LILCO
LONG ISLAND LIGHTING COMPANY
SHOREHAM NUCLEAR POWER STATION
P.O. BOX 618, NORTH COUNTRY ROAD • WADING RIVER, N.Y. 11792

JOHN D. LEONARD, JR.
VICE PRESIDENT - OFFICE OF CORPORATE SERVICES
AND
VICE PRESIDENT - OFFICE OF NUCLEAR

SNRC-1799

MAR 19 1991

U. S. Nuclear Regulatory Commission
ATTN: Document Control Desk
Washington, D.C. 20555

Annual Financial Report
Shoreham Nuclear Power Station - Unit 1
Docket No. 50-322

Gentlemen:

The purpose of this letter is to transmit the financial information required by 10CFR50.71(b). Attached please find a copy of the Long Island Lighting Company's 1990 Annual Financial Report.

If there are any questions concerning this information, please contact this office.

Very truly yours,

John D. Leonard

John D. Leonard, Jr.
Vice President, Office of Corporate Services
and Vice President, Office of Nuclear

DRH/ab
Attachment

cc: S. Brown
T. T. Martin
B. Norris

IE47

Long Island Lighting Company
1990 Annual Report

THE PEOPLE AT LILCO ARE DEDICATED TO PROVIDING UNPARALLELED SERVICE TO EVERY CUSTOMER. THROUGH THE ESTABLISHMENT OF A WORKING ENVIRONMENT THAT PROMOTES EXCELLENCE, COMMUNICATION AND COOPERATION, WE ARE COMMITTED TO ACHIEVING THE HIGHEST LEVEL OF CUSTOMER SATISFACTION.

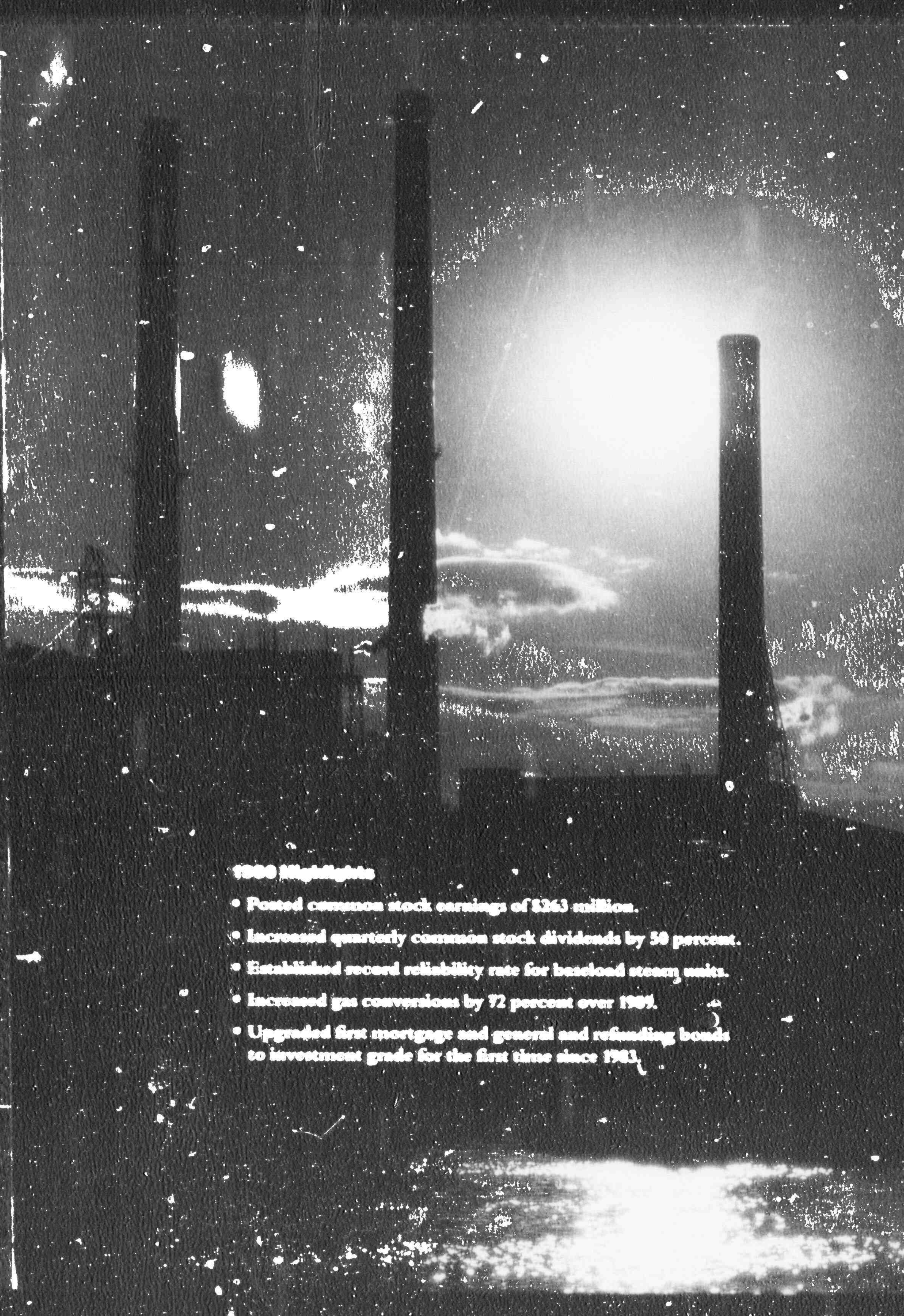
(PHOTO RIGHT)
LILCO's Port Jefferson power plant, one of the Company's five major steam plants, generates 482 megawatts of electricity annually, enough to supply more than 240,000 homes.

