations and day-to-day business, as documented in this Report. Management's singular commitment to the future, in both the long and short-term sense, is directed toward our stockholders, consumers and employees as we enter the final half of this decade and plan for energy needs beyond.

## Corporate Strategic Plan — a blueprint for the future

The Company has a strategic planning process in place to effectively employ Niagara Mohawk's human, physical and financial resources in an ever-changing future.

Each year, conditions confronting the Company are examined and our Corporate Strategic Plan is modified to provide direction in decision-making for the next ten years and beyond. The Plan is developed by our entire management team to determine what the Company wants to be and how it intends to get there. The cornerstone is a corporate mission statement, a brief summary of Niagara Mohawk's philosophy. (See inside front cover.) Growing out of the statement are eight corporate objectives — statements of intent and statements of what we "want to happen." Supporting these are strategies or broad guidelines as a road map toward achieving each objective — how to "make it happen."

The objectives are each aimed at accomplishing the mission, as follows:

1. Financial Integrity
2. Think Customer
3. Efficiency Through People
4. Nuclear Excellence
5. Marketing/Growth/Competition
6. Community Involvement
7. Management of Change
8. Introspection/Self-appraisal

Projects and programs discussed on these pages are all being developed within the framework of the Corporate Strategic Plan — a working blueprint for our future.

## Audit brings positive marks

Toward these objectives, 1985 opened on a positive note following the conclusion of an extensive 14-month audit of our management and operations by Theodore Barry & Associates, a nationally known consulting firm. Mandated by the N.Y. State Public Service Commission and similar to periodic PSC audits of other investor-owned utilities, the assessment brought out many favorable findings as well as constructive recommendations. Especially significant, however, were comments concerning Niagara Mohawk's leadership structure, specifically TB&A's reference to our "capable and well-motivated management team." Further, "improvements under way at Niagara Mohawk, in combination with the near-term implementation of other study recommendations, will result in substantial quantitative benefits to both the Company and the ratepayer," TB&A observed in its final report. The audit was the second independent review of the Company's management in six years. As with the first, we welcomed the constructive critique.

## Nine Mile One — nuclear pioneer

In 1984, the U.S. Nuclear Regulatory Commission awarded the Company generally favorable ratings in an annual assessment of licensee performance at the 610,000-kilowatt Nine Mile Point Nuclear Unit One, noting "effective management attention and involvement oriented toward nuclear safety in all functional areas" at our first nuclear station.

The NRC stated Niagara Mohawk has "a large, experienced staff of licensed operators and senior operators", while fire protection, security and safeguards, refueling, outage management and licensing activities were all at "high level of performance with respect to operational safety and construction." The NRC also provided various recommendations in areas needing improvement and these are being implemented to further refine plant performance.

The year 1984 marked Nine Mile One's 15th anniversary, especially meaningful as the project is Upstate New York's first nuclear-electric development, designed and engineered solely "in-house" by Niagara Mohawk, a distinction few utilities can claim.

Over its remaining lifetime, Nine Mile One will save the equivalent of some 117 million

barrels of oil or \$3 billion, based on current prices. It has already saved 81 million barrels since first going on line in 1969.

## Nine Mile Two Progress

We are continuing to forge ahead at a steady pace on the construction of Nine Mile Point Nuclear Unit Two. At this writing, the 1.08-million kilowatt station is moving toward the startup and test schedule—a primary corporate objective.

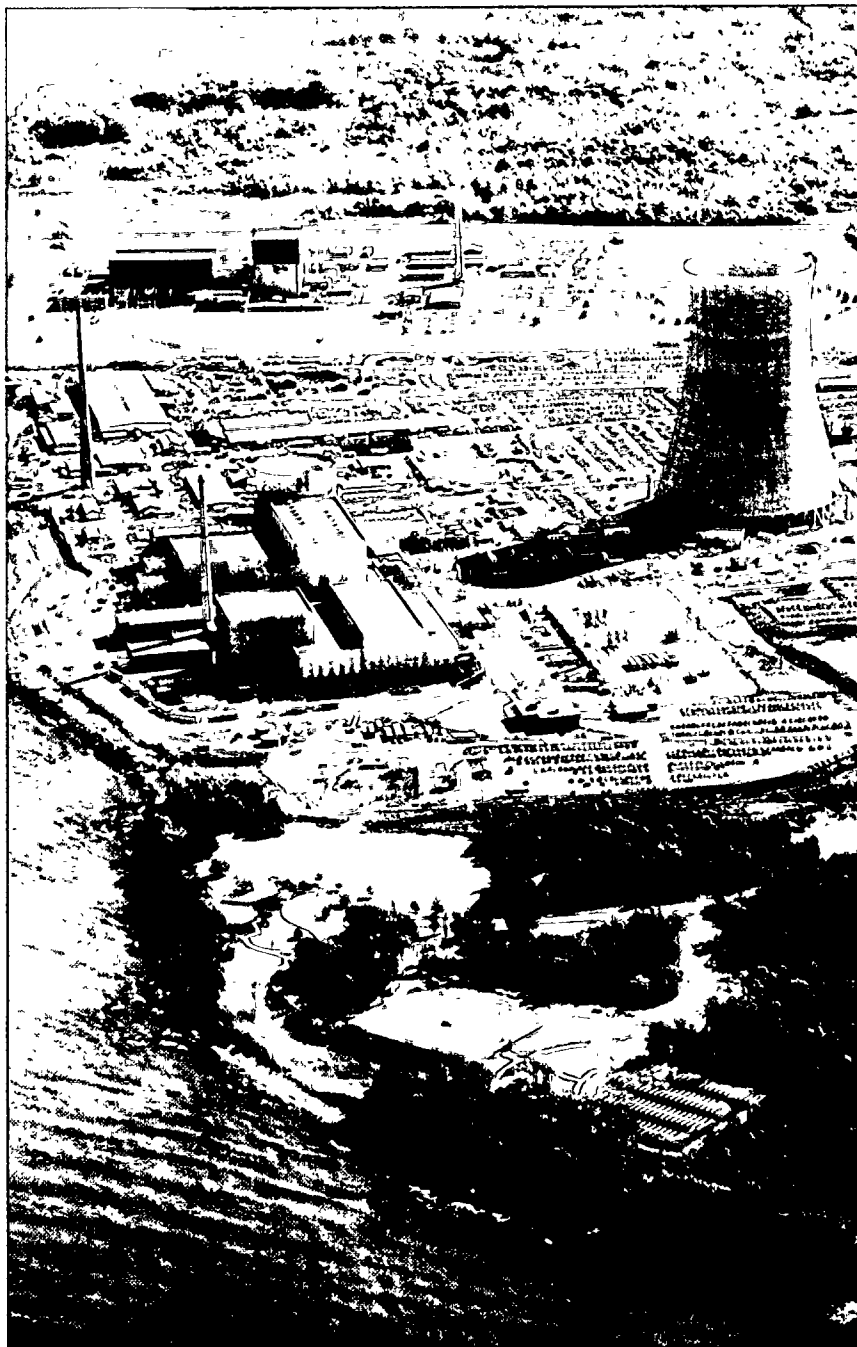
High-level administrative measures, including hiring the internationally recognized consulting firm of Management Analysis Company (MAC), were undertaken in 1984 as the massive project advanced into its final construction stage.

MAC professionals, with worldwide experience and expertise in overseeing large nuclear construction, were integrated into top management, engineering and quality assurance responsibilities within the project team. Moreover, the Company initiated new programs and enhanced earlier efforts to insure standards of excellence in design, construction, tests and inspections at the construction site. Close cooperation is being maintained by Niagara Mohawk and project partners with the NRC and various recommendations are being applied from NRC studies over the past year.

At year-end, emphasis of the construction effort moved to preliminary testing of the many subsystems and finishing the remaining electrical and mechanical work. Pre-operation testing and fuel loading are scheduled to lead us to startup and commercial service.

Looking ahead, a staff of 100 operating personnel has been assembled at Nine Mile Point. Twenty-seven hold reactor operator licenses and 12 hold senior reactor licenses. Sixty-one are in training for reactor operator and senior reactor licenses for Unit Two, with license exams scheduled for 1985 and early 1986. Their instruction will utilize a full-size control room simulator starting in 1985 at the new Nine Mile Point Training Center.

Although we still face critical construction milestones in early 1985 and are operating in an aggressive schedule, we currently anticipate loading Nine Mile Two's uranium fuel in February 1986—a keystone in building this critical major nuclear addition to New York's energy future.



Aerial view of Nine Mile Point on southeastern Lake Ontario shows Nuclear Unit Two, at left of large cooling tower, nearing final construction stages. Adjacent to plant is Unit One, on line since 1969, while Energy Information Center and new Training Center overlook lake from bottom of photo. At top is N.Y. Power Authority's James A. FitzPatrick Nuclear Power Plant.

## Niagara Mohawk — experienced nuclear builder

Niagara Mohawk enjoys a strong position among U.S. utilities engaged in nuclear plant construction.

Our ownership portion in Nine Mile Two is 41 percent. Thus, the total project cost and financing burden is shared among our co-tenants, in contrast to other companies who may be undertaking such projects alone. Our financial posture is recognized as investment grade and our nuclear experience is securely established. Further, Niagara Mohawk has created a Nine Mile Point Emergency Plan — in place, and proven successful. The Plan was formulated jointly with federal, state and local government agencies and favorably received by the NRC. Moreover, it is the first plan with an emergency notification system approved by the Federal Emergency Management Agency in FEMA's Region 2 and the first in the U.S. to earn FEMA approval *without qualification* — a decided advantage.

In its lifetime, Nine Mile Two will generate electricity equivalent to more than 400 million barrels of imported oil, for savings of over \$10 billion at current oil prices.

Niagara Mohawk is the principal partner and managing agent in construction and operation of Unit Two, with Long Island Lighting Company and New York State Electric and Gas Corp. holding ownership at 18% each; Rochester Gas and Electric Corp. at 14% and Central Hudson Gas and Electric Corp. at 9%. (A detailed discussion of cost, schedule, regulatory matters and other important factors associated with the project is presented in Note 10 to financial statements on page 34).

## New Corporate Development Department formed

Management formed the Corporate Development Department in 1984 to increase the Company's organizational efficiency and responsiveness to future challenges.

This function integrates all rate-related, conservation, marketing and economic development operations at the corporate level under a vice president, Christopher D. Turner. Its establishment follows our Corporate Strategic Plan objective aimed at Marketing/Growth/Competition. Responsibilities include innovation of rate design and creating programs to attract new custom-



ers to our service area and to help industrial and commercial customers improve their competitiveness.

## New economic development rate

Niagara Mohawk is seeking to accelerate economic development with introduction in 1984 of a special electric rate for qualifying business customers on our lines. This five-year rate-reduction plan encourages construction and expansion of facilities and the purchase or leasing of an existing facility.

The new rate will be to the advantage of all customers, as the new revenues will offset and stabilize fixed electrical costs.

## Generating refinements — a record is set

Initiatives to upgrade performance of fossil-fueled power facilities were continued in 1984. Much of this work centered upon improving heat rate to obtain maximum electric output per unit of coal or oil fuel.

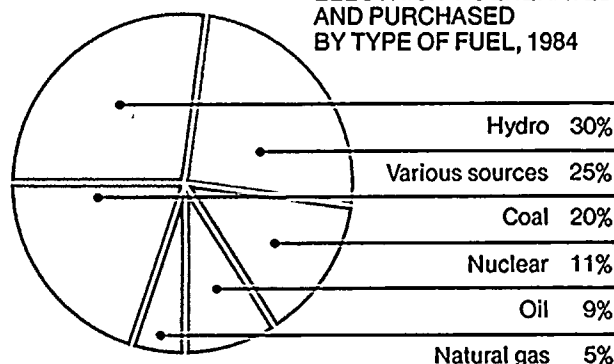
A record was set at our 715,000-kilowatt Huntley Station (coal-fired) on the Niagara River at Tonawanda. The more than half-century old plant generated more power — 41.5 billion kilowatt-hours — over the past ten years ending 1984 than in any other decade in its productive life.

Niagara Mohawk is one of the first U.S. utilities to install a modern computer-based maintenance records and planning system, with programs and data storage on each fossil power station maintained on a corporate mainframe computer in Syracuse. Each station in turn has access and inputs to the system via video display terminals and printers.

Resembling oversized corks, concrete barriers, upper left photo, weighing tons each are positioned along Nine Mile Point shoreline to protect Unit Two, in distance, from abnormally high Lake Ontario ice and wave conditions.

Technician sights down turbine shell at Nine Mile Two project. Revolving shaft will be installed in casing to connect steam turbines to generator and produce 1.08 million kilowatts of power when station begins operations.

ELECTRICITY GENERATED AND PURCHASED BY TYPE OF FUEL, 1984



## Bright year for natural gas

On target with gas Marketing/Growth/Competition objectives of our Corporate Strategic Plan for the year, record sales to industrial customers highlighted 1984 for our natural gas system — up 27 percent over the 1983 period.

Gas prices were favorable for another year, especially for Niagara Mohawk's large customers who have the capability to burn either oil or natural gas.

Total sales to all customer categories were up 11 percent over 1983 due not only to the higher industrial use, but to increased consumption by residential and commercial customers as well.

Natural gas continues to hold its position as the premium fuel — clean-burning and lower-priced than heating oil — and its popularity will remain high because of the abundant future supply picture.

## Noting a hydro "first"

The dominant hydroelectric development during the year — signalling a shift in management strategy — was selection of a firm to construct and operate a 15,500-kilowatt plant and to sell the energy exclusively to Niagara Mohawk.

This was the first time the Company has sought proposals from outside sources as a vehicle for construction of a new hydro project. A proposal by Glen Park Associates was selected from submittals from seven competing independent engineering, construction and energy companies for a project at Glen Park on the Black River. The Glen Park proposal, including a 42-year lease, was attractive

because it lowers overall project costs. The generation units are targeted for service as early as 1986.

Under the Glen Park agreement, all power produced will be sold to Niagara Mohawk at a price considerably below both avoided costs and the development costs — estimated at more than \$20 million — if the Company were to build the plant. Niagara Mohawk first began planning a hydro plant at Glen Park in the 1970s and has since conducted extensive economic, engineering and environmental studies. We are viewing other future hydro development plans with an eye toward the Glen Park arrangement and may again seek bids from competing private firms on additional waterpower sites.

### **Energy management system on schedule**

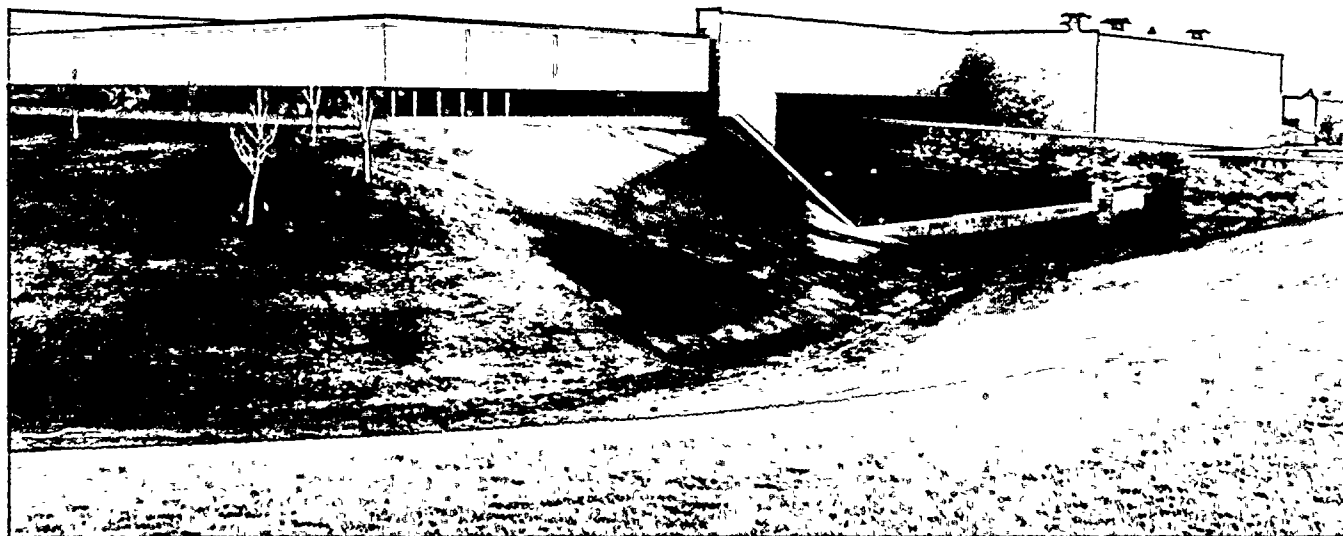
A milestone was noted in the Company's comprehensive, long-range Energy Management System (EMS), as a new Power Control Center was completed in Syracuse and occupied by technical staff.

The modern structure will be the nerve center of our 24,000-square mile power network. It will manage and coordinate power generation and transmission in the Niagara Mohawk system besides exchanges with other utilities in the New York Power Pool and Eastern regional grids. Replacing the existing Power Control Center, in service since 1961,

the modern version will become fully operational in 1985, when the installation and testing of computer and communication systems are completed, and will exemplify the latest state-of-the-art in power system operation.

### **High-tech "donuts" at work**

Another innovative development was installation in 1984 of extra-high-voltage overhead transmission line-performance monitoring devices, invented and demonstrated in-house in recent years by personnel from Engineering, Operations and Research with management encouragement and support. These sophisticated, donut-shaped electronic units are expected to produce significant improvements in power transfer capabilities. At the same time, they will help to reduce customer energy costs by permitting greater utilization of transmission equipment already in service. They also allow higher levels of economy exchanges with Canada, neighboring utilities and power pools. The aluminum-skinned monitors are self-powered and are clamped around power line conductors to monitor temperatures, currents and other operating conditions, transmitting this data to key reception points. Thirty-three units were attached to lines at a substation and many more are planned across our system. The sensors can be installed in minutes without interruption of power — yet another attractive facet of our Niagara Mohawk-created "donuts".