Long Island Lighting Company supplies electric and gas service to Nassau and Suffolk Counties and the Rockaway Peninsula in Queens County. The service area covers 1,230 square miles with a population of approximately 2.3 million people.

LILCO's 6,630 employees are dedicated to providing unparalleled service to the Company's 1 million electric and 430,000 gas customers.

(ON THE COVER)
Kathy Callegari is learning how to save energy and lower her family's electric bills with a free SAVINGPOWER home energy audit, but daughter, Danielle, is more interested in LILCO's hardhats. Energy Specialist Marianne Behan takes a moment from the audit to help Danielle admire her new look.

Table of Contents



1990 Highlights

- Posted common stock earnings of $263 million.
- Increased quarterly common stock dividends by 50 percent.
- Established record reliability rate for baseload steam units.
- Increased gas conversions by 72 percent over 1989.
- Upgraded first mortgage and general and refunding bonds to investment grade for the first time since 1983.

We marked a new beginning in 1990 as we put the past behind us and repositioned the Company to meet the competitive challenges of a new decade.

Financial Health

For the first time since 1983, LILCO's first mortgage and general and refunding bonds were rated investment grade by leading investment-rating agencies, allowing us to borrow money at lower interest rates. Earnings for the year were $263 million, in stark contrast to 1989's $175 million loss. We increased our quarterly common stock dividend this year by 50 percent, from 25 cents per share to 37½ cents per share.

Service First

Providing unparalleled customer service has become our top priority for the decade, a goal that requires the participation of each and every LILCO employee. During 1990, we developed the mission statement on the cover of this report and set in motion the "Service First" program, our blueprint for achieving service excellence. The plan targets specific goals for meeting the competitive challenges of the 1990s.

The Gulf Crisis

With events in the Persian Gulf causing oil prices to increase by 70 percent, LILCO's costs for producing electricity increased accordingly. We moved quickly to implement measures that would minimize the impact on customers.

The Company purchased oil on the spot market at discounted prices, substituted natural gas for oil to generate electricity, and introduced new conservation programs to help our customers reduce their energy bills. The new programs offered customers energy-efficient fluorescent lightbulbs, weatherization kits and water heating products at discounted prices through our toll-free energy hotline. We provided free home energy audits and weatherization workshops to help customers save as much as 20 percent on their energy bills.

Gas Expansion

As oil prices soared, natural gas moved to the forefront as a cost-effective, domestically available fuel alternative. With approximately 75 percent of the homes on Long Island using oil for space heating compared to 11 percent nationwide, customers flooded LILCO with inquiries about gas heat conversions. We marshalled our resources to pursue gas conversion leads aggressively, succeeding in installing 6,610 residential gas heat customers, 72 percent more than in 1989.

Increasing demand for gas heat meant increasing our gas supply as well. We concentrated on developing new resources, the most promising of which is the Iroquois pipeline. The 360-mile pipeline will bring Canadian natural gas to Long Island, increasing our gas reliability and enabling us to provide natural gas to an additional 40,000 homes. A LILCO subsidiary purchased a one percent share of the Iroquois pipeline this year, making us a partner in the project.

Reliability the Key

With additional cogeneration sources, increased conservation and a sluggish economy, we anticipated slower electric sales in 1990. Despite this, we continued to expand our electric service, installing our one-millionth customer this year.

William J. Catacosinos
Chairman and Chief Executive Officer

Reliability became our focus, as we sought to enhance customer service through system improvements. Thanks to our aggressive power plant maintenance programs, a comprehensive energy conservation plan and increasing supplies from independent power producers, electric supply more than met demand. We concentrated on reducing customer outages and decreasing restoration response time, two of the most prominent indicators of reliability.

Conserving Energy

LILCO's conservation and load management plan, the most aggressive energy conservation plan in New York State and one of the most aggressive in the country, expanded in 1990 to include new residential programs, and commercial programs that specifically target new construction and not-for-profit customers. The Public Service Commission (PSC) has strongly supported our endeavors in the area of energy conservation, providing financial incentives for increased participation in conservation programs.