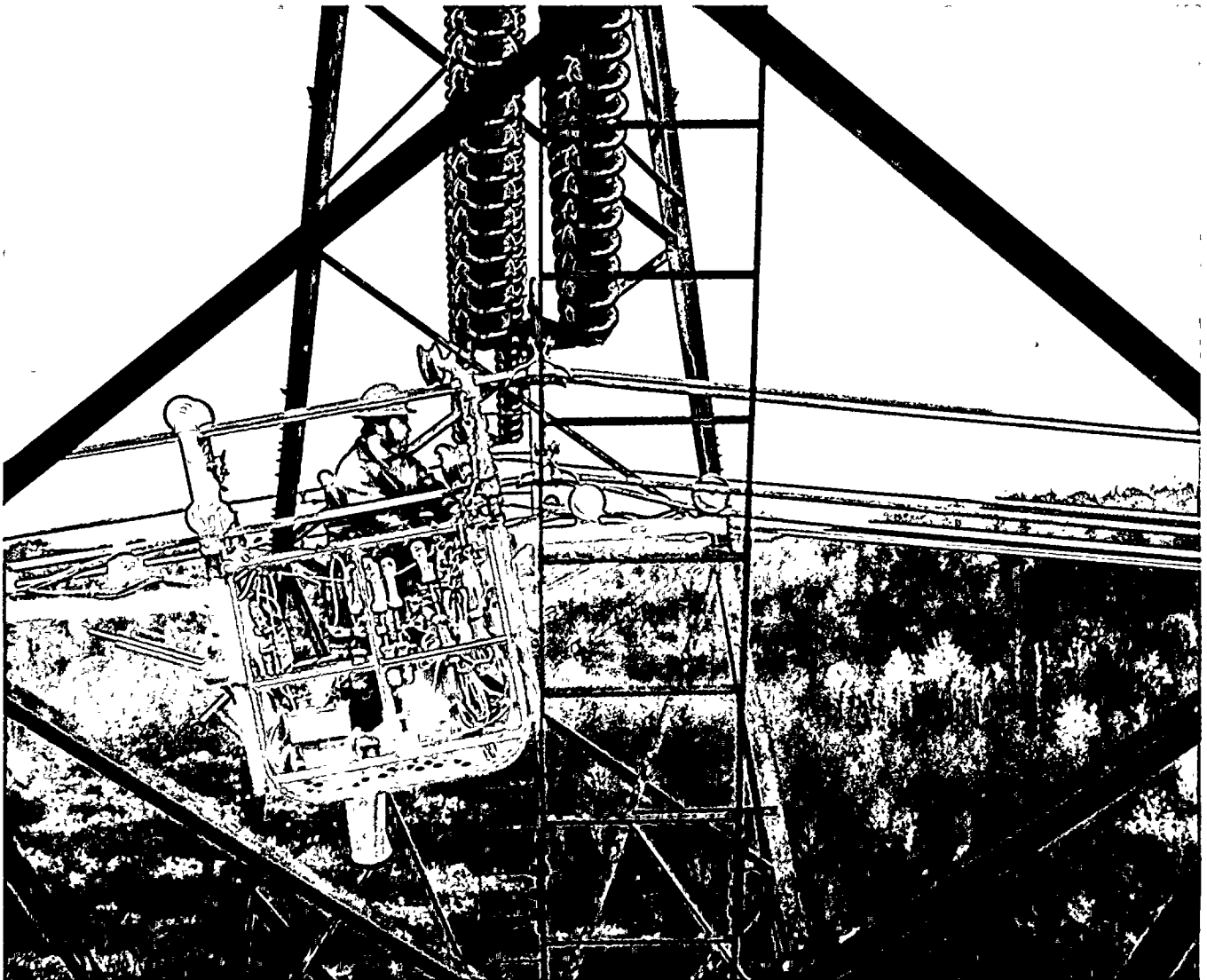
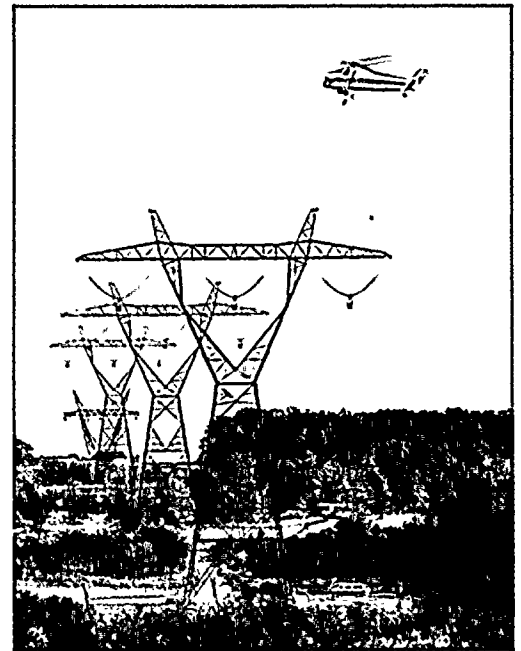


Modern Power Control Center, left, in Syracuse will serve as hub of Niagara Mohawk's upstate power system, coordinating electric transmission and delivery within Company's service area and between neighboring utilities and energy networks.

Line mechanic clamps "donut" monitoring unit to power line above substation. Invented in-house by Niagara Mohawk research staff, sensors are expected to help reduce costs by allowing increased use of equipment already in service.



Niagara Mohawk crews erecting high-voltage transmission line, right, from Oswego County 65 miles east to Mohawk Valley receive assist from helicopter, while lineman, below, suspended in aerial car some 150 feet above countryside, works on cables. Line will deliver energy from Nine Mile Nuclear Unit Two into upstate New York power grids.





## **New transmission links**

Progress was also evident in 1984 with the construction of new transmission lines to deliver power into the system from Nine Mile Two. Included are a 10-mile, 345,000-volt link from Nine Mile Two to Volney and a similar line some 65 miles southeast from Volney to Marcy Substation near Utica. Both are proceeding on schedule, as is the rebuilding of a 115,000-volt line from Massena to Colton in St. Lawrence County, to permit increased delivery of imported power from Canada.

## **Subsidiaries post active gains**

The year was an eventful one for Hydra-Co Enterprises, Inc. and the Canadian-based Opinac Investments, Ltd., both wholly owned independent subsidiaries of Niagara Mohawk.

The first of six small hydro sites reclaimed and redeveloped by Hydra-Co went into service in the spring of 1984 at Port Leyden on the Black River north of Utica, while the remaining projects were all on line by the year-end. The six will produce a total estimated annual 51 million kilowatt-hours for Niagara Mohawk. In addition, Hydra-Co began construction of two sites with an estimated capacity of 19,000 kilowatts overall, while the firm also seeks out other waterpower possibilities and fossil-fueled cogeneration ventures. Hydra-Co, a Syracuse-based subsidiary, was formed in 1981 to participate in development, ownership and operation of cogeneration, alternate energy and small power-production facilities.

## **Expansion in Canada**

Operation of Niagara Mohawk's Canadian subsidiaries underwent significant expansion in 1984 with the advent of the first multi-million-dollar oil and gas-drilling programs in western Canada.

Opinac Investments, Ltd. of Toronto is the holding company for Canadian Niagara Power Company Ltd. and St. Lawrence Power Company, which distribute electricity to two Ontario communities, and for Opinac Energy Ltd., an oil and gas exploration and development company operating from Calgary, Alberta, since late 1983.

By year-end 1984, Opinac Energy controlled about four-billion cubic feet of natural gas reserves and more than 250,000 barrels of proven crude-oil reserves valued at more than \$5 million (US). Production was still in the very early stages.

## **Milestone at Niagara Falls**

Canadian Niagara's historic 74,600-kilowatt Rankine Hydroelectric Station, operating above the Canadian Horseshoe Falls at Niagara Falls, Ontario, has observed its 80th birthday, having first produced electricity on New Years Day in 1905.

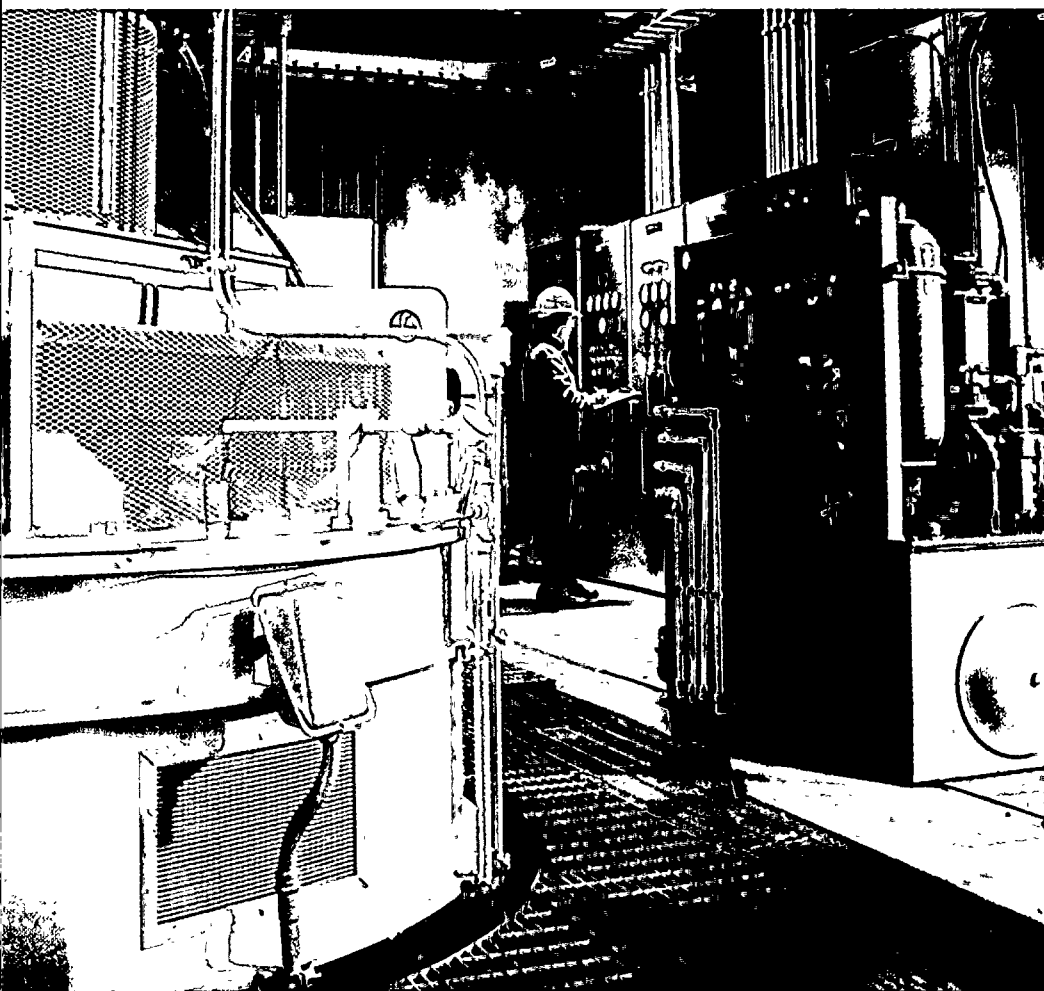
## **New research quests**

Another eminent year was posted by the Research and Development Department in 1984. Interfaced with management's strategic goals, R&D continues to innovate high-technology advances with avoided costs for consumers and practical improvements in Company operations. Such savings are estimated at \$30 million for 1985, with consumers already benefitting from conservation research alone by energy savings of an additional \$7 million.

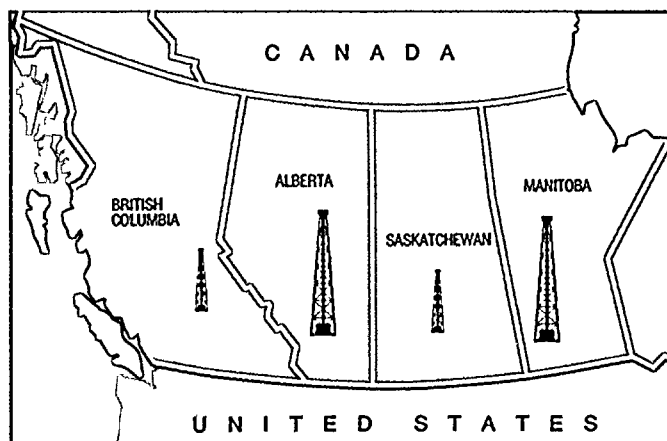
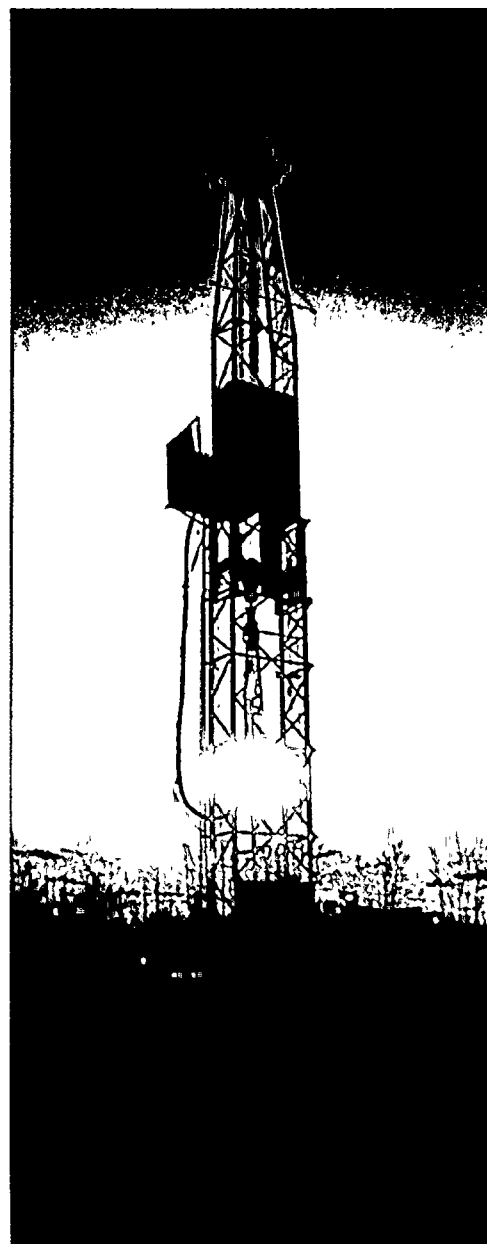
## **FGD demonstration a success**

Following four years of research, an advanced flue gas desulfurization (FGD) project at the Company's Huntley Steam Station concluded successfully late in 1984, proving that low-cost, high-sulfur coal can be burned while virtually eliminating sulfur emissions. The experimental FGD demonstration first went into operation in June 1982 and soundly accomplished its original research aims, despite serious, but correctable, technical and equipment problems that shortened the planned test period. The FGD venture showed conclusively that more than 90 percent of sulfur dioxide gas can be extracted from stack emissions of large power stations and converted into pure marketable sulfur, valued for hundreds of agricultural and industrial uses. The FGD unit also achieves this aim with plentiful, high-sulfur Eastern coal, less costly and cheaper to transport than the low-sulfur Western variety. Unlike desulfurization units currently in use elsewhere, its aqueous carbonate process produces no troublesome wastes to be transported and disposed of in huge quantities at landfill sites.

Niagara Mohawk was host utility and managing agent in the FGD venture since its inception in the late 1970s. Sponsors were the Empire State Electric Energy Research Corp. (ESEERCO), the U.S. Environmental Protection Agency, N.Y. State Energy Research and Development Authority, Electric Power Research Institute, and Rockwell International Corp., developer of the FGD-aqueous carbonate concept.

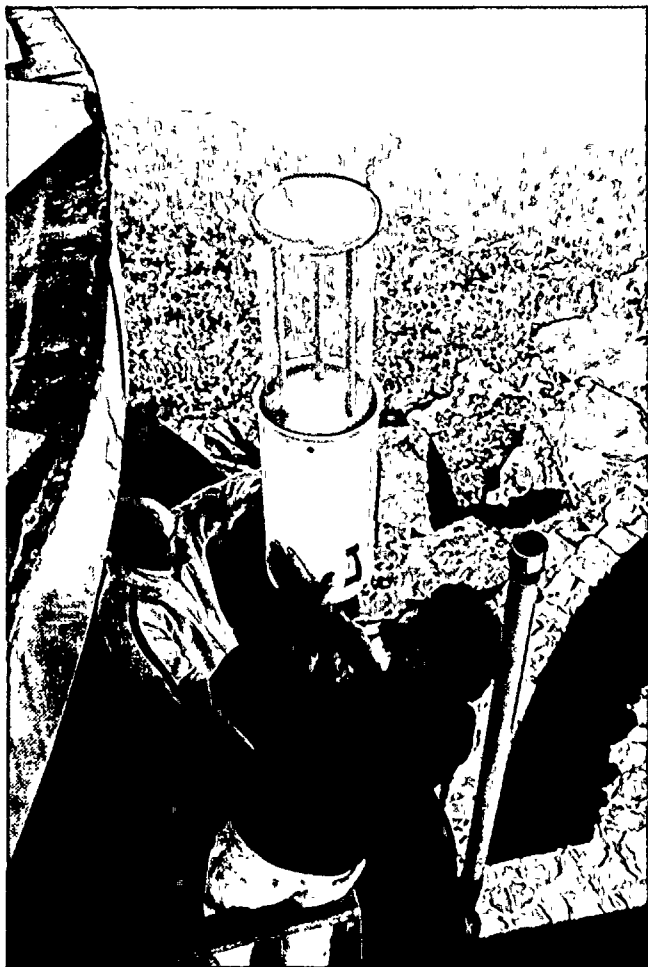


Engineer inspects new Lyonsdale hydro generating unit, left, completed in 1984 by Hydra-Co Enterprises, Inc., a Niagara Mohawk subsidiary. Six new water-power projects reclaimed or redeveloped by Hydra-Co in 1984 will produce 51 million kilowatt-hours annually.



Drilling rig, above, is etched against northern sky in joint exploration venture by Opinac Energy Ltd., a Canadian subsidiary. Opinac controls about 4 billion cubic feet of natural gas reserves and over 250,000 barrels of proven crude oil reserves valued at more than \$5 million. Oil and gas sites are indicated on map of western provinces.

Scientists conducting acid rain studies adjust instruments measuring cloud chemistry from weather station on Whiteface Mountain peak in Adirondacks. Niagara Mohawk is actively involved in extensive acid rain study programs in cooperation with N.Y. State Department of Environmental Conservation, Electric Power Research Institute and Empire State Electric Energy Research Corp.



## R&D projects at a glance

A sampling of other significant 1984 R&D programs by Niagara Mohawk, independently or in partnership with other utilities and energy interests, follows. Most projects offer combined advantages of economy, efficiency and environmental merits:

- Integrated coal gasifier and combined-cycle generation system — has strong likelihood of becoming most attractive for coal-fired power plants by mid-1990s.
- Nuclear reactor coolant system decontamination — initial efforts have already yielded benefits to Niagara Mohawk consumers exceeding \$6 million.
- Advanced communications — employ high-capacity fiber optics, space satellites for long-distance relaying, improved integration of generation, transmission and distribution for Energy Management System currently in service.
- Advanced seismic analysis — can be applied to nuclear power plants should NRC require modification in seismic design requirements.
- Low-temperature fuel cell power plant — first complete new form of bulk generation to emerge in decades.
- Earth-coupled heat pump — has ability to increase residential space-heating performance by 65% and reduce peak demand on electric distribution systems by 60%.

The year ended with the retirement of Howard D. Philipp, the Company's founding Director of Research and Development, after 36 years of service. His successor is Richard H. Ryczek, previously Manager of Nuclear Engineering, who joined Niagara Mohawk in 1964.

## Economy looking brighter

Across the "State of Niagara Mohawk" service territory, welcome news of continuing economic recovery appeared in 1984 with new plant locations, expansions and rejuvenations.

Our Economic Development Department broadened its role of attracting new businesses to the area and assisting in the expansion of businesses and industrial firms already here.

Directed toward the entire U.S. financial and business community, a widespread promo-

tional campaign was conducted in 1984 to spotlight Upstate New York's energy resources, labor force, renowned environmental and cultural assets, profit potential and development opportunities. As a result of this drive, professionals on the Economic Development staff directly assisted business and industrial firms and local communities with development and growth activities.

In planning for 1985, Economic Development will pursue an aggressive media program of national and regional advertising, targeted marketing and direct mail. At the same time, the staff will work with Niagara Mohawk regional representatives and community leaders to help them attract new businesses and to help existing firms expand.

### **Sharing human concerns**

Two major new programs entitled "Think Customer" and "Care & Share" evolved in 1984 from Niagara Mohawk's Strategic Plan and surveys of consumer attitudes and needs.

#### **"Think Customer"**

"Think Customer" is the theme of an employee awareness campaign to underscore the necessity of high-quality service throughout our business.

This internal program began with letters from the Chairman and President urging each employee to make a more conscientious effort to improve rapport with customers. To reinforce this goal, a series of seminars, displays and written materials is planned for the entire Company workforce through 1985. "Think Customer" is also a two-way information channel intended to bring greater customer understanding and support of Niagara

Mohawk's policies and actions in view of critical issues affecting the Company's ability to serve.

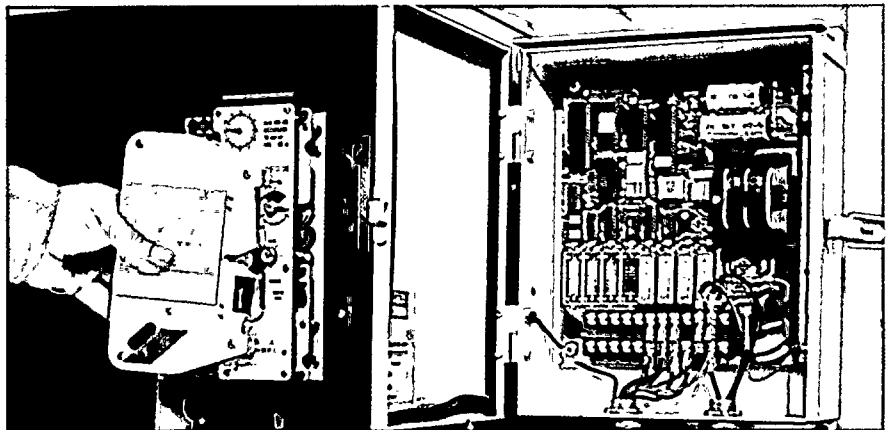
Early in 1985, Gerald J. Currier was elected to the newly created position of Vice President—Consumer Services.