Future Revenues

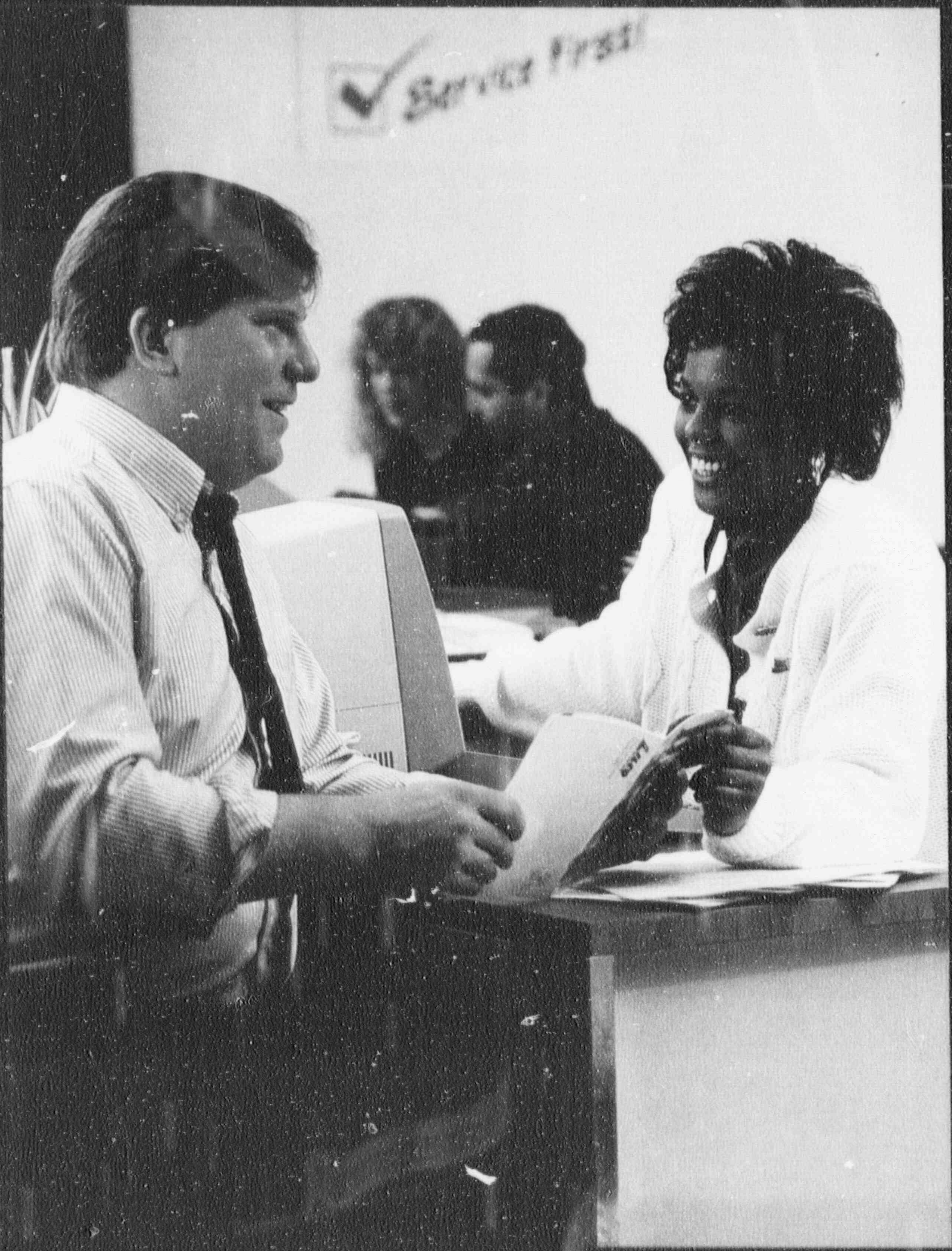
On December 1, 1990, the PSC approved a five percent electric rate increase, in accordance with the 1989 Shoreham settlement agreement. This increase, along with the two increases received in 1989, will provide the Company with additional cash flow. We also filed a one-year, 7.7 percent gas rate request and an electric rate request proposing five percent increases each year for the next three years.

On behalf of the Board of Directors, I thank you for your support during the difficult financial times of the 1980s and your continued interest as we meet the challenges of the new decade. With our dedication to unparalleled customer service and determination to improve the reliability and efficiency of our operations, our steady progress will continue in the years ahead.

Sincerely,

W.J. Catacosinos

William J. Catacosinos
Chairman and Chief Executive Officer


Service First!

Service First

1990 presented LILCO with a unique challenge. Like many other utilities, we entered a decade with customers expecting more and better service. A company's performance is no longer judged merely on the product supplied, but on the quality of service with which it is provided.

"We realized that for the Company to grow and succeed in the '90s we must provide unparalleled service," said Company President Anthony Earley. "To do that, we had to develop a clear, common understanding of the needs of our customers and create a corporate culture that emphasized meeting those needs."

Employees on all levels were involved in a team effort to develop a mission statement that encompassed our desire to provide unparalleled service to our customers and return LILCO to financial health. The result was the statement on the cover of this report, a statement that embodies our new "Service First" spirit.

With our mission statement in place, we began working to make it a reality. We developed clear, measurable goals for achieving service excellence and provided the training necessary for each employee to reach those goals. We developed focus groups and quality circles to locate and resolve problems and to recommend improvements throughout the Company.

Though still in its initial stage, we believe the Service First program provides us with the framework necessary for building a customer-driven corporate culture at LILCO.

"We realized that for the Company to grow and succeed in the '90s we must provide unparalleled service."

Anthony F. Earley, Jr.
President and Chief Operating Officer

(PHOTO LEFT) EXPLAINING LILCO'S CUSTOMER OUTREACH PROGRAMS IS JUST ONE WAY THAT CUSTOMER SERVICE REPRESENTATIVE KAREN LEWIS WORKS TO PROVIDE UNPARALLELED CUSTOMER SERVICE.

LILCO entered the 1990s in a much stronger power supply position than in previous years. Peak demand this past summer reached 3,686 megawatts. With a capacity of 4,663 megawatts, the Company's supply exceeded demand and for the first time in five years, we did not have to call on our customers to help prevent power shortages on our hottest summer days.

We improved our power supply by restoring a 185-megawatt unit at the E.F. Barrett plant, expanding our electric conservation plan by 37 percent and increasing our supply from independent power producers. These measures allowed LILCO to maintain a 21 percent reserve in 1990.

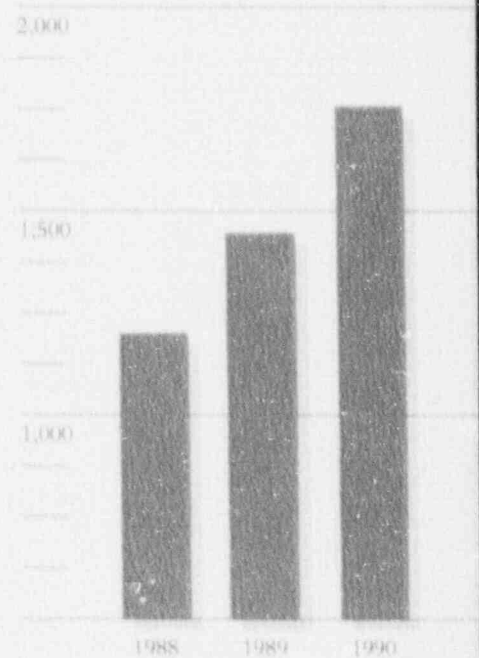
Throughout the year, LILCO employees concentrated on improving the reliability of our electric system by decreasing the frequency and length of electrical outages. "Providing reliable electric service is critical to achieving service excellence," explains Bill Schiffmacher, vice president of Electric Operations.

In 1990 that meant trimming trees along 1,760 miles of electric lines; installing 50,000 new, more reliable wire connectors; replacing 40 miles of bare wire with more resistant, plastic-covered wire; checking 300 circuits for potential trouble spots using infrared scanning, and installing 200 switches to restore power instantly following an outage, without dispatching a crew.