#### **"Care & Share"**

The Care & Share Energy Fund was initiated by the Company in cooperation with the American Red Cross to provide direct financial assistance to residents requiring help in paying for their basic energy needs. The program is financed by voluntary contributions from Niagara Mohawk customers and administered by the Red Cross in various localities. An initial grant of \$250,000 from Niagara Mohawk stockholders was made to start the Fund, and the Company began soliciting contributions from customers through a special bill insert late in the year. The Company will match each \$2.00 given with \$1.00 up to another \$250,000. By the year end, a total of more than \$70,000 in customer donations was received.

"Care & Share" is designed to enable recipients to use this money to insure a continued energy supply by having their heating bills paid, regardless of type of energy used, and to repair heating equipment or install home weatherization materials on an emergency basis. An independent advisory board comprised of representatives from social services, religious and community action organizations was organized to provide overall guidance, make periodic audits and determine eligibility of the recipients. Those who qualify for "Care & Share" must be 60 years or older, (with energy emergencies) or handicapped, or disabled, or have a medical emergency.

Customer's "end use" of household appliances is recorded on tape in one of 230 typical homes taking part in research for improving home energy conservation. Monitored in load survey are household refrigerators, ranges and water heaters.



New electronic meter-reading device, below, quickly records energy usage, meter conditions and customer information for transmittal to central bill-processing computers. Replacing manual meter-reading methods, compact units will be employed throughout service area in 1985 to reduce costs and improve efficiency.



## Supporting the Special Olympics

In 1984, Niagara Mohawk became an official sponsor of the New York State Special Olympics. The Summer Games will be in Syracuse in 1985, with financial support and volunteer time by Niagara Mohawk people.

The annual Games, in which thousands of handicapped adults and children compete, are widely supported and recognized. Competition will include track, field, swimming and other events, with opening and closing ceremonies and award presentations, much like the actual Olympics.

## Consumer services offered

Throughout 1984, the following services and supportive programs were again offered by Niagara Mohawk to consumers:

- **Home Insulation and Energy Conservation Audits** — 12,800 consumers received free customized home energy inspections, with financial assistance and low-interest loans from lending institutions totaling \$1.7 for qualified applications to make energy conservation improvements.
- **Energy Conservation Bank** — for the needy and elderly in cooperation with county offices of the aging and State Energy Office.
- **Home Energy Level Payment Plan** — to help consumers manage winter's higher energy costs. More than 128,000 customers now have their annual energy costs divided into 12 level payments.
- **Deferred Payment Plan** — for those with severe financial hardships. Provides for a combination of down payments and as many as 48 monthly payments to clear remaining balance.
- **Summer Community Conservation Program** — produced jobs for inner-city youths and senior citizens specially trained to make homes of the elderly and disadvantaged more energy efficient. Sponsored by Niagara Mohawk with local United Way agencies.

### MONTHLY RESIDENTIAL ELECTRIC COST FOR 500 KILOWATT-HOURS

New York City	\$83.16
NY State Avg. (not including NM)*	\$59.29
Boston, MA	\$55.99
Philadelphia, PA	\$53.99
Newark, NJ	\$51.97
Hartford, CT	\$51.70
Cleveland, OH	\$43.47
National Average**	\$40.32
Los Angeles, CA	\$40.16
Portland, ME	\$38.09
Niagara Mohawk	\$36.34

Includes fuel and PASNY credit adjustment as applicable.

\*NM Rate Department as of 12/1/84

\*\*E.E.I. Report with rates effective 7/1/84

All others supplied by utility which serves city, with rates and fuel effective 12/1/84

## **Our workforce — our primary resource**

At the year-end, Niagara Mohawk's workforce totalled 10,800. About 8,200 or 76 percent of employees are members of 12 locals of the International Brotherhood of Electrical Workers (AFL-CIO) constituting System Council U-11. A new two-year collective bargaining agreement was reached on May 31, which included wage increases of 5.25 percent effective June 1, 1984 and 5.5 percent on June 1, 1985. Other provisions entailed health, dental, life insurance and pension plans.

## **Savings Plan participation increasing**

Some 8,113 employees are participating in the Company's Employee Savings Fund Plans. This constitutes 82% of the total eligible employees. In early 1984, the Plan for non-represented employees was revised to take advantage of Internal Revenue Service (401-K) provisions which encourage saving to achieve retirement and other long-term financial goals. Beginning January 1985, represented employees also became eligible to take advantage of these same Savings Plan improvements.

## **New inroads created by Investor Relations**

Highlighting the Company's 1984 Investor Relations Program was an informative presentation by our officers to the New York Society of Security Analysts, which includes the most influential members of the Wall Street financial community. In addition, Company officers, including the Chairman and President, supported programs for some 20 other group meetings with stockholders, security analysts, institution investors and stockbrokers in 17 cities, including major U.S. financial centers.

The Investor and Financial Relations Department strives to keep stockholders and the

financial community continually informed through periodic reports and forecasts, a security analyst visitation program and Nine Mile Two construction tours.

## **Keeping "In-the-Know"**

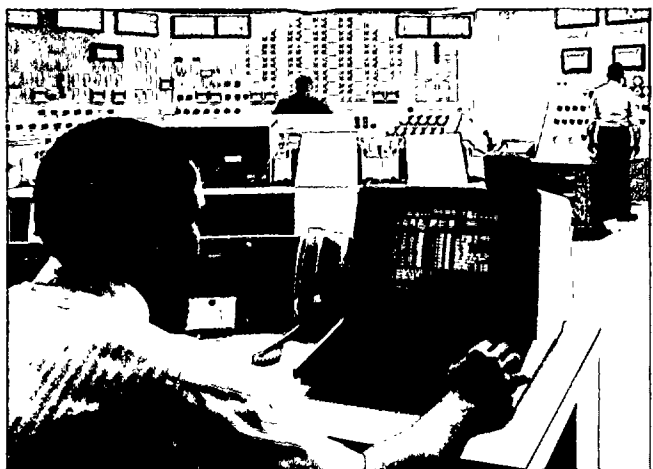
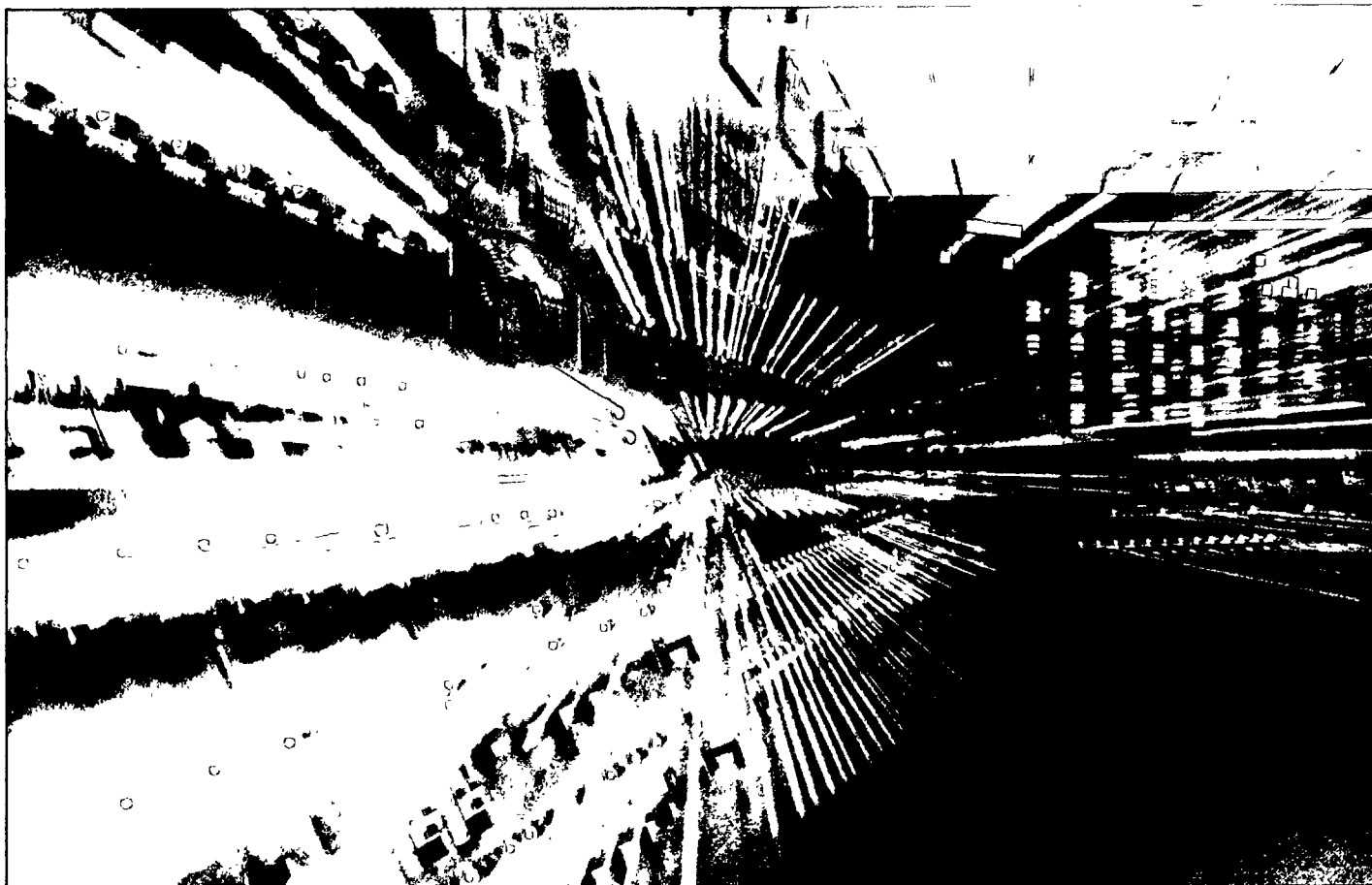
Maintaining a free flow of useful information to investors and the financial community helps to ensure that a fair value is placed on all Niagara Mohawk securities. To this end, stockholders who wish to supplement quarterly and annual reports with more detailed information are encouraged to join our "In-the-Know" program by calling the toll-free number listed on the inside back cover or by writing the Investor and Financial Relations Department in Syracuse.

## **Dividend Reinvestment Plan increasingly popular**

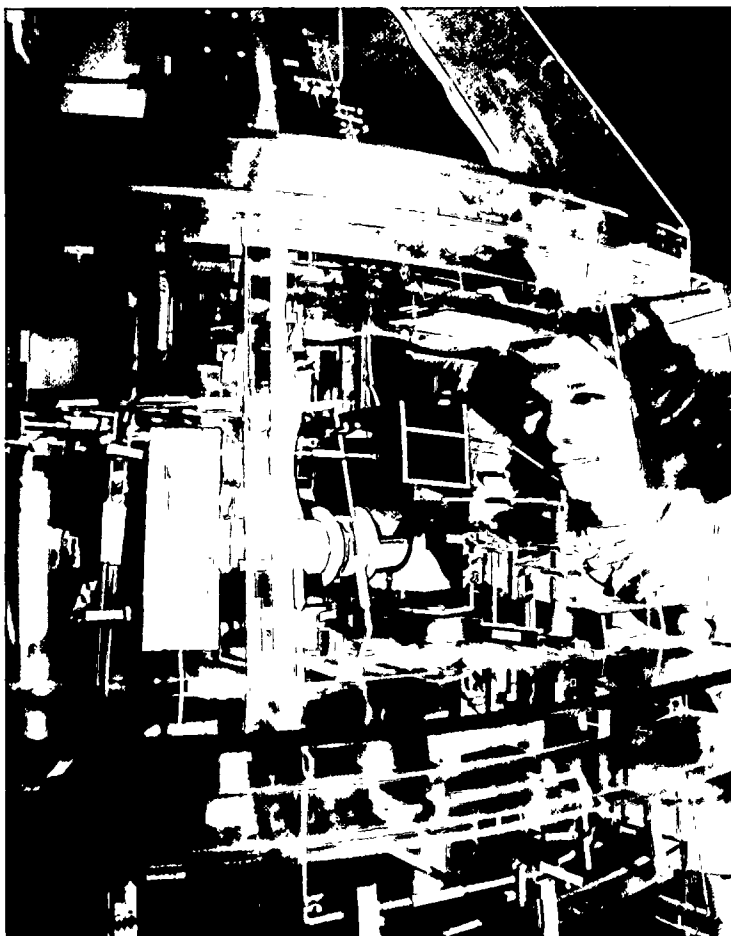
Confidence in Niagara Mohawk also continues to be strongly evidenced from the Company's owners participating in the popular Dividend Reinvestment and Common Stock Purchase Plan. Not only did 35 percent of Niagara Mohawk stockholders purchase \$45 million in additional stock by reinvesting their dividends, but 16,300 shareholders sent \$9 million in voluntary cash contributions for the purchase of additional common stock.

Stock purchased with reinvested dividends continues to qualify for tax-deferred treatment under existing tax laws. While the number of qualified plans in the industry has diminished during 1984, participants in the Niagara Mohawk Plan may still exclude up to \$750 (\$1500 for a joint return) of dividend income for federal income tax purposes on reinvested dividends until the shares are sold.

This Plan, while attractive to shareholders from an investment perspective, also helps in raising required capital for construction of electric and gas facilities. Since its inception in 1973, more than \$230 million was generated from the Plan with \$54 million invested in 1984 alone.



Array of lighted instruments and switches forms photographer's impression, top photo, of control room simulator at new Nine Mile Point Training Center, while instructor at simulator's console, above, conducts exercise for operators. Equipped with computers and video terminals, replica is identical to actual nuclear station control room. At right, scale model of reactor assembly serves as training aid at Nine Mile Point Nuclear Unit Two.



## 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 Boston, Cincinnati, Midwest, Pacific and Philadelphia stock exchanges. The ticker symbol is "NMK".

The table below shows dividends per share for the Company's common stock and quoted market prices:

1984	Dividend paid per share	Price range	
		High	Low
1st Quarter	\$ .48	\$16 $\frac{1}{2}$	\$12
2nd Quarter	.50	14 $\frac{1}{2}$	12
3rd Quarter	.50	15 $\frac{3}{4}$	13 $\frac{1}{2}$
4th Quarter	.50	17 $\frac{3}{4}$	15
	<u>\$1.98</u>		
1983			
1st Quarter	\$ .45	\$17 $\frac{1}{2}$	\$15 $\frac{3}{4}$
2nd Quarter	.48	17 $\frac{1}{2}$	16 $\frac{1}{2}$
3rd Quarter	.48	17 $\frac{1}{2}$	16
4th Quarter	.48	18 $\frac{1}{2}$	15 $\frac{1}{4}$
	<u>\$1.89</u>		

Preferred and common stock dividends were paid on March 31, June 30, September 30 and December 31. During recent years certain percentages of the dividends paid on the common stock were not subject to federal income tax as ordinary income to the recipient, but

constituted a return of capital reducing the tax basis of the applicable shares. However, the Company estimates that none of the 1984 common or preferred stock dividends will constitute a return of capital and therefore are taxable as ordinary income.

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 cumulate 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 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.

At year end, about 200,000 stockholders owned common shares of Niagara Mohawk and about 9,100 held 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	55,607	1,818,893
100 to 999	134,504	32,857,070
1,000 or more	9,669	82,173,011
	<u>199,780</u>	<u>116,848,974</u>

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

**Results of operations.** For 1984, earnings per share increased 2.5% to \$2.84 against \$2.77 for 1983. The 1984 earnings represent 7.6% and 20.9% increases over 1982 and 1981 earnings per share, respectively, even though the number of shares outstanding grew steadily over the three-year period.

The improvement in the Company's earnings per share for 1984 over 1983 resulted primarily from higher electric and gas sales, improved margins on sales and higher allowance for other funds used during construction. Electric and gas revenues increased 5.5% and 7.0%, respectively, from the prior year. The increase in electric revenues is principally due to increased rates and increased sales to ultimate consumers and other electric systems. Gas revenues increased primarily from increased sales offset by decreased recoveries of purchased gas costs through the purchase gas adjustment clause. However, Federal income and other taxes increased 21% and interest

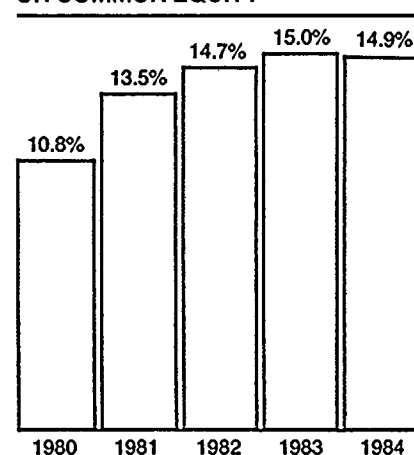
charges were 17% higher, reducing the impact of the increase in revenues. Further, a \$20 million refund to customers ordered by the New York State Public Service Commission (PSC) resulted in a \$.10 per share charge against 1984 income (see Note 11 of Notes to Consolidated Financial Statements).

The Company achieved a 14.9% rate of return on common equity in 1984 as compared with 15.0% in 1983 and 14.7% in 1982. The decrease in the Company's achieved return was primarily the result of the \$20 million refund referred to previously. Absent such charge to income, the Company's achieved return would have continued to improve, reflecting the Company's continued ability to more closely achieve the return on equity approved by the PSC. The PSC approved rate of return on equity is currently 16%.

The following discussion and analysis highlights items having a significant effect on operations during the three-year period ended December 31, 1984, but

may not be indicative of future operations or earnings. It should be read in conjunction with the Notes to Consolidated Financial Statements and other financial and statistical information appearing elsewhere in this report.

EARNED RATE OF RETURN  
ON COMMON EQUITY





Electric revenues increased \$414.5 million or 24.1% over the three-year period. This increase is largely attributable to increased base rates and increased sales to ultimate consumers and other electric systems, offset somewhat by decreased revenues attributable to fuel and purchased power cost recoveries as indicated in the table below:

Electric revenues	Increase (decrease) from prior year In millions of dollars			
	1984	1983	1982	Total
Increase in base rates .....	\$ 69.1	\$ 68.5	\$128.8	\$266.4
Fuel and purchased power cost revenues ...	(86.3)	2.6	(1.9)	(85.6)
Sales to ultimate consumers .....	56.1	21.0	(21.9)	55.2
Sales to other electric systems .....	68.7	63.7	34.2	166.6
Miscellaneous operating revenues .....	3.1	7.3	1.5	11.9
	<u>\$110.7</u>	<u>\$163.1</u>	<u>\$140.7</u>	<u>\$414.5</u>

Electric kilowatt-hour sales were 37.1 billion in 1984, an increase of 6.8% from 1983, reflecting the effects of the improved economy in the Company's service area and increased sales to other electric systems (see Electric and Gas Statistics—Electric Sales appearing on page 40). Details of the changes in electric revenues and kilowatt-hour sales by customer group are highlighted in the table below:

Class of service	1984 % of Electric Revenues	% Increase (decrease) from prior year					
		1984		1983		1982	
		Revenues	Sales	Revenues	Sales	Revenues	Sales
Residential .....	28.5%	4.1%	4.3%	8.2%	1.2%	11.5%	0.2%
Commercial .....	31.6	2.4	3.7	4.8	0.6	8.7	(0.9)
Industrial .....	20.5	(0.5)	3.1	3.7	4.8	(1.1)	(10.9)
Municipal service .....	1.8	3.8	(2.4)	4.5	(2.3)	11.6	(3.4)
Total to ultimate consumers .....	82.4	2.3	3.6	5.7	2.3	6.9	(4.5)
Other electric systems ...	14.3	29.2	23.1	37.1	34.3	24.9	35.4
Miscellaneous .....	3.3	4.5	—	12.0	—	2.5	—
Total .....	100.0%	5.5%	6.8%	8.8%	6.4%	8.2%	(0.8)%

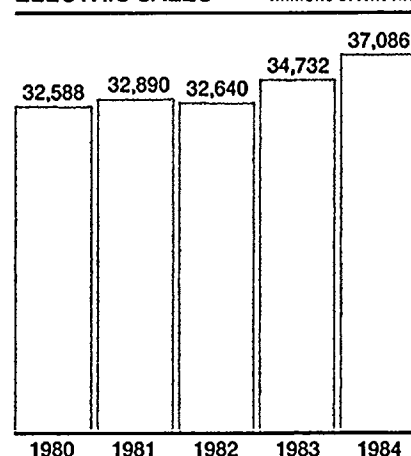
Gas revenues increased \$220.3 million or 51.1% over the three-year period. As shown by the table below, over half of this rise is attributable to higher costs for purchased gas which were recovered from customers during 1983 and 1982 through the purchased gas adjustment clause, the remainder of the increase being attributable to higher sales and base rates.

Gas revenues	Increase (decrease) from prior year In millions of dollars			
	1984	1983	1982	Total
Increase in base rates .....	\$ 8.7	\$ 10.3	\$ 17.8	\$ 36.8
Purchased gas cost increases ....	(23.3)	79.2	74.1	130.0
Gas sales .....	57.1	(14.0)	10.4	53.5
	<u>\$ 42.5</u>	<u>\$ 75.5</u>	<u>\$102.3</u>	<u>\$220.3</u>

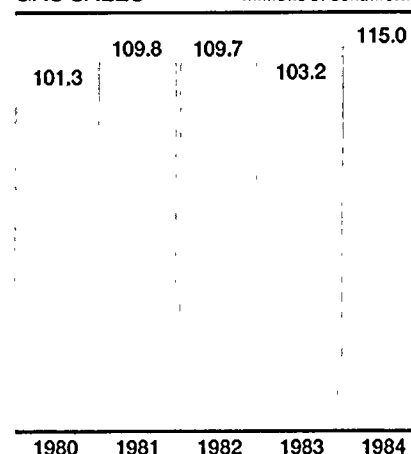
Gas sales were 115.0 million dekatherms in 1984, an 11.4% increase from 1983 (see Electric and Gas Statistics—Gas Sales appearing on page 40). The increase for 1984 reflects increased sales in all classes of service, particularly in the industrial class where the improving economy together with lower gas prices and favorable gas prices in relation to oil for dual-fueled customers, resulted in a 27% increase in sales. Changes in gas revenues and dekatherm sales by customer group are detailed in the table below:

Class of service	1984 % of Gas Revenues	% Increase (decrease) from prior year					
		1984		1983		1982	
		Revenues	Sales	Revenues	Sales	Revenues	Sales
Residential .....	48.2%	3.1%	5.7%	14.9%	(8.1)%	19.1%	(1.3)%
Commercial .....	24.2	1.0	3.6	13.7	(6.1)	33.5	8.8
Industrial .....	24.0	21.1	27.3	14.6	(1.1)	26.0	(3.0)
Total to ultimate consumers .....	96.4	6.5	10.7	14.5	(5.9)	24.2	0.8
Other gas systems .....	3.0	24.9	32.0	2.4	(8.7)	11.8	(18.7)
Miscellaneous .....	0.6	8.7	—	14.2	—	23.6	—
Total .....	100.0%	7.0%	11.4%	14.2%	(6.0)%	23.8%	(0.1)%

ELECTRIC SALES Millions of Kw.-hrs.

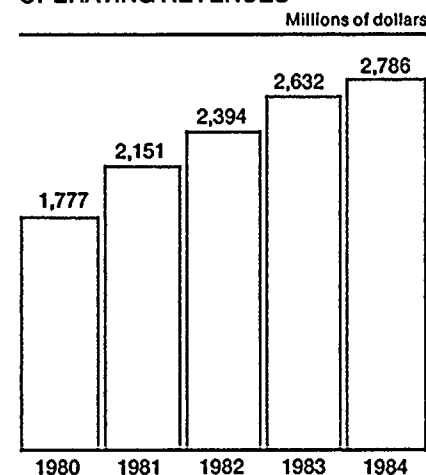


GAS SALES Millions of dekatherms



In summary, total operating revenues increased \$634.8 million, or 29.5% over the three-year period, largely representing increased rates and increased sales to ultimate customers and to other electric systems.

#### TOTAL ELECTRIC AND GAS OPERATING REVENUES



On March 21, 1984, the PSC approved rate increases to provide the Company additional annual revenues of \$86,350,000 (4.9%) for electric and \$9,144,000 (1.4%) for natural gas. These

new rates became effective March 27, 1984 and represent 58% of the rate relief requested by the Company. In March 1983, the PSC had approved rate increases providing additional annual revenues of \$56,383,000 (3.3%) for electric and \$11,009,000 (1.6%) for natural gas.

Further rate action, initiated in April 1984, presently seeks an annual increase of \$132.9 million, including \$113.5 million (6.1%) electric and \$19.4 million (2.9%) gas. In December 1984, PSC Administrative Law Judges recommended rate increases of \$42.4 million (2.3%) electric and \$13.1 million (1.9%) gas or about 42% of the request. The Company and other parties have filed exceptions to many of the Judges' recommendations. The PSC's opinion is expected in March 1985 with new rates to be effective promptly thereafter.

Recent rate awards have not fully provided for increasing costs and the Company expects to continue filing annual petitions for rate increases. Also, the Company's Nine Mile Point Nuclear Station Unit No. 2 is currently scheduled to achieve commercial operation in October 1986, thus necessitating a petition for a rate increase to recognize the Company's 41% share in this generating station in base rates (see Note 10 of Notes to Consolidated Financial Statements).

In 1984, electric fuel and purchased power costs decreased 3.4% to \$853 million from \$883 million in 1983, after having increased from \$815 million in 1982. The decrease is the result of a \$64 million decrease in fuel and purchased power costs deferred and recovered through operation of the fuel adjustment clause. This decrease was partially offset by a \$34 million increase in costs relating to the additional generation

and purchased power required to meet growing customer demand. The reduction in costs billed through the fuel adjustment clause was made possible by increased generation from Nine Mile Point Nuclear Station Unit No.1 (which was out of service from March 1982 until June 1983), increased hydro generation and increased relatively lower cost purchases from Canada and the New York Power Authority (see Electric and Gas Statistics—Electricity Generated and Purchased appearing on Page 40).

The total cost of gas purchased rose 5% in 1984, 15% in 1983, and 29% in 1982. The increase for 1984 is primarily the result of a 7.2% increase in dekatherms purchased to meet customer demand, partially offset by a decrease in rates charged by the Company's supplier and an increase in amounts refunded by suppliers. The Company's net cost per dekatherm purchased decreased to \$3.96 in 1984 from \$4.06 in 1983, but remains above the \$3.39 per dekatherm for 1982.

Through the 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. The Company has implemented revisions to its fuel adjustment clause consistent with PSC directives, which essentially provide for partial pass-through of fuel and purchased power cost fluctuations from those forecast in rate proceedings, with the Company absorbing a specific portion of increases or retaining a portion of decreases to a maximum of \$15 million per rate year (see Note 1 of Notes to Consolidated Financial Statements).

Other operation and maintenance expenses increased 7.0% in 1984, 10.4% in

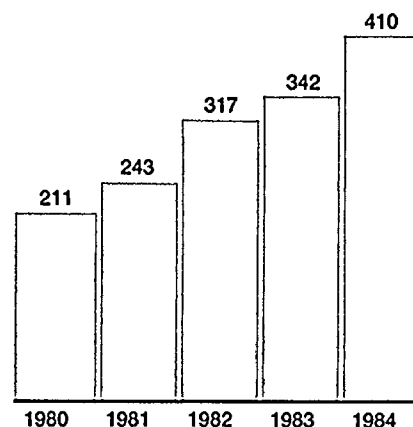
1983, and 11.3% in 1982, primarily as a result of increases in wages and associated benefits and higher costs charged by suppliers. Effective June 1, 1984, the Company entered a two-year labor agreement providing for increased wages of 5.25% in the first year and 5.50% in the second year. The increase in other operation and maintenance expenses in 1984 also included costs relating to the refueling of Nine Mile Point Nuclear Station Unit No. 1 in the spring of 1984. The next refueling outage for this unit is presently scheduled for 1986.

Depreciation and amortization expense for 1984 increased 10.8% over 1983, principally from normal plant growth and increases in depreciation rates applied to certain classes of assets.

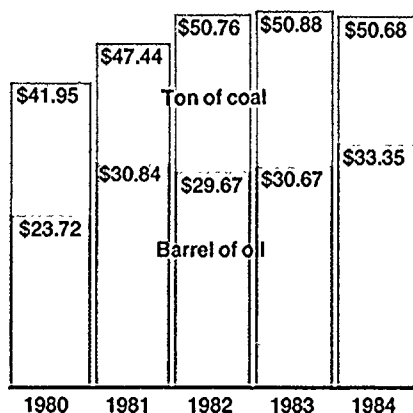
Federal and foreign income taxes rose 73.3% in 1984 as a result of increased taxable income and an increase in amounts on which deferred taxes were provided. The increase in taxes other than income taxes in the three year period is due principally to higher property taxes resulting from property additions and higher state and local gross income taxes resulting from increased revenues.

#### TOTAL TAXES INCLUDING INCOME TAXES

Millions of dollars

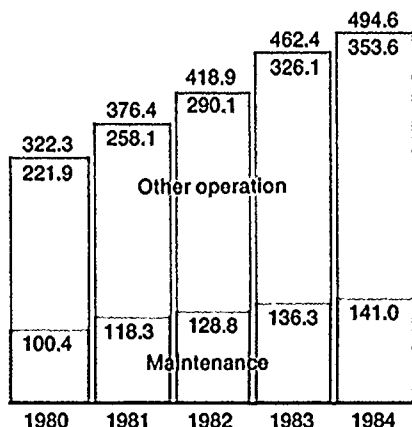


#### AVERAGE COST OF A TON OF COAL AND A BARREL OF OIL BURNED



#### MAINTENANCE AND OTHER OPERATION EXPENSE

Millions of dollars



The \$43.7 and \$23.1 million increases in total Allowance for Funds Used During Construction (AFC) for 1984 and 1983, respectively, result from increased overall levels of plant under construction, principally Nine Mile Point Nuclear Unit No. 2, and higher AFC rates.

Interest expense and preferred stock dividend requirements increased as a result of new issuances at higher rates to raise the capital necessary to fund the Company's construction program.

While the rate of increase moderated

in 1984, the Company's revenues and costs of operation over the past three years have increased in several respects, due generally to the effects of inflation. 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 utility plant. Inflation information in Note 13 of the Notes to Consolidated Financial Statements indicates the approximate effect of inflation on certain aspects of the Company's operations and financial position.

**Financial position, liquidity and capital resources.** Financial resources provided 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 AFC. AFC represents the financing costs of the Company's construction program and is added to the cost of construction until such time as a capital project is completed, and is then recovered through depreciation included in rates charged to customers. Internal funds from operations are insufficient to meet the Company's capital requirements, therefore, large amounts of new capital from external sources are necessary. Generally, external capital needs are first met through utilization of short-term borrowing arrangements, including bank credit agreements and commercial paper. These short-term borrowings are refinanced on a continuing basis through the issuance of securities, consisting of intermediate and long-term debt, preferred and preference stock and common stock.

Capital resources consisting of both internal and external sources are used to pay for the Company's construction program, working capital needs, maturing debt issues and sinking fund provisions on 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 on page 26.

**Capital needs.** During the period 1982-84, expenditures for construction and nuclear fuel, including related AFC and overheads capitalized, have increased from \$594.5 million to \$691.5 million to \$769.8 million. Total capital requirements, including debt and preferred stock redemptions and working capital, have also increased particularly

in 1984 as the Company made advances to the Nine Mile Point Nuclear Unit No. 2 Project on behalf of the Long Island Lighting Company (see discussion below). The 1985 estimate for construction additions and nuclear fuel, including AFC and overheads capitalized, is \$793 million. In addition, the Company expects to make additional advances of approximately \$153 million, including interest, on behalf of the Long Island Lighting Company (see below). Debt and preferred stock retirements and other requirements will add approximately another \$102 million to the Company's capital requirements for a total of \$1,048 million.

This upward trend in capital requirements is a result of increasing construction expenditures, relatively high capital costs and the advances to the Nine Mile Point Nuclear Unit No. 2 Project (the Unit or Project) on behalf of Long Island Lighting Company. The principal project presently under construction is the Unit, currently scheduled for commercial operation in October 1986. The Company is a 41% owner and had invested about \$1.5 billion, including AFC and overheads capitalized, in the Project through December 31, 1984. Expenditures for construction of this Unit have averaged approximately 47% of total construction requirements during the period 1982 to 1984. During 1984, such expenditures were approximately 54% of total requirements. On February 9, 1984, the Long Island Lighting Company (LILCO), an 18% owner of the Unit, notified the Company and the other cotenants of LILCO's intention to cease participation in the funding of the construction costs of the Unit and failed to make required payments. On August 30, 1984, the Company and LILCO entered into an agreement providing for the issuance by LILCO of up to \$250 million in General and Refunding Bonds as security for current and future funds advanced to the Project on behalf of LILCO. During 1984, the Company advanced approximately \$129 million on behalf of LILCO. The agreement also provides that LILCO may issue unsecured notes in lieu of making quarterly supplemental payments and interest thereon (see Note 10 of Notes to Consolidated Financial Statements for a further discussion of the LILCO agreement).

Subsequent to LILCO's cessation of payments on the Project and the March 1984 re-estimate of the Unit's cost, four major rating agencies reviewed the Company's securities ratings. Two of

the agencies reaffirmed their ratings citing, in part, the Company's continued financial strength and management's ability to effectively complete the Nine Mile 2 project. The other agencies downgraded their ratings citing LILCO's withdrawal, the March 1984 cost re-estimate and regulatory and political uncertainties. These re-ratings still consider the Company's securities as investment grade. The Company is unable to predict whether the continuation of concerns surrounding the Unit will further affect the securities ratings. However, the Company does not believe these matters will impair its ability to complete its intended construction and external financing programs, including the funding of LILCO's share in the Unit.

The nature, amount and timing of the Company's future financings will depend in part on construction expenditures, retirement of securities, timeliness and adequacy of rate relief, the timing and methodology of rate recognition of the Unit, the level of internally generated funds, the availability and cost of capital, and the ability of the Company to meet its interest and preferred and preference stock dividend coverage requirements and to maintain an adequate credit rating.

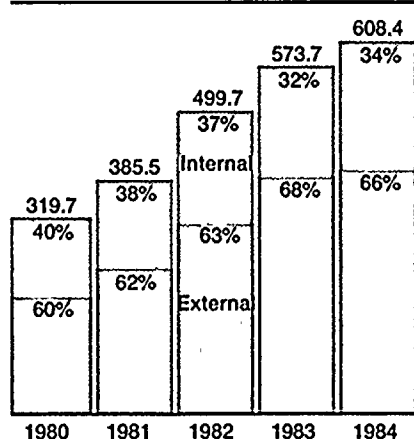
CAPITALIZATION RATIOS					Percent
48.6%	46.4%	47.5%	45.3%	46.5%	
Long-term debt					
12.5%	12.9%	11.5%	12.6%	11.5%	
Preferred					
38.9%	40.7%	41.0%	42.1%	42.0%	
Common equity					
1980	1981	1982	1983	1984	

**Liquidity and resources.** The Company's long-term financial plan is designed to improve the percentage of internal cash generation and to strengthen its capital structure. With regard to the latter, the proportion of long-term debt to total capitalization has decreased over the past several years while common equity as a percent of total capitalization has increased during the same period. The trend in the percentage of internally generated cash, however, has been less controllable. The PSC has not provided the necessary increases in cash flow to

stabilize and enhance the ratio of internally generated funds. Thus, while overall levels of earnings have increased, a substantial portion of this increase represents non-cash earnings in the form of AFC. AFC for the year 1984 amounted to 52.4% of the balance available for common stock as compared with 43.6% in 1983. The Company has attempted to control costs where possible and has adopted stringent budgets for 1985 and beyond and will continue to file for appropriate rate improvements, including in particular those which will increase cash flow in a timely and adequate manner.

For the period 1982 to 1984, the Company generated \$573,000,000 (34% of its construction requirements, excluding AFC) from internal sources, the remainder being funded through a mix of security issuances and bank and commercial paper borrowings. In 1984, the Company generated \$205,000,000 (34% of construction requirements, excluding AFC) from internal sources.

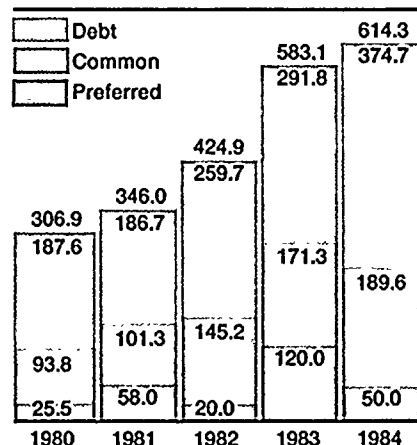
**SOURCE OF CAPITAL  
FOR CONSTRUCTION PROGRAM**  
Millions of dollars



During 1984, the Company raised approximately \$614,000,000 through external sources, consisting of \$319,250,000 of mortgage bonds, \$50,000,000 of preferred stock, \$5,060,000 of intermediate term bank revolving credit obligations, \$50,000,000 of unsecured notes payable and \$189,626,000 of common stock

from the issuance of 12,838,971 shares through a combination of public sales and its Dividend Reinvestment, Employee Savings Fund and Employee Stock Ownership Plans. The Company also completed approximately \$32,000,000 of capital lease financing. Approximately \$78 million of the total 1984 external financing was used for debt and preferred stock refunding and retirement and reductions of short-term debt.

**ANNUAL EXTERNAL FINANCING  
BY TYPE**  
Millions of dollars



External financing for 1985 is expected to approximate \$670 million, excluding capital lease financing but including the amount the Company expects to advance to the Project on behalf of LILCO. The Company expects to secure the majority of its capital needs from traditional financing sources. However, it will continue to explore and utilize, as appropriate, other methods of financing. At December 31, 1984, construction related short-term debt was \$11,516,000 and obligations under bankers acceptances for fuel oil inventory financing were \$42,000,000 for a total of \$53,516,000.

In general, construction related short-term borrowings are refunded with permanent securities on a continuing basis. Bank credit arrangements, which total \$566 million (including \$445 million of committed multi-year revolving credit and term loan agreements and a \$100 million Bankers Acceptance

Facility Agreement) are used by the Company to enhance flexibility as to the type and timing of its security sales. Overall, these amounts were increased by \$121 million in 1984 and in addition, \$83 million of lines of credit were converted to revolving credit agreements.

During 1983, the unsecured debt limitation imposed by the Company's Preferred Stock Charter was increased to \$700 million. Earnings coverage of interest charges has been well in excess of mortgage indenture restrictions for the issuance of first mortgage bonds and over \$1.1 billion of property is available to support the issuance of first mortgage bonds.

In general, the Company has a strong capital structure, an increased degree of short and intermediate term bank borrowing capability and continues to access the permanent capital markets with flexibility.

During the past year, several utilities have made announcements that unfinished plants would be cancelled or abandoned; others have reported delays. Phase-in and other rate moderation plans are being either implemented or seriously considered in many regulatory jurisdictions. Also, retroactive prudence disallowances and expenditure limitations or caps have been ordered. A number of utilities have been forced to eliminate or reduce dividends, and the general level of flexibility with which many companies are able to access the financial and bank credit markets has diminished. During 1984, these factors, together with the higher cost of the Nine Mile Unit No. 2 construction project, created additional risk and uncertainty for the Company's securities in the financial markets. In the future, the cost and availability of external sources of funds will continue to be affected by these factors, the maintenance of adequate credit ratings and by general conditions in the financial markets. Further adverse developments in any of these conditions could have an effect on the Company's ability to fully implement its intended construction and financing programs.

## 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, 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 to review and discuss internal accounting controls, audit examinations and financial reporting matters. Price Waterhouse 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

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

We have examined the consolidated balance sheets of Niagara Mohawk Power Corporation and its subsidiaries as of December 31, 1984 and 1983 and the related consolidated statements of income and retained earnings and of changes in financial position for each of the three years in the period ended December 31, 1984. Our examinations were made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The Company is a 41% participant in the construction of the Nine Mile Point Nuclear Station Unit No. 2 (Unit). As a result of the uncertainties discussed more fully in Note 10, management is unable to predict whether regulatory actions by the New York State Public Service Commission with respect to its investment in the Unit will have, in the aggregate, a material effect on its financial position or results of operations.

In our opinion, subject to the effects on the 1984 financial statements of such adjustments, if any, that might have been required had the outcome of the uncertainties discussed in the preceding paragraph been known, the consolidated financial statements examined by us present fairly the financial position of Niagara Mohawk Power Corporation and its subsidiaries as of December 31, 1984 and 1983 and the results of their operations for each of the three years in the period ended December 31, 1984 in conformity with generally accepted accounting principles consistently applied.