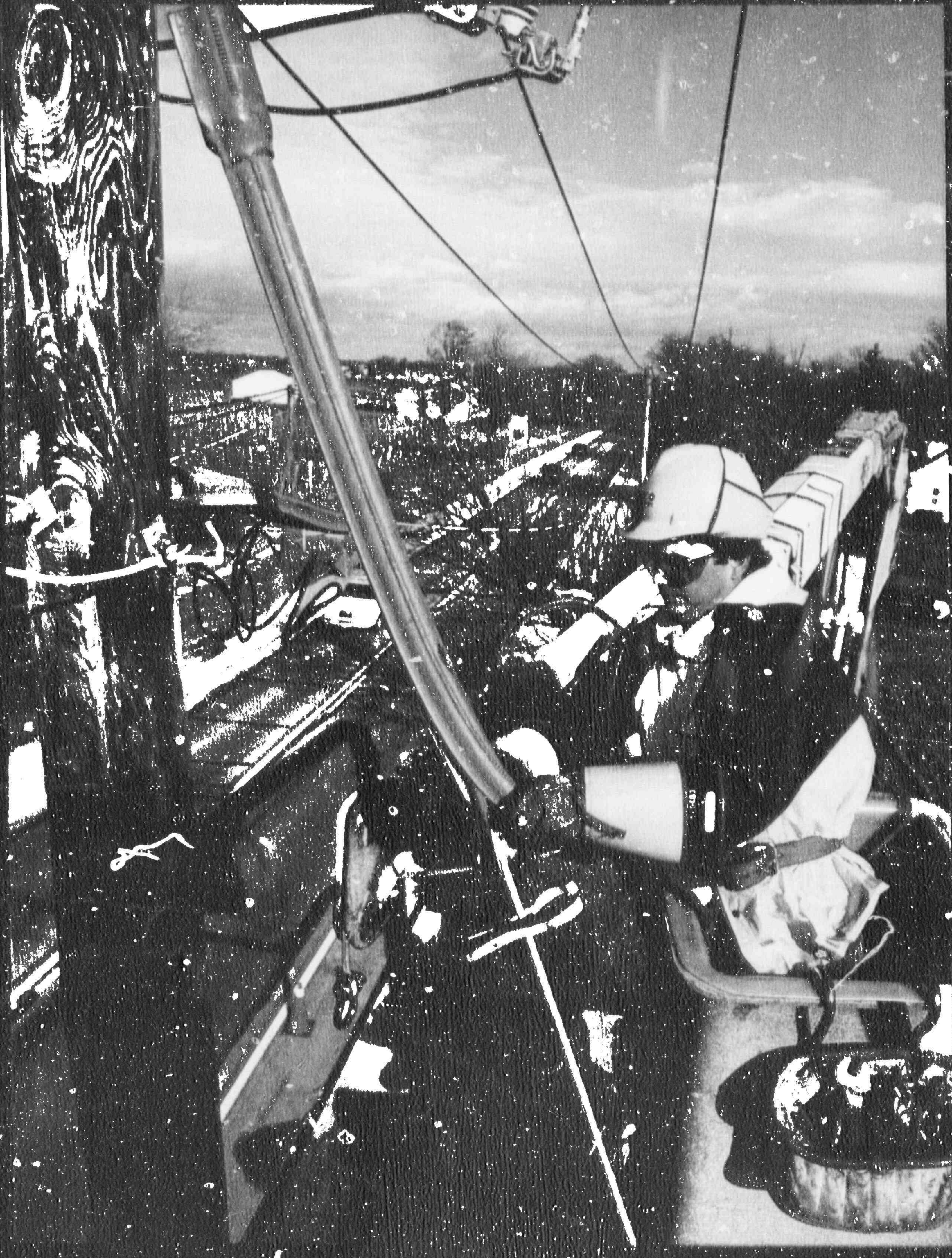
By the end of the year, LILCO had decreased the average number of customer power interruptions to one every 8.6 months, a 25 percent improvement over 1989. We also reduced average restoration time to 64 minutes, 20 percent faster than our 1989 record of 80 minutes, the best in the state.

Trees Trimmed To Improve Reliability

(in miles)

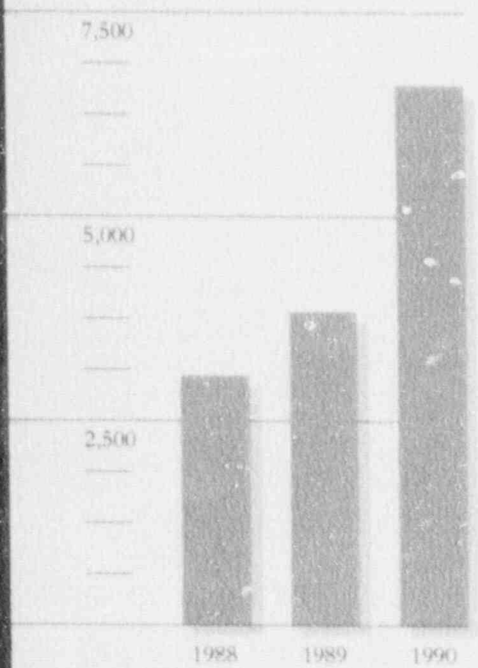


(PHOTO RIGHT) LINEMAN STEVE DAVIES REDUCES ELECTRIC LOAD ON A THREE-PHASE LINE PRIOR TO BEGINNING PREVENTATIVE MAINTENANCE, A KEY ELEMENT IN THE COMPANY'S RELIABILITY STRATEGY.



Gas Service

Residential Gas Heat Conversions



Natural gas played an increasingly important role in LILCO's energy plan in 1990. As events in the Middle East caused oil prices to soar, LILCO intensified its gas marketing program, completing more than 6,600 new residential gas heat conversions by year-end.

"The Company has an aggressive plan for gas expansion in the 1990s," said Walter Wiln., vice president of Gas Operations. "With about 75 percent of our customers heating with oil, we see a very viable market for increased gas sales. Rising oil prices and customer concerns about high energy bills allowed us to accelerate our plan for increasing gas heat conversions."