Syracuse, New York  
January 23, 1985

# CONSOLIDATED STATEMENT OF INCOME AND RETAINED EARNINGS

NIAGARA MOHAWK POWER CORPORATION AND SUBSIDIARY COMPANIES

	For the year ended December 31,	1984	In thousands of dollars 1983	1982
<b>Operating revenues:</b>				
Electric .....		\$2,134,470	\$2,023,728	\$1,860,649
Gas .....		651,076	608,587	533,122
		<b>2,785,546</b>	<b>2,632,315</b>	<b>2,393,771</b>
<b>Operating expenses:</b>				
Operation:				
Fuel for electric generation .....		476,040	501,328	502,491
Electricity purchased .....		377,052	381,703	312,451
Gas purchased .....		452,960	432,898	377,596
Other operation expenses .....		353,660	326,057	290,091
Maintenance .....		140,987	136,338	128,801
Depreciation and amortization (Note 2) .....		141,150	127,390	121,422
Federal and foreign income taxes (Note 9) .....		181,767	117,089	109,519
Other taxes .....		269,204	254,797	235,615
		<b>2,392,820</b>	<b>2,277,600</b>	<b>2,077,986</b>
<b>Operating income .....</b>		<b>392,726</b>	<b>354,715</b>	<b>315,785</b>
<b>Other income and deductions:</b>				
Allowance for other funds used during construction (Note 1) .....		122,354	85,350	69,195
Federal income tax credits (Note 1) .....		33,460	31,511	26,390
Other items (net) (Note 11) .....		8,591	9,994	10,557
		<b>164,405</b>	<b>126,855</b>	<b>106,142</b>
<b>Income before interest charges .....</b>		<b>557,131</b>	<b>481,570</b>	<b>421,927</b>
<b>Interest charges:</b>				
Interest on long-term debt .....		224,099	189,006	156,133
Other interest .....		12,440	12,598	22,801
Allowance for borrowed funds used during construction (Note 1) .....		(39,142)	(32,443)	(25,541)
		<b>197,397</b>	<b>169,161</b>	<b>153,393</b>
<b>Net income .....</b>		<b>359,734</b>	<b>312,409</b>	<b>268,534</b>
Dividends on preferred stock .....		51,460	42,109	37,586
<b>Balance available for common stock .....</b>		<b>308,274</b>	<b>270,300</b>	<b>230,948</b>
Dividends on common stock .....		216,493	185,642	153,681
Retained earnings for the year .....		91,781	84,658	77,267
Retained earnings at beginning of year .....		650,681	566,023	488,756
<b>Retained earnings at end of year .....</b>		<b>\$ 742,462</b>	<b>\$ 650,681</b>	<b>\$ 566,023</b>
<b>Average number of shares of common stock outstanding (in thousands) .....</b>		<b>108,734</b>	<b>97,685</b>	<b>87,340</b>
Balance available per average share of common stock .....		\$ 2.84	\$ 2.77	\$ 2.64
Dividends per share of common stock .....		\$ 1.98	\$ 1.89	\$ 1.76

( ) Denotes deduction

# CONSOLIDATED BALANCE SHEET

NIAGARA MOHAWK POWER CORPORATION AND SUBSIDIARY COMPANIES

In thousands of dollars

At December 31,	1984	1983
<b>ASSETS</b>		
Utility plant, at original cost (Notes 1, 3 and 10) .....	\$6,903,184	\$6,165,711
Less accumulated depreciation and amortization (Note 2) .....	1,501,282	1,486,196
Net utility plant .....	5,401,902	4,679,515
Other property and investments (Note 7) .....	112,730	85,602
Advances on behalf of Nine Mile Point Nuclear Unit No. 2 cotenant (Note 10) .....	130,881	—
<b>Current assets:</b>		
Cash, including temporary cash investments of \$7,367 and \$4,521, respectively .....	32,639	31,199
Accounts receivable (less allowance for doubtful accounts of \$3,600) .....	282,232	274,076
Materials and supplies, at average cost:		
Coal and oil for production of electricity .....	96,474	95,910
Other .....	62,018	56,254
Prepayments .....	13,874	17,498
	487,237	474,937
<b>Deferred debits:</b>		
Unamortized debt expense .....	52,658	44,530
Deferred recoverable energy costs .....	16,253	25,733
Extraordinary property losses .....	10,838	14,875
Other .....	20,902	32,380
	100,651	117,518
	<b>\$6,233,401</b>	<b>\$5,357,572</b>
<b>CAPITALIZATION AND LIABILITIES</b>		
<b>Capitalization (Note 7):</b>		
Common stockholders' equity:		
Common stock, issued 116,848,974 and 104,010,003 shares, respectively .....	\$ 116,849	\$ 104,010
Capital stock premium and expense .....	1,347,806	1,174,382
Retained earnings .....	742,462	650,681
	2,207,117	1,929,073
Non-redeemable preferred stock .....	210,000	210,000
Redeemable preferred stock .....	397,900	368,474
Long-term debt .....	2,395,471	2,048,548
Total capitalization .....	5,210,488	4,556,095
<b>Current liabilities:</b>		
Short-term debt (Note 4) .....	53,516	84,763
Long-term debt due within one year .....	63,837	30,152
Sinking fund requirements on redeemable preferred and preference stock (Note 7) .....	19,601	11,950
Accounts payable .....	183,039	185,252
Payable on outstanding bank checks .....	59,352	76,471
Customers' deposits .....	6,640	5,727
Accrued taxes .....	23,446	15,773
Accrued interest .....	66,261	46,494
Accrued vacation pay .....	24,555	22,657
Gas supplier refunds payable to customers .....	6,244	15,233
Other .....	30,903	22,905
	537,394	517,377
<b>Deferred credits:</b>		
Mandated refunds to customers (Notes 9 and 11) .....	90,191	3,244
Accumulated deferred Federal income taxes (Note 9) .....	374,364	259,816
Other .....	20,964	21,040
	485,519	284,100
<b>Commitments and contingencies (Notes 3, 10 and 11) .....</b>	<b>—</b>	<b>—</b>
	<b>\$6,233,401</b>	<b>\$5,357,572</b>

# CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

NIAGARA MOHAWK POWER CORPORATION AND SUBSIDIARY COMPANIES

For the year ended December 31,	1984	In thousands of dollars 1983	1982
<b>FINANCIAL RESOURCES WERE PROVIDED BY:</b>			
<b>Operations:</b>			
Net income .....	\$ 359,734	\$312,409	\$268,534
Charges (credits) to income not requiring (not providing) working capital—			
Depreciation and amortization .....	141,150	127,390	121,422
Allowance for funds used during construction .....	(161,496)	(117,793)	(94,736)
Amortization of nuclear fuel .....	17,612	11,856	12,967
Provision for deferred Federal income taxes (net) .....	116,265	80,850	68,900
Other .....	—	(4,972)	—
	473,265	409,740	377,087
<b>Outside financing:</b>			
Sale of common stock .....	189,626	171,269	145,194
Sale of preferred stock .....	50,000	120,000	20,000
Sale of mortgage bonds .....	319,250	200,000	330,000
Issuance of other long-term debt .....	81,618	15,135	—
Net borrowings under revolving credit facilities (Note 7) ..	5,060	83,900	(55,330)
Increase (decrease) in short-term debt .....	(31,247)	(7,237)	(15,000)
	614,307	583,067	424,864
<b>Other sources:</b>			
Deferred recoverable energy costs .....	9,480	47,560	(22,816)
Mandated refunds to customers (Notes 9 and 11) .....	(9,273)	(5,793)	(8,416)
Unamortized debt reacquisition expense .....	—	(22,421)	—
Other investments .....	(27,495)	(22,670)	(19,999)
Sale of utility plant .....	—	—	13,316
Unamortized debt expense .....	(8,128)	159	(6,239)
(Increase) decrease in working capital other than short-term debt (see below) .....	38,964	(29,455)	29,693
Miscellaneous (net) .....	3,643	(13,618)	(28,016)
	7,191	(46,238)	(42,477)
<b>Total resources provided .....</b>	<b>\$1,094,763</b>	<b>\$946,569</b>	<b>\$759,474</b>
<b>FINANCIAL RESOURCES WERE USED FOR:</b>			
Construction additions, including capital leases .....	\$746,910	\$677,155	\$562,749
Nuclear fuel .....	22,936	14,309	31,720
Allowance for funds used during construction .....	(161,496)	(117,793)	(94,736)
Net additions .....	608,350	573,671	499,733
Advances on behalf of Nine Mile Point Nuclear Unit No. 2 cotenant .....	130,881	—	—
Reduction of long-term debt .....	67,005	130,829	56,518
Reduction of preferred and preference stock .....	20,574	14,318	11,956
Dividends .....	267,953	227,751	191,267
<b>Total resources used .....</b>	<b>\$1,094,763</b>	<b>\$946,569</b>	<b>\$759,474</b>
<b>(Increase) decrease in working capital other than short-term debt:</b>			
Cash .....	\$ (1,440)	\$ (11,816)	\$ (11,124)
Accounts receivable .....	(8,156)	(44,827)	(33,292)
Coal and oil for production of electricity .....	(564)	46,243	6,949
Other materials and supplies .....	(5,764)	(2,148)	(2,364)
Long-term debt due within one year .....	33,685	(39,348)	43,920
Accounts payable .....	(2,213)	7,501	12,397
Payable on outstanding bank checks .....	(17,119)	15,556	10,557
Accrued taxes and interest .....	27,440	(7,362)	9,946
Gas supplier refunds due customers .....	(8,989)	1,934	(20,781)
Other (net) .....	22,084	4,812	13,485
	\$ 38,964	\$ (29,455)	\$ 29,693



## 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.

**Principles of Consolidation:** The consolidated financial statements include the Company and its wholly-owned subsidiaries. All significant intercompany balances and transactions have been eliminated. Assets and liabilities of foreign subsidiaries are translated into U.S. dollars at the exchange rate in effect at the balance sheet date. Revenue and expense accounts are translated at the average exchange rate in effect during the year. Currency translation adjustments are recorded as a component of equity and do not have a significant impact on financial condition.

**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). In accordance with Statement of Financial Accounting Standards No. 71, capital leases executed since 1983 have been capitalized and in accordance with the transition rules included therein, leases executed prior to 1983, amounting to approximately \$16,000,000 at December 31, 1984, have not been capitalized. 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. The following table summarizes the components of Utility Plant:

At December 31,	In thousands of dollars		
	1984	%	1983
Electric plant .....	\$4,083,042	59	\$3,836,374
Nuclear fuel (Note 3) .....	316,909	5	293,973
Gas plant .....	494,628	7	473,757
Common plant .....	130,916	2	106,144
Construction work in progress .....	1,877,689	27	1,455,463
<b>Total utility plant .....</b>	<b>\$6,903,184</b>	<b>100</b>	<b>\$6,165,711</b>

**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. The Company computes AFC at a rate which is reduced to reflect the income tax effect of the borrowed funds component of AFC for all additions to electric utility plant, including N M Uranium, Inc. The AFC rates in effect December 31, 1984 were 12.59% and, net of tax, 10.45%. AFC is segregated into its two components, borrowed funds and other funds, and is reflected in the Interest Charges section and the Other Income and Deductions section, respectively, of the Consolidated Statement of Income.

**Depreciation, Amortization and Nuclear Generating Plant Decommissioning Costs:** For accounting purposes, depreciation is computed on the straight-line basis using the average or remaining service lives by classes of depreciable property. In addition, certain costs associated with the discontinued Sterling Nuclear Station (see Note 2) are being amortized over shorter periods as approved by the PSC. For Federal income

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

Estimated decommissioning costs (costs to remove the plant from service in the future) of the Company's Nine Mile Point Nuclear Station Unit No. 1 are recovered in rates through an annual allowance and charged to operations through depreciation charges. Based on a study performed in 1979, the cost of decommissioning, which is expected to begin in the year 2005, is estimated to be approximately \$278,000,000 at that time (\$75,200,000 in 1984 dollars). Through December 31, 1984, the Company has recovered \$15,700,000 of decommissioning costs in rates. The Company continues to review the estimate and requirements for decommissioning and plans to seek rate adjustments when appropriate. There is no assurance that 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:** Amortization of the cost of nuclear fuel is determined on the basis of the quantity of heat produced for the generation of electric energy. The cost of disposal of nuclear fuel, which presently is \$.001 per kilowatt-hour of generation, is based upon a contract with the Department of Energy (DOE). These costs, which are associated with generation at Nine Mile Point Unit No. 1, are charged to operating expense and recovered from customers through base rates or through the fuel adjustment clause (see Note 11).

**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 costs, 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 the level of allowed energy and purchased gas costs included in approved rate schedules. As a result of such periodic changes, a portion of energy costs deferred at the time of change 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. The Company has implemented, beginning April 1984, revisions to its fuel adjustment clause consistent with the PSC's Opinion in a proceeding which reviewed the Company's electric fuel adjustment clause. The revisions essentially provide for partial pass-through of fuel cost fluctuations from those forecast in rate proceedings with the Company absorbing a specific portion of increases or retaining a portion of decreases to a maximum of \$15 million per rate year.

**Federal Income Taxes:** In accordance with PSC requirements, the tax effect of book and tax timing differences is flowed through unless authorized by the PSC to be deferred. The Company provides deferred taxes on certain benefits realized from depreciation, on deferred energy and purchased gas costs, on nuclear fuel disposal costs accrued prior to April 7, 1983, on nuclear generating plant decommissioning costs, on certain construction overheads and on certain other items (see Note 9). In conformity with ratemaking practices of the

PSC, the Company has not provided deferred taxes on approximately \$1.4 billion of other tax deductions which include certain depreciation differences and various construction overheads deductible currently for tax purposes and capitalized for accounting and ratemaking purposes. The Company claims 10 percent investment tax credit and defers the benefits of such credits as realized. For purposes of computing capital cost recovery deductions and normalization, the asset basis is reduced by one-half of the credit claimed for expenditures made subsequent to 1982. For 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. The tax effect of General and Refunding Bond interest and supplemental payments is recorded in Other Income and Deductions (see Note 10).

**Amortization of Debt Issue Costs:** The premium or discount on long-term debt issues is amortized ratably over the lives of the issues (see Note 7).

**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 (see Note 8).

#### **NOTE 2. Depreciation and Amortization**

The total provision for depreciation and amortization, including amounts charged to clearing accounts, was \$142,427,000 for 1984, \$128,976,000 for 1983 and \$123,104,000 for 1982. The provisions include approximately \$10,200,000, \$9,200,000 and \$6,700,000, respectively, resulting from the PSC allowed recovery of the amortization of costs associated with the discontinued Sterling Nuclear Station. The 1982 provision also includes approximately \$6,400,000 resulting from the PSC allowed accelerated recovery of the costs to modify the Company's Albany Steam Station to burn natural gas as a fuel. The percentage relationship between the total provision for depreciation and average depreciable property was 2.9% in 1984, 2.8% in 1983 and 2.9% in 1982. The Company makes depreciation studies on a continuing basis and, upon approval by the PSC, periodically adjusts the rates of its various classes of depreciable property.

#### **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. Acquisition of this interest was made primarily to provide a more assured future supply of nuclear fuel. The investment in the subsidiary, which includes costs incurred since acquisition and AFC accrued through March 31, 1981, has been reduced by the proceeds from the sale of uranium, net of tax, and transfers to the Company and is included in the consolidated financial statements as part of the nuclear fuel component of utility plant (see Note 1). Such investment (including inventory with a spot market value of approximately \$22,600,000 and \$28,300,000 at January 1, 1985 and 1984, respectively) totaled \$87,500,000 at December 31, 1984 and \$86,300,000 at December 31, 1983.

In 1978, the PSC issued an order approving the Company's investment in NMU. This 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. The PSC also stated that the reasonableness of the Company's future uranium costs will be judged with reference

to costs of uranium under "currently" available long-term contracts and in the spot market. Subject to PSC approval, the comparison of cost to market will be on an aggregate basis over the life of the project.

In connection with the Company's March 1984 rate decision, the PSC allowed \$38.37 per lb. as the cost of approximately 300,000 lbs. of NMU uranium utilized in the 1984 reload of the Company's Nine Mile Point Nuclear Unit No. 1. This price represents the average United States delivery price, as reported by the Department of Energy, for all uranium during 1982 including long-term contracts and spot market price settlements. The Company's cost of this NMU uranium was \$42.14 per lb., inclusive of AFC prior to April 1, 1981. The differential between the Company's cost of this NMU uranium and that amount allowed to be recovered in rates charged to customers has been deferred subject to the PSC approval of the comparison of cost to market on an aggregate basis over the life of the project.

Because of unsettled conditions in the uranium industry, the spot market price of uranium continues to be depressed below levels anticipated by the Company at the time of its investment. The spot market price of uranium was \$15.25 per lb. at January 1, 1985 and \$22.00 per lb. at January 1, 1984 as compared to approximately \$43.00 per lb. during 1979. Due to regulatory restrictions on the extent to which the costs of uranium produced by this mining operation may be allowed in future rates and considering current market price levels, a portion of the Company's investment may not be recoverable. Due to the uncertainty of the future allowable cost of uranium during the period of utilization of the mine's output and of operating costs over the remaining productive life of the mine, the potential unrecoverable portion of the Company's investment, if any, cannot be reasonably estimated. Management is continually evaluating the status of this mining operation to assure maximum recovery of the Company's investment. Based upon current forecasts of market prices and the Company's uranium requirements through 1991, it is presently anticipated that the mining process will be completed and all production utilized.

#### **NOTE 4. Bank Credit Arrangements**

At December 31, 1984, the Company had \$566 million of bank credit arrangements, including the Oswego Facilities Trust, with 38 banks. These credit arrangements consisted of \$445 million in long-term commitments under Revolving Credit and Term Loan Agreements, \$10 million in short-term commitments under Credit Agreements, \$11 million in lines of credit and \$100 million under a Bankers Acceptance Facility Agreement. The Revolving Credit and Term Loan Agreements extend through 1990. At the option of the Company, the interest rate applicable to borrowings under these agreements is based on the prime rate or at specified increments over the rates applicable to certificates of deposit or, in certain agreements, eurodollar deposits. All of the other bank credit arrangements are subject to review on an ongoing basis with interest rates negotiated at the time of use. The Company also issues commercial paper. Unused bank credit facilities are held available to support the amount of commercial paper outstanding, including amounts currently issued in connection with Interest Rate Exchange Agreements (see Note 7.)

The Company pays fees for substantially all of its bank credit arrangements. The Bankers Acceptance Facility Agreement, which is used to finance the fuel oil inventory for one of the Company's generating stations, provides for the payment of fees only based upon the issuance of each acceptance.

Amounts outstanding under Interest Rate Exchange Agreements and Revolving Credit and Term Loan Agreements to-

tailed \$75 million at December 31, 1984 and are recorded as long-term debt.

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

	<i>In thousands of dollars</i>	
	1984	1983
<b>At December 31:</b>		
<b>Short-term debt:</b>		
Commercial paper .....	\$ 8,000	\$ 37,100
Notes payable .....	3,516	4,663
Bankers acceptances .....	42,000	43,000
	<b>\$ 53,516</b>	<b>\$ 84,763</b>
Weighted average interest rate (a) .....	9.67%	9.60%
<b>For year ended December 31:</b>		
Daily average outstanding .....	\$ 87,271	\$ 119,981
Daily weighted average interest rate (a) .....	10.48%	9.00%
Maximum amount outstanding .....	\$ 228,893	\$ 232,160

(a) 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, 1984. 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 No. 6 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 No. 1 and 2 (a) ...	25	\$ 82,558	\$ 23,358	\$ 456
Oswego Steam Station Unit No. 6 (b) .....	76	\$ 264,117	\$ 33,497	\$ 137
Nine Mile Point Nuclear Station Unit No. 2(c)(d) .	41	—	—	\$ 1,503,515

(a) The remaining ownership interests are Central Hudson Gas and Electric Corporation, the operator of the plant (35%) and Consolidated Edison Company of New York, Inc. (40%).

(b) The Company is the operator. The remaining ownership interest is Rochester Gas and Electric Corporation (24%).

(c) The remaining ownership interests are Long Island Lighting Company (18%), New York State Electric and Gas Corporation (18%), Rochester Gas and Electric Corporation (14%), and Central Hudson Gas and Electric Corporation (9%) (see Note 10).

(d) Excludes amounts spent for nuclear fuel.

#### NOTE 7. Capitalization

##### CAPITAL STOCK

The following table summarizes the shares of capital stock authorized, issued and outstanding:

	At December 31,	1984	1983	1982
<b>Common stock, \$1 par value:</b>				
Authorized .....		150,000,000(a)	125,000,000	125,000,000
Issued & outstanding .....		116,848,974	104,010,003	93,832,151
<b>Preferred stock, \$100 par value:</b>				
Authorized .....		3,400,000	3,400,000	3,400,000
Issued & outstanding .....		3,342,510	3,370,240	3,161,920
<b>Preferred stock, \$25 par value:</b>				
Authorized .....		19,600,000(a)	9,600,000	9,600,000
Issued & outstanding .....		11,210,000	9,376,000	5,742,000
<b>Preference stock, \$25 par value:</b>				
Authorized .....		4,000,000	4,000,000	4,000,000
Issued & outstanding .....		520,000	760,000	920,000

(a) Increased authorizations approved by shareholders.

#### NOTE 6. Information Regarding the Electric and Gas Businesses

The Company is engaged in the electric and natural 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 practice 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>		
	1984	1983	1982
<b>Operating revenues:</b>			
Electric .....	\$ 2,134,470	\$ 2,023,728	\$ 1,860,649
Gas .....	651,076	608,587	533,122
Total .....	<b>\$ 2,785,546</b>	<b>\$ 2,632,315</b>	<b>\$ 2,393,771</b>
<b>Operating income before taxes:</b>			
Electric .....	\$ 511,842	\$ 420,600	\$ 381,378
Gas .....	62,651	51,204	43,926
Total .....	<b>\$ 574,493</b>	<b>\$ 471,804</b>	<b>\$ 425,304</b>
<b>Pretax operating income, including AFC:</b>			
Electric .....	\$ 672,964	\$ 538,097	\$ 476,006
Gas .....	63,025	51,500	44,034
Total .....	<b>735,989</b>	<b>589,597</b>	<b>520,040</b>
Income taxes .....	181,767	117,089	109,519
Other income and deductions .....	42,051	41,505	36,947
Interest charges .....	236,539	201,604	178,934
Net income .....	<b>\$ 359,734</b>	<b>\$ 312,409</b>	<b>\$ 268,534</b>
<b>Depreciation:</b>			
Electric .....	\$ 128,521	\$ 115,075	\$ 109,215
Gas .....	12,629	12,315	12,207
Total .....	<b>\$ 141,150</b>	<b>\$ 127,390</b>	<b>\$ 121,422</b>
<b>Construction expenditures (including nuclear fuel):</b>			
Electric .....	\$ 734,706	\$ 654,020	\$ 562,047
Gas .....	35,140	37,444	32,422
Total .....	<b>\$ 769,846</b>	<b>\$ 691,464</b>	<b>\$ 594,469</b>
<b>Identifiable assets:</b>			
Electric .....	\$ 5,155,372	\$ 4,443,154	\$ 4,011,265
Gas .....	432,113	429,133	406,940
Total .....	<b>5,587,485</b>	<b>4,872,287</b>	<b>4,418,205</b>
Corporate assets .....	645,916	485,285	363,562
Total assets .....	<b>\$ 6,233,401</b>	<b>\$ 5,357,572</b>	<b>\$ 4,781,767</b>

The table below summarizes changes in capital accounts for 1982, 1983 and 1984:

	Common stock (\$1 par value)		Non-redeemable preferred stock (\$100 par value)		Redeemable preferred stock (\$100 par value)		Redeemable preferred stock (\$25 par value)		Capital stock premium and expense (net)
	Shares	Amount*	Shares	Amount*	Shares	Amount*	Shares	Amount*	Amount*
Balance January 1, 1982	83,973,252	\$83,973	2,100,000	\$210,000	1,099,980	\$109,998(a)	6,088,000	\$152,200(a)	\$885,205
Sales in 1982 .....	5,000,000	5,000					800,000	20,000	70,705
Issued to stock purchase plans in 1982 .....	4,858,899	4,859							64,285
Redemptions .....					(38,060)	(3,806)	(226,000)	(5,650)	600
Balance December 31, 1982	93,832,151	93,832	2,100,000	210,000	1,061,920	106,192(a)	6,662,000	166,550(a)	1,020,795
Sales in 1983 .....	5,000,000	5,000			250,000	25,000	3,800,000	95,000	78,629
Issued to stock purchase plans in 1983 .....	5,177,852	5,178							80,465
Redemptions .....					(41,680)	(4,168)	(326,000)	(8,150)	607
Foreign currency translation adjustment ...									(6,114)
Balance December 31, 1983	104,010,003	104,010	2,100,000	210,000	1,270,240	127,024(a)	10,136,000	253,400(a)	1,174,382
Sales in 1984 .....	6,534,400	6,534					2,000,000	50,000	87,878
Issued to stock purchase plans in 1984 .....	6,304,571	6,305							87,117
Redemptions .....					(27,730)	(2,773)	(406,000)	(10,150)	555
Foreign currency translation adjustment ....									(2,126)
Balance December 31, 1984	116,848,974	\$116,849	2,100,000	\$210,000	1,242,510	\$124,251(a)	11,730,000	\$293,250(a)	\$1,347,806

\*In thousands of dollars

(a) Includes sinking fund requirements due within one year

#### MANDATORILY REDEEMABLE PREFERRED STOCK

The Company has certain issues of preferred and preference stock which provide for mandatory and optional redemption as follows:

		Redemption price per share (Before adding accumulated dividends)				
		In thousands of dollars				
	At December 31,	1984	1983	1982	December 31, 1984	Eventual minimum
<b>Preferred \$100 par value:</b>						
7.45% Series; 456,000, 474,000, and 492,000 shares .....		\$ 45,600	\$ 47,400	\$ 49,200	\$104.81	\$100.00
10.13% Series; 250,000 shares .....		25,000	25,000	—	(a)	100.00
10.60% Series; 286,510, 296,240 and 319,920 shares .....		28,651	29,624	31,992	110.60	102.65
12.75% Series; 250,000 shares .....		25,000	25,000	25,000	(b)	(b)
<b>Preferred \$25 par value:</b>						
8.375% Series; 1,400,000, 1,500,000 and 1,600,000 shares .....		35,000	37,500	40,000	26.43	25.00
9.75% Series; 870,000, 936,000 and 1,002,000 shares .....		21,750	23,400	25,050	26.4175	25.00
9.75% Series (second); 1,020,000 shares .....		25,500	25,500	25,500	27.03	25.00
10.13% Series; 1,000,000 shares .....		25,000	25,000	—	(a)	25.00
10.75% Series; 1,600,000 shares .....		40,000	40,000	—	(a)	25.00
12.25% Series; 700,000 shares .....		17,500	17,500	17,500	(c)	25.00
12.50% Series; 620,000 shares .....		15,500	15,500	15,500	(c)	25.00
15.00% Series; 800,000 shares .....		20,000	20,000	20,000	28.44	25.00
Adjustable Rate Series A; 1,200,000 shares .....		30,000	30,000	—	(a)	25.00
Adjustable Rate Series B; 2,000,000 shares .....		50,000	—	—	(d)	25.00
<b>Preference \$25 par value:</b>						
7.75% Series; 520,000, 760,000 and 920,000 shares .....		13,000	19,000	23,000	25.00	25.00
		417,501	380,424	272,742		
Less sinking fund requirements .....		19,601	11,950	9,950		
		\$397,900	\$368,474	\$262,792		

(a) Not redeemable until 1988.

(b) Entire issue to be redeemed at par value June 30, 1991.

(c) Not redeemable until 1991.

(d) Not redeemable until 1989.

These series require mandatory sinking funds for annual redemption and provide optional sinking funds through which the Company may redeem, at par, a like amount of additional shares (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 for preferred and preference stock are as follows:

	No. of shares	Commencing	In thousands of dollars				
			1985	1986	1987	1988	1989
<b>Preferred \$100 par value:</b>							
7.45% Series .....	18,000	6/30/77	\$1,800	\$ 1,800	\$ 1,800	\$ 1,800	\$ 1,800
10.60% Series .....	20,000	3/31/80	651(a)	2,000	2,000	2,000	2,000
10.13% Series .....	25,000	12/31/87	—	—	2,500	2,500	1,875
<b>Preferred \$25 par value:</b>							
8.375% Series .....	100,000	4/1/83	2,500	2,500	2,500	2,500	2,500
9.75% Series .....	66,000	10/1/80	1,650	1,650	1,650	1,650	1,650
9.75% Second Series .....	204,000	4/1/86	—	5,100	5,100	5,100	5,100
10.13% Series .....	100,000	12/31/87	—	—	2,500	2,500	1,875
10.75% Series .....	320,000	6/30/89	—	—	—	—	8,000
12.25% Series .....	43,060	3/31/87	—	—	1,077	1,077	1,077
12.50% Series .....	38,139	3/31/87	—	—	953	953	953
15.00% Series .....	40,000	3/31/87	—	—	1,000	1,000	1,000
<b>Preference \$25 par value:</b>							
7.75% Series .....	520,000	9/30/80	13,000	—	—	—	—
			\$19,601	\$13,050	\$21,080	\$21,080	\$27,830

(a) A portion of the requirements has been met by advance purchases.

#### NON-REDEEMABLE PREFERRED STOCK (Optionally Redeemable)

The Company has certain issues of preferred stock which provide for optional redemption as follows:

At December 31,	In thousands of dollars			Redemption price per share (Before adding accumulated dividends)	
	1984	1983	1982	December 31, 1984	Eventual minimum
<b>Preferred \$100 par value:</b>					
3.40% Series; 200,000 shares .....	\$ 20,000	\$ 20,000	\$ 20,000	\$103.50	\$103.50
3.60% Series; 350,000 shares .....	35,000	35,000	35,000	104.85	104.85
3.90% Series; 240,000 shares .....	24,000	24,000	24,000	106.00	106.00
4.10% Series; 210,000 shares .....	21,000	21,000	21,000	102.00	102.00
4.85% Series; 250,000 shares .....	25,000	25,000	25,000	102.00	102.00
5.25% Series; 200,000 shares .....	20,000	20,000	20,000	102.00	102.00
6.10% Series; 250,000 shares .....	25,000	25,000	25,000	101.00	101.00
7.72% Series; 400,000 shares .....	40,000	40,000	40,000	105.44	102.36
	\$210,000	\$210,000	\$210,000		

#### LONG-TERM DEBT

Long-term debt and long-term debt due within one year are detailed in the table on the following page.

Several series of First Mortgage Bonds and Notes were issued to secure a like amount of tax-exempt revenue bonds and notes issued by the New York State Energy Research and Development Authority (NYSERDA). Pursuant to agreements between NYSERDA and the Company, trust funds have been established with the proceeds from the bond and note issues. Such proceeds are to be used for the purpose of constructing certain pollution control facilities at the Company's generating facilities. Unexpended proceeds in the trust funds amounted to \$50,403,000 at December 31, 1984 and are recorded in Other Property and Investments.

Notes Payable include \$46,705,000 Eurodollar Guaranteed Notes issued by the Company's subsidiary Niagara Mohawk Finance, N.V. and guaranteed by Credit Lyonnais. In connection with the formation and capitalization of this subsidiary, the Company also issued a \$17,000,000 note payable which bears interest at the London Interbank Offered Rate (LIBOR), currently fixed at 9.00% through March 15, 1985.

During 1984, the Company entered into seven-year Interest Rate Exchange Agreements for \$75,000,000, of which \$25,000,000 was for Oswego Facilities Trust (Trust). The agreements require the Company to make fixed rate payments which, on a semi-annual bond basis, are equivalent to 12.25%, and in exchange, receive a LIBOR based floating rate payment from a bank. The Company uses its own commercial paper notes as the source of funding for \$50,000,000 and Trust notes for \$25,000,000. The related interest expense is recorded on a net basis.

The arrangements with the Trust provide financing for the first construction phase of a new energy management system. The Trust has a \$40,000,000 Direct Pay Letter of Credit Facility and Revolving Credit Agreement, \$25,000,000 of which is subject to an Interest Rate Exchange Agreement, which is available through December 31, 1990, and is used to support its commercial paper obligations. All such obligations are secured by certain assets held by the Trust. The Company is required to purchase, or otherwise arrange for, the disposition of the Trust assets upon the termination of the Trust. The Letter

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

Other long-term debt consists of obligations under capital leases of \$43,741,000 and the liability for nuclear fuel disposal of \$53,354,000 (see Note 11).

During 1983, the Company reacquired \$98,004,000 of its outstanding long-term debt prior to maturity. In connection therewith, the Company incurred refunding premiums, commissions and expenses amounting to \$22.4 million. The PSC has allowed the Company to amortize these costs over the remaining term of the debt issued to replace the refunded debt.

	In thousands of dollars	
At December 31,	1984	1983
<b>First mortgage bonds:</b>		
3½% Series due August 1, 1984 .....	\$ —	25,000
10½% Series due September 1, 1985 .....	47,000	47,000
3½% Series due May 1, 1986 .....	30,000	30,000
4½% Series due September 1, 1987 .....	50,000	50,000
3½% Series due June 1, 1988 .....	50,000	50,000
14½% Series due August 11, 1988 .....	50,000	50,000
12% Series due March 1, 1989 .....	20,000	—
* 9½% Series due October 1, 1989 .....	13,000	—
4¾% Series due April 1, 1990 .....	50,000	50,000
15% Series due March 1, 1991 .....	38,650	38,650
14¾% Series due May 1, 1991 .....	100,000	—
4½% Series due November 1, 1991 .....	40,000	40,000
15½% Series due March 1, 1992 .....	50,000	50,000
15¾% Series due June 1, 1992 .....	62,500	62,500
11% Series due May 1, 1993 .....	50,000	50,000
12½% Series due March 1, 1994 .....	13,000	—
4½% Series due December 1, 1994 .....	40,000	40,000
5½% Series due November 1, 1996 .....	45,000	45,000
6¼% Series due August 1, 1997 .....	40,000	40,000
6½% Series due August 1, 1998 .....	60,000	60,000
12½% Series due March 1, 1999 .....	17,000	—
9½% Series due December 1, 1999 .....	75,000	75,000
12.95% Series due October 1, 2000 .....	80,000	80,000
7½% Series due February 1, 2001 .....	65,000	65,000
7½% Series due February 1, 2002 .....	80,000	80,000
7¾% Series due August 1, 2002 .....	80,000	80,000
8¼% Series due December 1, 2003 .....	80,000	80,000
9½% Series due December 1, 2003 .....	50,000	50,000
9.95% Series due September 1, 2004 .....	100,000	100,000
10.20% Series due March 1, 2005 .....	36,500	37,887
8.35% Series due August 1, 2007 .....	71,600	71,800
8½% Series due December 1, 2007 .....	46,000	48,000

	In thousands of dollars	
At December 31,	1984	1983
* 13½% Series due April 1, 2012 .....	30,000	30,000
16% Series due August 1, 2012 .....	3,046	3,046
12½% Series due November 1, 2012 .....	100,000	100,000
12½% Series due March 1, 2013 .....	100,000	100,000
12½% Series due June 15, 2013 .....	50,000	50,000
* 11¼% Series due July 1, 2014 .....	100,000	—
* 11½% Series due October 1, 2014 .....	56,250	—
<b>Paul Smith's Electric Light &amp; Power &amp; Railroad Company first mortgage bonds:</b>		
5½% Series due May 1, 1985 .....	450	450
<b>Total First Mortgage Bonds .....</b>	<b>2,069,996</b>	<b>1,779,333</b>
<b>Promissory Notes:</b>		
* 8% Series A due June 1, 2004 .....	46,600	46,600
<b>Notes payable:</b>		
* Variable Rate Pollution Control Notes .....	54,950	56,000
17% Eurodollar Guaranteed Notes due September 15, 1989 .....	46,705	47,800
9.0% Adjustable London Interbank Offered Rate due September 15, 1989 .....	17,000	17,000
15.02% Unsecured Notes due 1990 .....	50,000	—
Prime rate plus ½% (not to exceed 7½%) .....	—	625
Commercial Paper Notes .....	50,000	—
Revolving credit and term loan agreements .....	—	50,000
Revolving credit agreement, Oswego Facilities Trust .....	25,010	18,900
Other .....	97,095	60,607
Unamortized premium .....	1,952	1,835
<b>TOTAL LONG-TERM DEBT .....</b>	<b>2,459,308</b>	<b>2,078,700</b>
Less long-term debt due within one year .....	63,837	30,152
	<b>\$2,395,471</b>	<b>\$2,048,548</b>

\* Tax-exempt pollution control related issues

Certain of the Company's Mortgage Bonds provide for a mandatory sinking fund for annual redemption. The Company's five-year mandatory sinking fund redemption requirements for First Mortgage Bonds are as follows:

	Principal amount	Commencing	1985	In thousands of dollars			
				1986	1987	1988	1989
10.20% Series due March 1, 2005 .....	\$1,500	3/1/78	\$ (a)	\$ 1,500	\$ 1,500	\$ 1,500	\$ 1,500
8.35% Series due August 1, 2007 .....	750	8/1/82	(a)	350(a)	750	750	750
8½% Series due December 1, 2007 ....	2,000	12/1/83	2,000	2,000	2,000	2,000	2,000
9.95% Series due September 1, 2004 ..	5,000	9/1/85	5,000	5,000	5,000	5,000	5,000
14½% Series due August 11, 1988 .....	16,000	8/11/86	—	16,000	17,000	17,000	—
12.95% Series due October 1, 2000 .....	5,333	10/1/86	—	5,333	5,333	5,333	5,333
9½% Series due December 1, 2003 ....	2,941	12/1/87	—	—	2,941	2,941	2,941
			\$ 7,000	\$30,183	\$34,524	\$34,524	\$17,524

(a) Requirements, or a portion thereof, have been met by advance purchases.

Additionally, certain other series of mortgage bonds provide for a debt retirement fund whereby payment requirements may be met, in lieu of cash, by the certification of additional property, the waiver of the issuance of additional bonds or the retirement of outstanding bonds. The 1984 requirements for these series were satisfied by the certification of additional

property. The Company anticipates that the 1985 requirements for these series will be satisfied by other than payment in cash. Total annual debt retirement fund requirements for these series, based upon mortgage bonds outstanding December 31, 1984, are \$7,850,000.

**NOTE 8. Pension and Other Retirement Plans**

The Company and its subsidiaries have non-contributory pension plans covering substantially all their employees. The total pension cost was \$42,100,000 for 1984, \$40,000,000 for 1983 and \$38,000,000 for 1982 (of which \$11,400,000 for 1984, \$12,200,000 for 1983 and \$11,000,000 for 1982 was related to construction labor and, accordingly, was charged to construction projects).

Studies indicate that the accumulated plan benefits, as determined by consulting actuaries, and plan net assets for the Company's plans at December 31, 1984 and 1983 are as follows:

	<i>In thousands of dollars</i>	
	1984	1983
Actuarial present value of accumulated benefits:		
Vested .....	\$361,000	\$328,000
Non-vested .....	21,000	20,000
<b>Total .....</b>	<b>\$382,000</b>	<b>\$348,000</b>
Net assets available for plan benefits .....	\$455,000	\$408,000

The weighted average assumed rate of return used in deter-

mining the actuarial present value of accumulated plan benefits was 7% in each year.

The table at left summarizes accumulated plan benefits attributable to employee wage levels and service rendered through December 31, 1984 and 1983. These amounts do not take into consideration expected future service, wage increases and associated actuarial assumptions. These additional factors and assumptions are considered in determining the funding requirements of the Company's ongoing pension plans, based upon an approved actuarial cost method, and are in conformity with generally accepted actuarial principles and practices.

In addition to providing pension benefits, the Company and its subsidiaries provide certain health care and life insurance benefits for retired employees. Substantially all of the Company's employees may become eligible for these benefits if they reach retirement age while working for the Company. These benefits are provided through an insurance company whose premiums are based on the benefits paid during the year. The cost (insurance premiums) of providing these benefits amounted to approximately \$6,000,000 for 1984.