Following the Iraqi invasion of Kuwait, we doubled the size of our gas marketing department and substantially reinforced our field construction crews by temporarily reassigning employees from other parts of the company to coordinate the gas conversion process.

With gas pipelines in front of half the homes on Long Island, fulfilling the overwhelming demand for gas heat meant quickly identifying those houses that were located near gas pipelines and mains. We created a sophisticated computer program to enable our employees to find a customer's neighborhood on a computerized map, determine the location of the nearest gas main and assess the feasibility of supplying gas to the home, all in a matter of minutes.

In 1990, we also aggressively pursued new sources of natural gas. A LILCO subsidiary purchased a one percent share in the Iroquois pipeline, making us a partner in the project. By 1992 the Iroquois pipeline will provide us with enough gas to fuel more than 40,000 homes.

(PHOTO LEFT)
LILCO GAS SERVICE MECHANICS KENNETH DUGAN (LEFT) AND JAMES MURPHY WORK ON A NEW GAS MAIN THAT WILL HELP US INCREASE GAS SUPPLY TO OUR NORTH SHORE CUSTOMERS

Conservation Service

Although LILCO already had the most aggressive energy conservation plan in New York State, we set even higher megawatt-saving goals for 1990. The plan reduced electric demand by 185 megawatts, a 37 percent improvement over 1989. We also targeted previously untapped customer segments by introducing new programs designed to encourage energy-efficiency in new construction and not-for-profit sectors. The year also saw the introduction of a program promoting energy conservation in Long Island elementary and secondary schools.

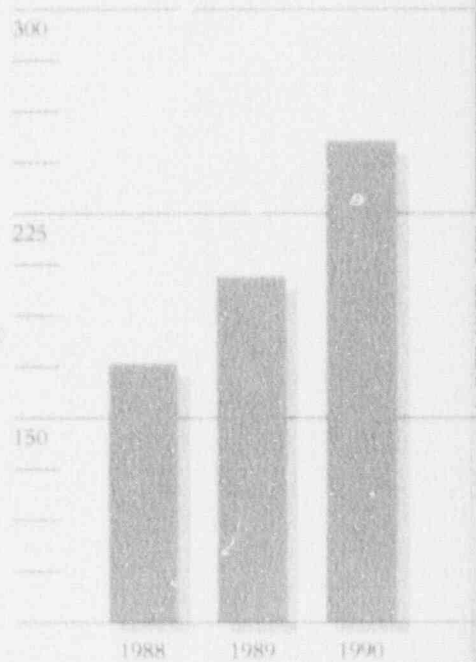
More and more customers participated in the Company's conservation programs, particularly the five new residential programs introduced in response to the Persian Gulf crisis. The programs helped customers lower their energy bills through free home energy audits, free weatherization workshops and three separate catalog programs. Through an 800 number, customers were able to purchase fluorescent light bulbs, home weatherization kits and water heating conservation products at discounted prices.

"**W**e had an overwhelming response to our new programs with more than 20,000 calls received following the programs' October 10 kick-off," said Chris Wilding, vice president of Conservation and Load Management. "By the end of the year, more than 9,000 customers had purchased energy-efficient products and participated in the workshops."

To further assist our customers in lowering their energy costs, the Company is currently investigating new lighting and appliance energy-saving programs, as well as a program that would promote energy efficiency in new home construction.

Total Energy Conservation Program Participants

(in thousands)



(PHOTO RIGHT) HELPING CUSTOMERS LOWER THEIR ENERGY BILLS IS ONE OF LILCO'S MAIN CONCERNS. NEW WEATHERIZATION WORKSHOPS, CONDUCTED BY ENERGY SPECIALISTS LIKE MIKE FROST (RIGHT), HELP ACHIEVE THAT GOAL.


WEATHERIZATION
WORKSHOP

Customer Service

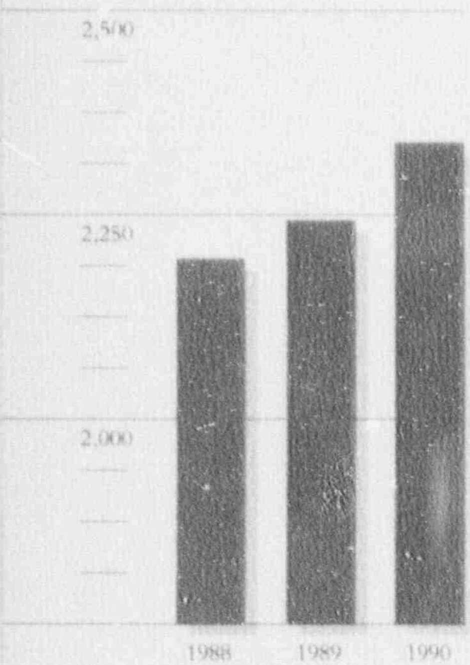
One of our strongest efforts in improving service this year came from LILCO's "front line" — our customer representatives. We improved our customer phone contacts and increased specialized services.