**NOTE 9. Federal and Foreign Income Taxes**

Following is a summary of the components of Federal and foreign income tax and a reconciliation between the amount of Federal income tax expense reported in the Consolidated Statement of Income and the computed amount at the statutory tax rate:

*Summary Analysis:*

	<i>In thousands of dollars</i>		
	1984	1983	1982
Components of Federal and foreign income taxes:			
Current tax expense: Federal .....	\$ 17,713	\$ (4,566)	\$ 4,860
Foreign .....	8,498	9,294	9,369
	26,211	4,728	14,229
Deferred Federal income tax expense .....	155,556	112,361	95,290
Income taxes included in Operating Expenses .....	181,767	117,089	109,519
Federal income tax expense included in Other Income and Deductions .....	5,831	—	—
Federal income tax credits included in Other Income and Deductions .....	(39,291)	(31,511)	(26,390)
<b>Total .....</b>	<b>\$148,307</b>	<b>\$ 85,578</b>	<b>\$ 83,129</b>

**Components of deferred Federal income taxes (Note 1):**

Depreciation .....	\$ 52,130	\$22,185	\$26,842
Cost of removal of property .....	870	2,479	5,930
Investment tax credit .....	54,900	51,163	21,859
Construction overheads .....	6,756	—	—
Recoverable energy and purchased gas costs .....	(2,458)	(22,523)	24,307
Necessity certificates .....	(700)	(700)	(700)
Nuclear fuel disposal cost .....	3,100	20,746	(9,940)
Sterling abandonment .....	(1,566)	188	(908)
Other .....	3,233	7,312	1,510
<b>Deferred Federal income taxes (net) .....</b>	<b>\$116,265</b>	<b>\$80,850</b>	<b>\$68,900</b>

**Reconciliation between Federal and foreign income taxes and the tax computed at prevailing U.S. statutory rate on income before income taxes:**

Computed tax .....	\$233,699	\$183,074	\$161,765
Reduction attributable to flow-through of certain tax adjustments:			
Depreciation .....	(14,926)	(6,431)	796
Allowance for funds used during construction .....	74,288	54,185	43,579
Taxes, pensions and employee benefits capitalized for accounting purposes ...	11,896	22,376	19,092
Real estate taxes on an assessment date basis .....	(406)	3,590	4,282
Investment tax credit .....	—	—	7,861
Deferred taxes provided at other than the statutory rate .....	12,143	10,457	1,598
Other .....	2,397	13,319	1,428
	85,392	97,496	78,636
<b>Federal and foreign income taxes .....</b>	<b>\$148,307</b>	<b>\$ 85,578</b>	<b>\$ 83,129</b>



**Components of United States and foreign income before income taxes:**

	In thousands of dollars		
	1984	1983	1982
United States .....	\$499,285	\$388,051	\$341,962
Foreign .....	18,326	19,989	20,908
Consolidating eliminations ....	(9,570)	(10,053)	(11,207)
Income before income taxes .	\$508,041	\$397,987	\$351,663

**Income Tax Refund:** In September 1981, the Company received a refund of Federal income tax, including interest thereon, amounting to \$9,943,000, net of Federal income taxes on the interest portion of the refund. The refund resulted from the allowance of certain deductions for the loss of water rights at Niagara Falls in connection with the redevelopment of Niagara power by the Power Authority of the State of New York. As part of the Company's March, 1983 rate decision, the PSC ordered that one-half of the refund be passed on to ratepayers over a two-year period and the remaining one-half be retained by the Company. Accordingly, one-half of the amount has been recorded in "Deferred Credits: Mandated refunds to customers", and the remaining one-half is included in the Consolidated Statement of Income for 1983. In July 1983, the Company filed a suit seeking to annul the PSC's decision to share the refund with ratepayers. In May 1984, the Appellate Division of the State Supreme Court annulled the determination of the PSC but remanded the matter to the PSC for further proceedings. The Company has petitioned the Court of Appeals to overturn the decision of the Appellate Division seeking the relief requested in the original suit. The PSC has also petitioned the Court of Appeals to overturn the Appellate Division's remand of the PSC's original decision. In December 1984, the Court of Appeals agreed to hear the appeals of both the Company and the PSC. The Company is unable to predict the outcome of this proceeding.

**NOTE 10. Nine Mile Point Nuclear Station Unit No. 2**

Nine Mile Point Nuclear Station Unit No. 2 (the Unit), a nuclear power plant being constructed and to be operated by the Company and shared with other utilities, is the only major generating facility currently under construction by the Company. Ownership of the Unit is shared by the Company (41%), Long Island Lighting Company (LILCO) (18%), New York State Electric & Gas Corporation (18%), Rochester Gas and Electric Corporation (14%), and Central Hudson Gas & Electric Corporation (9%). Output of the Unit, which will have a projected capability of 1,084,000 kw., is to be shared in the same proportions as the cotenants' respective ownership interest.

Beginning in late 1984 the primary emphasis of the construction effort has shifted from bulk construction to that work required to support the start-up and test schedule. The Company recognizes that its current construction schedule is a difficult one, but believes it to be achievable. Consultants retained by the PSC have, however, expressed concerns about the Company's ability to meet the currently scheduled commercial operation date of October 1986. Construction activities scheduled for early 1985 include key milestones which, if not met, could have an unfavorable impact on the currently scheduled commercial operation date.

Construction costs for the Unit for 1984 were, exclusive of AFC, approximately \$675 million, the amount forecast in the March 1984 cost estimate. Although spending levels approximated planned amounts, the physical work accomplished fell short of what was planned. As a result, total Unit construction

costs for 1985 and 1986, exclusive of AFC, have been re-estimated to be \$637 million and \$273 million, respectively, compared to the \$541 million and \$162 million yearly amounts previously estimated. The \$207 million increase for these two years is required in order to accomplish work not completed in 1984 and takes into consideration production rates historically achieved. Based upon revised 1985 and 1986 capital spending, current projections of financing costs, and assuming achievement of an October 1986 commercial operation date, the completion cost of the Unit is currently estimated to total approximately \$5.350 billion (comprised of construction costs of \$3.577 billion and AFC of \$1.773 billion), compared to \$5.106 billion (comprised of construction costs of \$3.370 billion and AFC of \$1.736 billion) estimated in March 1984. The Company's 41% share of the total estimate is approximately \$2.2 billion. Any delay in achieving the commercial operation date would result in an increase of approximately \$60 million per month in the Unit's total completion cost (approximately \$25 million with respect to the Company's 41% share), the major portion of which would be attributable to financing costs.

On April 16, 1982, the PSC, after an extensive proceeding, issued an opinion and order which stated that completion of the Unit is warranted and indicated the PSC's intention to closely monitor construction activities. Full time PSC Staff are resident on site and, along with PSC retained consultants, monitor the Unit's construction progress and issue periodic reports. The PSC, in 1982, also adopted an incentive rate of return (IROR) program in connection with the remaining construction costs of the Unit which will be implemented as part of the first rate proceeding involving each cotenant that considers rate recognition of the Unit's completion cost. On July 18, 1984, the PSC issued an opinion and order which amended the IROR program to also include a \$5.4 billion ceiling on the Unit's final allowable cost. Under the amended IROR Program, costs incurred in excess of \$4.6 billion, but less than \$5.4 billion, are required to be borne by cotenant shareholders to the extent of 20% of the variation in revenue requirements, with costs in excess of \$5.4 billion to be borne in total by the cotenant shareholders. Although it currently appears, assuming a completion cost of \$5.350 billion as currently projected, that the imposition of an IROR induced penalty over the expected life of the Unit will not have a material effect on the Company's financial position or results of operations, no such assurance can be provided.

In connection with the PSC proceeding which concluded that completion of the Unit is warranted, the PSC stated that it will apply a strict standard of prudence for all costs incurred in completing the project. It is currently anticipated that a prudence review will be formally initiated by the PSC in 1985. Although the Company believes it has acted prudently in the construction of the Unit, a prudence review by the PSC could result in denial of recovery of a portion of the Unit's total cost in rates, including AFC which is currently accruing and reflected in income. In accordance with current generally accepted accounting principles, a disallowance of a portion of the Unit's costs would not, in itself, require an immediate charge to income. However, the accounting recognition of such disallowances is currently being reviewed by the Financial Accounting Standards Board. At this time, the Company is unable to predict the extent, if any, of a disallowance of Project cost or the impact thereof on the financial condition or results of operations of the Company.

Based upon the current high cost of large, base-load generating facilities, legislators, regulatory commissions and utility companies nationwide are considering phasing in these



costs over a period of years. When the Unit is recognized for rate setting purposes, the Company anticipates that, rather than recognition of the entire cost of the plant in rates at one time in accordance with conventional rate making principles, the cost of the Unit may be phased into rates over a period of years. In accordance with current generally accepted accounting principles, Unit operating and financing costs may be deferrable under a phase-in plan for recovery in the future. However, the Financial Accounting Standards Board is currently reviewing the accounting for phase-in plans and changes in accounting requirements may evolve from this review. Although it is likely that a phase-in plan would be required or proposed, the Company is unable to predict at this time over what period of time it would ultimately be ordered and the impact, if any, it would have on the financial condition or results of operations of the Company.

The Company's share of the total Unit cost set forth above does not include amounts currently being advanced by the Company to cover construction payments not made since February 9, 1984 by LILCO with respect to its 18% payment obligation relating to the Unit. On August 30, 1984, the Company and LILCO entered into an agreement (the Agreement or LILCO Agreement) providing for the issuance by LILCO of up to \$250 million in General and Refunding Bonds (the LILCO Bonds) to evidence and secure LILCO's repayment obligation for funds advanced by the Company through November 20, 1984, including interest charges thereon, and any future advances relating to the Unit made by the Company on behalf of LILCO (up to a maximum of \$250 million in the aggregate). Through December 31, 1984, the Company has received approximately \$129 million in LILCO Bonds. Construction cost requirements in excess of the currently authorized LILCO Bonds, which would total approximately \$43 million under the revised cost estimate, would continue to be an obligation of LILCO under the Basic Agreement entered into in September 1975. The Company cannot, at this time, predict whether or not LILCO will meet its obligation under the Basic Agreement or what arrangements will be made if LILCO fails to meet these or any of its other obligations under the Basic Agreement.

The LILCO Bonds mature on August 1, 1993, with mandatory quarterly sinking fund payments beginning November 1, 1989, and carry a stated interest rate of .5%. The Agreement also requires supplemental payments at the rate of 18.5% on the LILCO Bonds issued to the Company. Although interest and supplemental payments are due quarterly, the Agreement provides that supplemental payments may be deferred and evidenced by the issuance of unsecured notes equivalent to such deferred supplemental payments. The unsecured notes will bear interest at 19%, which may also be deferred and added to the principal of the unsecured notes. Subsequent to the earlier of (i) commencement of commercial operation of the Unit, (ii) August 1, 1987, or (iii) assignment by LILCO of any of its interest in the Unit to a third party, the supplemental payments and interest payments on the unsecured notes will be due and payable currently and the principal of the unsecured notes will be payable in equal quarterly installments over a maximum period of four years. If all supplemental payments were deferred by LILCO, the outstanding unsecured note balance would be approximately \$90.0 million at the currently scheduled commercial operating date of the Unit. The acquisition of the LILCO Bonds and up to \$150 million in unsecured notes was approved by the PSC and FERC in October 1984. Irrespective of the LILCO Agreement, under certain circumstances it is possible that the Company would be unable to recover in full the advances made on behalf of LILCO, whether secured, un-

secured or otherwise. However, the Company believes that the LILCO Agreement provides the best security available at this time and the ultimate recoverability of the LILCO advances has been and will be substantially enhanced by the LILCO Bonds.

The LILCO Agreement does not in any way modify LILCO's obligations associated with its 18% ownership interest in the Unit, pursuant to the Basic Agreement entered into in September 1975, which remains in full force and effect. Also, neither the LILCO Agreement nor the Basic Agreement precludes participation in the Unit by another party.

The PSC Staff and the New York State Energy Office in 1984 conducted separate re-evaluations of the economic benefits of completion of the Unit. These studies considered the impacts of costs in excess of the then current estimate as well as the present estimate of \$5.35 billion. Each concluded that there is an economic benefit to be derived from the completion of the Unit. A review of the economics of the Unit by the Company also continues to support its completion.

The Governor of the State of New York in January 1985, in his annual message to the State, indicated he was committed to enacting legislation to, among other things, phase in prudent costs of the Unit, clarify the applicability of the "used and useful" principle, affirm the PSC's authority to set a cap on total construction expenditures and provide incentive rate of return programs. The Company is unable to predict whether or not the Governor's proposals will ultimately be enacted, and, if enacted, to what extent they may be subject to legal challenge. Likewise, the overall impact on the Company's financial condition and results of operations of the adoption of any such proposals cannot be predicted.

In 1983, the Staff of the NRC, in accordance with its procedures for regular review, conducted assessments of the Unit's overall construction program. In connection with these assessments, the NRC informed the Company, that, in its opinion, management's attention to certain aspects of the Unit's construction program should be increased. The Company's review of NRC-identified deficiencies associated with the Unit has been completed along with action plans to correct these deficiencies. Most of the corrective actions have been implemented. In March 1984, the NRC ordered, among other things, that the Company submit a plan, subject to its approval, for an independent review of the NRC findings and past and current Company and contractor-identified deficiencies and corrective actions taken. In July 1984, the NRC approved a plan which provided for the independent verification of actions taken by the Company to address and correct both the recent NRC-identified deficiencies and previously identified and corrected nonconformance to specification and procedural requirements reported by the Company and contractors from January 1981 through March 1984. The independent review has been completed and the final report was issued in December 1984. The Company does not presently expect that the implementation of the recommendations included in the report will adversely impact the present cost estimate or the currently scheduled completion date of the Unit.

Unlike other nuclear plants which have encountered widely publicized local resistance with respect to the development of evacuation plans in the event of a nuclear incident, the Unit is located between two currently operating nuclear plants and the Company has received substantial cooperation from local authorities in connection with the continuing development of its own evacuation plan.

A number of nuclear power plant construction projects in the United States have encountered substantial delays, licensing difficulties and cost escalation due to a variety of factors. Also,

completion of the Unit consistent with its present schedule and cost estimate and the issuance of an operating license could be adversely affected by a wide variety of industry and plant specific construction, operating, regulatory, legislative, economic and other factors. Although the outcome of the remaining regulatory licensing proceedings relating to the completion of the Unit cannot be predicted with certainty, the Company believes an operating license will be issued upon completion of construction since the Unit is being designed and constructed to meet applicable regulatory requirements.

Notwithstanding the Company's belief that an operating license will be issued, if statutory or regulatory restrictions or prohibitions as to the use of nuclear power develop which affect the Unit, the Company believes that it would be permitted to amortize its investment in this project and any related cancellation charges against income and to recover such total investment and related carrying costs through rates over a period of years, although no such assurance can be given. The Company's 41% investment in the Unit, including AFC and overheads capitalized, amounted to \$1.50 billion at December 31, 1984.

#### NOTE 11. Commitments and Contingencies

**Construction Program:** At December 31, 1984, substantial construction commitments existed, including those for the Company's share of Unit No. 2 at the Nine Mile Point Nuclear Station. The Company presently estimates that the construction program for the years 1985 through 1989 will require approximately \$1,789 million, excluding AFC, nuclear fuel and certain overheads capitalized. By years the estimates are \$464 million, \$373 million, \$285 million, \$320 million and \$347 million, respectively.

**Long-term Contracts for the Purchase of Electric Power:** At January 1, 1985 the Company had contracts to purchase electric power from the following generating facilities owned by the New York Power Authority (NYPA) and from Ontario Hydro of Canada:

Facility	Expiration date of contract	Purchased capacity in kw.	Estimated annual capacity cost
<b>NYPA</b>			
Niagara—hydroelectric project .....	1990	1,118,332	\$13,420,000
Blenheim-Gilboa—pumped storage generating station .....	2002	550,000	12,540,000
FitzPatrick—nuclear plant ..	year-to-year basis	138,000*	12,114,000
<b>Ontario Hydro .....</b>	<b>1986</b>	<b>400,000</b>	<b>39,200,000</b>
		<b>2,206,332</b>	<b>\$77,274,000</b>

\*14,000 kw. for winter of 1985-86.

The purchase 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:** In 1978, several electric customers brought suit against the Company and NYPA requesting that certain power purchased from NYPA be allocated exclusively for their benefit and 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. A settlement was reached in January 1982 wherein these electric customers will receive an initial allocation of power and thereafter an increased allocation (through De-

cember 31, 1987) when their proposed plant expansion activities are completed. No monetary damages were awarded. In February 1982, certain other parties that did not join in the original litigation commenced litigation which sought to set aside the January 1982 settlement. This litigation is continuing and the Company is unable at this time to predict the ultimate outcome of these proceedings. In the opinion of management, the ultimate disposition of this matter will not materially affect the Company's financial condition or results of operation.

In October 1982, the Consumer Protection Board (CPB) petitioned the PSC to exclude the Nine Mile Point Nuclear Station Unit No. 1 from rate base for the duration of the outage which occurred from March 1982 through June 1983. In addition, the CPB requested evidentiary hearings to determine whether imprudence played a role in either the cause or the duration of the outage. In November 1982, the PSC rejected the CPB petition, but did announce it would conduct a formal investigation into the cause and duration of the outage after completion of repairs to the unit. Accordingly, in July 1983 the PSC issued an order instituting such a proceeding. The proceeding was concluded in November 1984 and the PSC concluded that the Company acted prudently and that no adjustment to fuel adjustment clause collections during the period of the outage is warranted. The CPB has petitioned the PSC for rehearing of such decision. The Company does not believe the PSC will grant the rehearing request, although no such assurance can be provided.

In August 1983, the PSC instituted a proceeding to investigate the Company's operating practices and certain other matters that it is alleged may have resulted, among other things, in excessive fuel adjustment charges in previous periods; and, further, to determine whether and to what extent remedial action with respect to any such matters is proper under the PSC's regulations or otherwise. The PSC Staff recommended a refund to customers of approximately \$80 million, plus interest. Evidentiary hearings were completed in January 1984 and a decision was issued by the administrative law judges in April 1984 which recommended a total refund of approximately \$1 million. In January 1985, in an open session the PSC indicated it will order the Company to refund approximately \$20 million of revenues collected during the years 1977 through 1982 over a 12 month period. The Company has charged 1984 income for the amount of the refund, net of taxes, amounting to approximately \$.10 per share. The net of tax amount of the refund is reflected in Other Income and Deductions: Other Items (net) in the Consolidated Statement of Income. The Company is considering an appeal of this decision.

**FERC Audit:** As a result of an audit conducted by the Federal Energy Regulatory Commission (FERC) for the years 1973 through 1978, the FERC proposed certain adjustments concerning the base cost of nuclear fuel on which AFC should be applied. Resolution of this matter has been deferred by FERC pending their development of generic rulemakings concerning accounting for nuclear fuel. If these recommended adjustments are sustained by FERC, the resulting reduction in retained earnings would approximate \$26,000,000 through 1984. The Company believes that the adjustments are not justified and is contesting them. The Company is unable to predict the outcome of this matter.

**Nuclear Fuel Disposal Cost:** In 1983, the Nuclear Waste Policy Act (Act) was enacted. Among other things, the Act provided for a determination of the liability to the Department of Energy (DOE) for the disposal of nuclear fuel irradiated prior to 1983, and three payment options for liquidating such liability. The Company's liability to the DOE associated with generation

at its Nine Mile Point Unit No. 1 prior to 1983, is approximately \$45,500,000. Based upon an option to make payment in 1998, the year in which the Company first plans to ship irradiated fuel to an approved DOE disposal facility, it is estimated that the cost of such disposal will be approximately \$177,000,000, including interest charges as prescribed in the Act.

The Company, through ratemaking methodology approved by the PSC, had collected in rates approximately \$145,800,000 for the disposal of nuclear fuel irradiated prior to 1983. As part of the Company's March 1984 rate decision, the PSC ordered the refund of approximately \$96,000,000 over a five-year period, representing that portion of previously collected costs which are in excess of the Company's liability to the DOE as of March 31, 1984. The amount to be refunded is included in "Deferred Credits: Mandated refunds to customers." In the March 1984 rate decision, the PSC ordered 10% of this amount to be refunded in each of the first two rate years in the five-year period, with additional refund amounts to be determined in future PSC proceedings. The liability to the DOE, including interest charges thereon, is included in long-term debt.