LILCO customer representatives in our 11 business offices and four emergency centers answered more than 2.3 million calls in 1990. As part of the Service First program, we set goals to answer phone calls quickly and efficiently. To provide our customers with better service, representatives were specially trained to answer questions on a variety of LILCO services, so that most customer inquiries can be handled in the initial call.

We also introduced innovative programs designed to help customers with special needs. In 1990, LILCO established a Language Line, a 140-language interpretation service to assist non-English speaking customers. We introduced our first Spanish-language brochure, "Sus Derechos Como Cliente Residencial de LILCO" ("Your Rights as a LILCO Customer"), and established a multilingual speaker's bureau that is available to give presentations in 17 languages.

We expanded a program that helps customers in financial distress by connecting them with community and state resources, providing these services for 837 families last year. And we established a program that weatherizes the homes of low-income customers. The program uses conservation as a way to lower energy costs and identifies available state and local government assistance that can help customers pay their energy bills.

Customer Calls Answered
(in thousands)



(PHOTO LEFT)
LILCO ENERGY PACKAGER MIKE BROWN WORKS WITH GOVERNMENT AGENCIES TO HELP CUSTOMERS ACCESS AVAILABLE ENERGY CONSERVATION FUNDS. HERE HE TALKS WITH LISA (LEFT) AND CARRIE POWELL ABOUT HEATING OPTIONS.

Service First!

Our commitment to providing unparalleled service will be the key to productivity and growth in the 1990s. Recognizing and responding to the needs of our customers continues to be our primary goal.

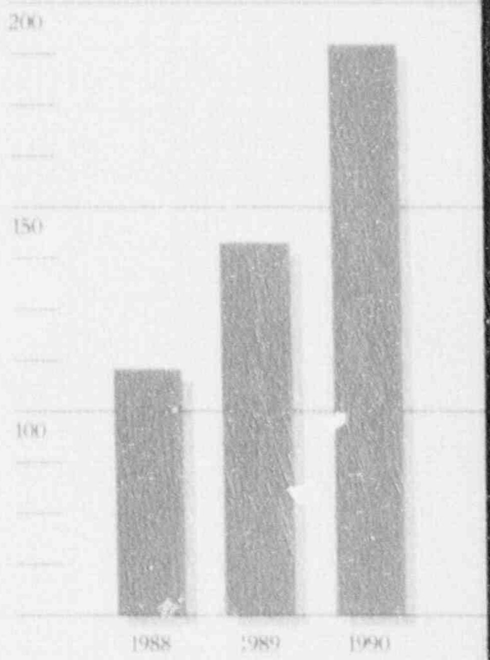
The new service culture is being nurtured through communication and training. Employee-established focus groups and quality teams examine and re-examine the way LILCO functions, identifying areas for service improvements. Extensive employee training will continue, with 207 different programs in 1991.

Natural gas is still an area with tremendous growth opportunities. Combining the Company's aggressive marketing plan with new supplies of natural gas will allow us to provide this low-cost heating alternative to more of our customers in the years ahead.

And we will continue to help our customers manage their energy bills through conservation. Growing customer awareness of environmental concerns, along with increasing energy costs, has heightened interest in energy-saving strategies. We are responding to that interest by investigating new residential lighting and refrigeration incentive programs and energy efficiency in new home construction.

The customer-driven culture we are building at LILCO is helping us to explore new and better ways to provide service to our customers. The past year was a turning point for the Company and our continuing dedication to service excellence will enable us to meet the challenges of the decade.

LILCO Training Programs Offered



(PHOTO RIGHT) SUZANNE SHAFFE., GAS MARKETING, USES THE NEWLY DEVELOPED GAS EXPANSION TRACKING SYSTEM (GETS) TO FACILITATE CUSTOMER REQUESTS FOR GAS SERVICE.

Financial Review

Overview

The year 1990 was another year of achievements for the Company and reflected a continuing and furthering improvement in its financial picture. This improvement is evidenced, in part, by the elevation in 1990, of the Company's First Mortgage Bonds and General and Refunding Bonds (G&R Bonds) to investment grade by the rating agencies.

This is the first time since 1983 that LILCO securities have been rated investment grade—a significant milestone in the turnaround of the Company.

Other achievements in 1990 included:

- Dismissal by a United States Court of Appeals of Suffolk County's claim against the Company under the federal Racketeer Influenced and Corrupt Organizations Act (RICO Act) and affirmation of a class action settlement (Class Settlement) entered into between the Company and its ratepayers in 1989 to resolve the RICO Act litigation.
- Increase in the Company's common stock quarterly dividend from 25 cents per quarter to 37½ cents per quarter.