#### NOTE 12. Quarterly Financial Data (Unaudited)

Operating revenues, operating income, net income and earnings per common share by quarters for 1984, 1983 and 1982 are shown in the following table. The Company, in its opinion, has

included all adjustments 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.

Quarter ended	In thousands of dollars			
	Operating revenues	Operating income	Net income	Earnings per common share
December 31,				
1984	\$675,089	\$81,185	\$59,708	\$.39*
1983	658,733	76,824	64,081	.52
1982	608,939	66,325	54,621	.49
September 30,				
1984	\$606,437	\$86,421	\$84,636	\$.66
1983	562,707	72,309	62,376	.52
1982	510,983	63,981	52,699	.50
June 30,				
1984	\$696,325	\$101,319	\$94,197	\$.77
1983	651,487	92,286	79,027	.72
1982	587,350	85,745	73,271	.75
March 31,				
1984	\$807,695	\$123,801	\$121,193	\$1.04
1983	759,388	113,296	106,925	1.03
1982	686,499	99,734	87,943	.94

\* See Note 11.

#### NOTE 13. Supplementary Information to Disclose the Effects of Changing Prices (Unaudited)

While much reduced from levels experienced in 1980-81, inflation, resulting in a decline in the purchasing power of the dollar, remains one of our nation's concerns. With increasing governmental deficit spending, the threat of inflation and its negative impact on all sectors of the economy continues.

The Company's consolidated financial statements are based on historical events and transactions when the purchasing power of the dollar was substantially different from 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 changes in specific prices and general inflation. It should be viewed as an estimate of the approximate effect of inflation, rather than as a precise measure.

Current cost amounts reflect the changes in specific prices of plant from the date the plant was acquired to the present. The current cost of utility plant, net of accumulated depreciation and amortization, represents the estimated cost of replac-

#### Statement of income from continuing operations adjusted for changing prices for the year ended December 31, 1984

	In thousands of dollars	
	Conventional historical cost	Current cost average 1984 dollars
Operating revenues .....	\$2,785,546	\$2,785,546
Fuel for electric generation .....	476,040	476,040
Electricity purchased .....	377,052	377,052
Gas purchased .....	452,960	452,960
Depreciation and amortization .....	141,150	408,311
Other operating and maintenance expenses .....	763,851	763,851
Federal and foreign income taxes .....	181,767	181,767
Interest charges .....	197,397	197,397
Other income and deductions—net .....	(164,405)	(164,405)
	2,425,812	2,692,973
Income from continuing operations (excluding adjustment to net recoverable cost) .....	\$ 359,734	\$ 92,573
Increase in specific prices of utility plant held during year* .....		\$ 469,352
Adjustment to net recoverable cost .....		145,249
Effect of increase in general price level .....		(574,831)
Excess of increase in specific prices over increase in general price level after adjustment to net recoverable cost .....		39,770
Gain from decline in purchasing power of net amounts owed .....		109,763
Net .....		\$ 149,533

\*At December 31, 1984, current cost of utility plant, net of accumulated depreciation, was \$10,297,148 while historical cost or net cost recoverable through depreciation was \$5,401,902.

ing 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 current cost amount of utility plant was determined by applying the Company's average annual depreciation rates to the indexed plant amount.

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, in base rates or through the operation of the Company's electric and gas adjustment clauses, is limited to historical costs. 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 stated in terms of 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,	1984	In thousands of average 1984 dollars			
		1983	1982	1981	1980
Operating revenues .....	\$2,785,546	\$2,745,241	\$2,576,655	\$2,456,980	\$2,240,764
<b>Current cost information:</b>					
Income (loss) from continuing operations (excluding adjustment to net recoverable cost) .....	\$ 92,573	\$ 83,219	\$ 83,746	\$ 21,867	\$ (38,937)
Income (loss) per common share (after dividend requirements on preferred stock and excluding adjustment to net recoverable cost) ..	\$ .38	\$ .40	\$ .50	\$ (.22)	\$ (1.07)
Excess (deficiency) of increase in general price level over increase in specific prices after adjustment to net recoverable cost .....	\$ (39,770)	\$ (56,866)	\$ (38,378)	\$ 146,312	\$ 252,742
Net assets at year end at net recoverable cost .....	\$2,377,392	\$2,239,978	\$2,012,126	\$1,843,850	\$1,820,307
<b>General information:</b>					
Gain from decline in purchasing power of net amounts owed .....	\$ 109,763	\$ 92,310	\$ 86,707	\$ 197,371	\$ 264,217
Cash dividends declared per common share .....	\$ 1.98	\$ 1.97	\$ 1.89	\$ 1.84	\$ 1.89
Market price per common share at year end .....	\$ 17.38	\$ 16.43	\$ 16.82	\$ 14.14	\$ 14.03
Average consumer price index .....	311.2	298.4	289.1	272.4	246.8

# SELECTED FINANCIAL DATA

	1984	1983	1982	1981	1980
<b>Operations: (000's)</b>					
Operating revenues .....	\$2,785,546	\$2,632,315	\$2,393,771	\$2,150,718	\$1,777,115
Net income .....	359,734	312,409	268,534	220,643	162,639
<b>Common stock data:</b>					
Book value per share at year end .....	\$18.89	\$18.55	\$17.91	\$17.36	\$17.25
Market price at year end .....	17%	15%	15%	12%	11%
Ratio of market price to book value at year end .....	92.0%	84.9%	87.2%	71.3%	64.5%
Dividend yield at year end .....	11.5%	12.2%	11.5%	13.3%	13.7%
Earnings per average common share .....	\$ 2.84	\$ 2.77	\$ 2.64	\$ 2.35	\$ 1.87
Rate of return on common equity .....	14.9%	15.0%	14.7%	13.5%	10.8%
Dividends paid per common share .....	\$ 1.98	\$ 1.89	\$ 1.76	\$ 1.61	\$ 1.50
Dividend payout ratio .....	69.7%	68.2%	66.7%	68.5%	80.2%
<b>Capitalization: (000's)</b>					
Common equity .....	\$2,207,117	\$1,929,073	\$1,680,650	\$1,457,934	\$1,298,001
Non-redeemable preferred stock .....	210,000	210,000	210,000	210,000	210,000
Redeemable preferred stock .....	397,900	368,474	262,792	254,748	205,924
Long-term debt .....	2,395,471	2,048,548	1,881,441	1,663,671	1,484,535
Total .....	5,210,488	4,556,095	4,034,883	3,586,353	3,198,460
First mortgage bonds maturing within one year .....	47,450	25,000	65,000	—	140,000
Total .....	\$5,257,938	\$4,581,095	\$4,099,883	\$3,586,353	\$3,338,460
<b>Capitalization ratios: (including first mortgage bonds maturing within one year):</b>					
Common stock equity .....	42.0%	42.1%	41.0%	40.7%	38.9%
Preferred stock .....	11.5	12.6	11.5	12.9	12.5
Long-term debt .....	46.5	45.3	47.5	46.4	48.6
<b>Financial ratios:</b>					
Ratio of earnings to fixed charges .....	3.11	2.98	2.95	2.63	2.43
Ratio of earnings to fixed charges without AFC .....	2.43	2.40	2.42	2.16	1.99
Ratio of AFC to balance available for common stock .....	52.4%	43.6%	41.0%	38.6%	44.2%
Ratio of earnings to fixed charges and preferred stock dividends .....	2.39	2.35	2.32	2.10	1.93
<b>Other ratios-% of operating revenues:</b>					
Fuel, purchased power and purchased gas .....	46.9%	50.0%	49.8%	52.7%	51.8%
Maintenance and depreciation .....	10.1	10.0	10.5	10.3	10.8
Total taxes .....	15.0	13.0	13.2	11.2	11.9
Operating income .....	14.1	13.5	13.2	12.6	11.9
Balance available for common stock .....	11.1	10.3	9.6	8.7	7.5
<b>Miscellaneous: (000's)</b>					
Gross additions to utility plant .....	\$ 769,846	\$ 691,464	\$ 594,469	\$ 457,415	\$ 378,503
Total utility plant .....	6,903,184	6,165,711	5,516,532	4,985,315	4,563,309
Accumulated depreciation and amortization .....	1,501,282	1,486,196	1,389,112	1,304,436	1,191,747
Total assets .....	6,233,401	5,357,572	4,781,767	4,220,234	3,849,747

# ELECTRIC AND GAS STATISTICS

## ELECTRIC CAPABILITY

	<i>Thousands of kilowatts</i>			
	At January 1,	1985	%	1984 1983
<b>Thermal:</b>				
<b>Coal fuel</b>				
Huntley, Niagara River .....	715	9	715	705
Dunkirk, Lake Erie .....	555	7	550	540
<b>Total coal fuel</b> .....	<b>1,270</b>	<b>16</b>	<b>1,265</b>	<b>1,245</b>
<b>Residual oil fuel</b>				
Albany, Hudson River** .....	400	5	400	400
Oswego, Lake Ontario .....	1,736	23	1,736	1,723
Roseton, Hudson River .....	300	4	300	300
<b>Middle distillate oil fuel</b>				
20 Combustion turbine and diesel units .....	310	4	310	310
<b>Total oil fuel</b> .....	<b>2,746</b>	<b>36</b>	<b>2,746</b>	<b>2,733</b>
<b>Nuclear fuel</b>				
Nine Mile Point, Lake Ontario .....	610	8	610	610
Purchased—firm contract Power Authority—FitzPatrick, Lake Ontario .....	138	2	139	118
<b>Total nuclear fuel</b> .....	<b>748</b>	<b>10</b>	<b>749</b>	<b>728</b>
<b>Total thermal sources</b> .....	<b>4,764</b>	<b>62</b>	<b>4,760</b>	<b>4,706</b>
<b>Hydro:</b>				
Owned and leased hydro stations (83) .	695	9	695	685
<b>Purchased—firm contracts</b>				
Power Authority—Niagara River ....	1,118	15	1,118	1,122
Power Authority—St. Lawrence River .....	115	1	115	115
Power Authority—Blenheim-Gilboa Pumped Storage Plant .....	550	7	550	550
Other .....	63	1	63	64
<b>Total hydro sources</b> .....	<b>2,541</b>	<b>33</b>	<b>2,541</b>	<b>2,536</b>
<b>Other purchases</b> .....	<b>400</b>	<b>5</b>	<b>400</b>	<b>400</b>
<b>Total capability*</b> .....	<b>7,705</b>	<b>100</b>	<b>7,701</b>	<b>7,642</b>

	1984	1983	1982
<b>Electric peak load during year</b> .....	<b>5,526</b>	<b>5,625</b>	<b>5,512</b>

\*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.

\*\*Has capability to burn natural gas (as well as oil) as a fuel.

## ELECTRICITY GENERATED AND PURCHASED

	<i>Millions of kw-hrs.</i>					
	1984	%	1983	%	1982	%
<b>Thermal:</b>						
<b>Generated</b>						
Coal .....	7,863	20	7,873	21	7,897	22
Oil .....	3,754	9	4,313	11	4,892	14
Nuclear .....	3,635	9	2,802	7	1,135	3
Natural gas .....	2,103	5	1,839	5	1,999	6
<b>Purchased—</b>						
Nuclear from Power Authority .....	878	2	790	2	768	2
<b>Total thermal</b> .....	<b>18,233</b>	<b>45</b>	<b>17,617</b>	<b>46</b>	<b>16,691</b>	<b>47</b>
<b>Hydro:</b>						
Generated .....	3,803	9	3,527	9	3,575	10
Purchased from Power Authority .....	8,312	21	7,587	20	8,000	22
<b>Total hydro</b> .....	<b>12,115</b>	<b>30</b>	<b>11,114</b>	<b>29</b>	<b>11,575</b>	<b>32</b>
<b>Other purchased power—various sources</b> .....	<b>10,240</b>	<b>25</b>	<b>9,621</b>	<b>25</b>	<b>7,621</b>	<b>21</b>
<b>Total generated and purchased</b> .....	<b>40,588</b>	<b>100</b>	<b>38,352</b>	<b>100</b>	<b>35,887</b>	<b>100</b>

## ELECTRIC STATISTICS

	1984	1983	1982
<b>Electric sales (Millions of kw-hrs.)</b>			
Residential .....	8,944	8,578	8,475
Commercial .....	9,739	9,387	9,330
Industrial .....	11,194	10,860	10,366
Municipal service .....	245	251	257
Other electric systems .....	6,964	5,656	4,212
	<b>37,086</b>	<b>34,732</b>	<b>32,640</b>

<b>Electric revenues (Thousands of dollars)</b>			
Residential .....	\$ 607,527	\$ 583,645	\$ 539,317
Commercial .....	674,929	658,960	628,601
Industrial .....	438,920	441,219	425,331
Municipal service .....	37,846	36,466	34,907
Other electric systems .....	303,968	235,257	171,597
Miscellaneous .....	71,280	68,181	60,896
	<b>\$2,134,470</b>	<b>\$2,023,728</b>	<b>\$1,860,649</b>

<b>Electric customers (Average)</b>			
Residential .....	1,259,077	1,245,590	1,232,164
Commercial .....	133,234	131,803	130,872
Industrial .....	2,522	2,594	2,686
Other .....	3,279	3,257	3,260
	<b>1,398,112</b>	<b>1,383,244</b>	<b>1,368,982</b>

<b>Residential (Average)</b>			
Annual kw-hr. use per customer .....	7,104	6,887	6,878
Cost to customer per kw-hr. .	6.79¢	6.80¢	6.36¢
Annual revenue per customer .....	\$482.52	\$468.57	\$437.70

## GAS STATISTICS

	1984	1983	1982
<b>Gas sales (Thousands of dekatherms)</b>			
Residential .....	49,519	46,865	51,019
Commercial .....	27,892	26,921	28,672
Industrial .....	32,755	25,736	26,026
Other gas systems .....	4,794	3,631	3,976
	<b>114,960</b>	<b>103,153</b>	<b>109,693</b>

<b>Gas revenues (Thousands of dollars)</b>			
Residential .....	\$313,536	\$304,157	\$264,747
Commercial .....	157,469	155,858	137,105
Industrial .....	156,307	129,056	112,582
Other gas systems .....	19,708	15,783	15,418
Miscellaneous .....	4,056	3,733	3,270
	<b>\$651,076</b>	<b>\$608,587</b>	<b>\$533,122</b>

<b>Gas customers (Average)</b>			
Residential .....	400,878	398,597	396,729
Commercial .....	32,106	31,697	31,188
Industrial .....	502	524	534
Other .....	2	2	2
	<b>433,488</b>	<b>430,820</b>	<b>428,453</b>

<b>Residential (Average)</b>			
Annual dekatherm use per customer .....	123.5	117.6	128.6
Cost to customer per dekatherm .....	\$6.33	\$6.49	\$5.19
Annual revenue per customer .....	\$782.12	\$763.07	\$667.32
Maximum day gas sendout (dekatherms) .....	772,604	754,061	832,307

## OFFICERS

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

**William J. Donlon**  
President

**Richard C. Clancy**  
Senior Vice President  
(Retired January 31, 1985)

**John M. Endries**  
Senior Vice President

**John M. Haynes**  
Senior Vice President

**John P. Hennessey**  
Senior Vice President

**James J. Miller**  
Senior Vice President

**Gerald K. Rhode**  
Senior Vice President  
(Retired August 31, 1984)

**John H. Terry**  
Senior Vice President  
General Counsel and Secretary

**Richard F. Torrey**  
Senior Vice President

**James F. Aldrich**  
Vice President—Power Control

**Anthony J. Baratta, Jr.**  
Vice President—Controller

**Robert M. Cleary**  
Vice President—Regional Operations

**Gerald J. Currier**  
Vice President—Consumer Services

**Donald P. Dise**  
Vice President—Quality Assurance  
(Retired September 30, 1984)

**William C. Franklin**  
Vice President—Purchasing  
(Retired June 30, 1984)

**Kermitt E. Hill**  
Vice President—Public Affairs  
and Corporate Communications

**Edward F. Hoffman**  
Vice President—  
Management Systems and Services

**Raymond Kolarz**  
Vice President—Regional Operations

**Thomas E. Lempges**  
Vice President—Nuclear Operations

**Donald L. MacVittie**  
Vice President—Fossil Generation

**Charles V. Mangan**  
Vice President—Nuclear Engineering  
and Licensing

**Samuel F. Manno**  
Vice President—Purchasing  
and Materials Management

**Eugene J. Morel**  
Vice President—Risk Management

**James F. Morrell**  
Vice President—Corporate Planning

**John W. Powers**  
Vice President—Treasurer

**Michael P. Ranalli**  
Vice President—  
Engineering (Non-nuclear)

**Kenneth A. Tramutola**  
Vice President—Gas

**Christopher D. Turner**  
Vice President—  
Corporate Development

**Perry B. Woods, Jr.**  
Vice President—Employee Relations

**Edward P. Gueth, Jr.**  
Assistant General Counsel  
(Resigned June 30, 1984)

**Herman B. Noll**  
Assistant General Counsel

**Nicholas L. Prioletti, Jr.**  
Assistant Controller

**Adam F. Shaffer**  
Assistant Controller

**Henry B. Wightman, Jr.**  
Assistant Controller

**Harold J. Bogan**  
Assistant Secretary

**Joseph F. Cleary**  
Assistant Secretary

**Frederick C. McCall, Jr.**  
Assistant Secretary

**Richard N. Wescott**  
Assistant Treasurer

## DIRECTORS

**James Bartlett**  
Formerly Executive Vice President, Syracuse

**Edmund M. Davis (A,B,E)**  
Partner, Hiscock & Barclay, attorneys-at-law, Syracuse

**William J. Donlon**  
President, Syracuse

**Edward W. Duffy (C)**  
Former Chairman of the Board and Chief Executive Officer,  
Marine Midland Banks, Inc., a bank holding company, Buffalo

**John G. Haehl, Jr. (A)**  
Chairman of the Board and Chief Executive Officer, Syracuse

**Edwin F. Jaeckle (A,B)**  
Senior Partner, Jaeckle, Fleischmann & Mugel,  
attorneys-at-law, Buffalo

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

**Baldwin, Maull (A,B)**  
Corporate Director, New York

**Martha Hancock Northrup (D)**  
Homemaker, former President, Crouse-Irving Memorial  
Hospital Board, Syracuse

**Frank P. Piskor (A,C,D)**  
President Emeritus, St. Lawrence University, Canton

**Donald B. Riefler (E)**  
Chairman, Sources and Uses of Funds Committee, Morgan  
Guaranty Trust Company of New York, New York

**Lewis A. Swyer (B,C,D)**  
Chairman, L.A. Swyer Companies, Inc., builders and  
construction managers, Albany

**John G. Wick (D,E)**  
Partner, Falk & Siemer, attorneys-at-law, Buffalo

A. Member of the Executive Committee

B. Member of the Compensation Committee

C. Member of the Audit Committee

D. Member of the Committee on Corporate Public Policy

E. Member of the Finance Committee

## CORPORATE INFORMATION

### Dividend Reinvestment Plan

Stockholders participating in our Dividend Reinvestment and Stock Purchase Plan enjoy its tax-deferral and convenience features, while new capital is generated for the Company. See page 16 for details.

### Telephone Inquiries

We maintain a toll-free telephone inquiry service for stockholders. Callers from outside New York State may dial 1 + 800 + 448-5450. The number for New York residents is 1 + 800 + 962-3236.

### Annual Meeting

The annual meeting of stockholders will be held May 7, 1985 at the Company's main office in Syracuse. A notice of meeting, proxy statement and form of proxy will be sent to holders of common stock in early April.

### Disbursing Agent

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

### 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

### Stock Exchanges

#### *Common and Certain Preferred Series:*

Listed on New York Stock Exchange

*Common Stock:* Also traded on Boston, Cincinnati, Midwest, Pacific and Philadelphia stock exchanges.

*Bonds:* Traded on New York and Luxembourg 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, 1985 by writing John W. Powers, Vice President-Treasurer, at 300 Erie Boulevard West, Syracuse, N.Y. 13202.

# **NY NIAGARA MOHAWK**

300 Erie Boulevard West  
Syracuse, New York 13202

Sagamore Hotel, Adirondack landmark, is undergoing expansion into modern resort and conference center on Lake George. New electric requirements will amount to equivalent of community of 6,000.