  The Company resumed the payment of dividends in 1989, ending a five year period during which no dividends had been paid on its preferred stock or common stock.
- Earnings for common stock for 1990 of approximately \$263 million or \$2.36 per common share, compared to a loss in 1989 of \$175 million or \$1.57 per common share.
- Use of \$100 million of tax-exempt securities in 1990 following utilization of \$100 million of tax-exempt securities in 1989, the proceeds of which were used to reimburse the Company's treasury for previously incurred capital expenditures.

  Financing with tax-exempt securities saves ratepayers millions of dollars because these securities carry significantly lower interest rates than taxable bonds. For the three years prior to 1989, the Company had been precluded from using this type of financing.
- Receipt of a 5.0% electric rate increase in December 1990, following the receipt of two electric rate increases of 5.4% and 5.0% in 1989.

  These three rate increases, on an annualized basis, represent approximately \$240 million of additional cash flow. Prior to these increases, the Company had not received an electric rate increase in more than three years.
- Redemption of \$75 million of G&R Bonds, 12⅜% Series due in 1992 without the need for additional external financing.
- The addition of approximately 10,500 new gas heating installations, 50% of which were residential conversions—nearly doubling the number of homes that the Company converted to gas heat in 1989.

  The uncertainty surrounding oil prices has provided the Company with an opportunity to expand its gas business as customers look to natural gas heat to reduce their energy bills.

The year 1989 marked a year of financial transition for the Company following a settlement (1989 Settlement) of the controversy concerning the Shoreham Nuclear Power Station (Shoreham) and the Class Settlement. Prior to 1989, the financial viability of the Company had been jeopardized by the Shoreham controversy and the RICO Act litigation because of the uncertainties they presented and because the Company had not been permitted to recover a significant portion of its investment in Shoreham.

This all changed in 1989 with the 1989 Settlement with New York State (State) and the Class Settlement. The 1989 Settlement was designed to eliminate the controversy over Shoreham by providing for the transfer of Shoreham to an agency of the State, reciting the intention to return LILCO to investment grade financial condition, authorizing fixed rate increases in 1989 and 1990 which the Company is currently receiving, and targeting annual rate increases of 4.5% to 5.0% in each year thereafter through 1998.

In conjunction with the 1989 Settlement, the Company filed a rate request in late December 1990 which states that the filing is consistent with the ratemaking principles established by the Public Service Commission of the State of New York (PSC) under the 1989 Settlement. In its proposal, the Company seeks to increase electric rates by 5.0% a year beginning on December 1 in 1991, 1992 and 1993, respectively.

Although the proposed rates do not reflect the impact of the Class Settlement, the Company estimates that, as a result of the Class Settlement, ratepayers will pay approximately .2% to .3% less than they would otherwise have paid under the rates proposed by the Company in the new filing. The Class Settlement provides the Company's customers with approximately \$390 million in rate reductions to be applied to their monthly electric bills over a ten year period that began in December 1990.

Financial Condition

Liquidity

In conjunction with the 1989 Settlement, the PSC authorized the Company to record on its books a Financial Resource Asset (FRA) that represents the present value of the future net-after-tax cash flows which are provided the Company for its financial recovery. The Company recorded this regulatory asset on its books in June 1989 at an amount of approximately $4 billion. The PSC is permitting the Company to amortize a component of the FRA over a forty-year period (which amortization started in 1989) and to recover a full return on the unamortized balance.

Prior to 1989, a significant portion of the Company's earnings were represented by the allowance for funds used during construction (AFC). AFC is a non-cash credit to income that represents the cost of borrowed funds for construction purposes and a reasonable rate upon a utility's other funds when so used. Shoreham accounted for substantially all of the AFC that was previously credited to income.

For the next several years, a substantial portion of the Company's earnings will also be non-cash earnings reflecting the rate structure under the 1989 Settlement. For 1990, the non-cash earnings, net of tax effects, were $227 million. The Company estimates that its non-cash earnings, net of tax effects, could approximate 86% and decrease to 56% of earnings for the years 1991 and 1992 and further decrease thereafter.

In its new electric rate filing, the Company states that it expects to fully recover these non-cash earnings accumulated under the 1989 Settlement over twelve years. The assumptions used in this rate filing have been updated from those assumptions that were used in the 1989 Settlement. The updated assumptions reflect current conditions, including, among others, demand forecasts that are currently lower than those used in conjunction with the 1989 Settlement.

Although these updated assumptions would have required rate increases in excess of those targeted in the 1989 Settlement, the Company has proposed to fully recover the non-cash earnings by 2001 (as compared to 1999 under the 1989 Settlement)—so that the Company's rate requests are consistent with those targeted under the 1989 Settlement.

The Internal Revenue Service confirmed, in 1989, the Company's entitlement on its federal income tax return to an abandonment loss deduction for Shoreham as a result of the 1989 Settlement. The Company claimed this deduction for 1989 and, at December 31, 1990, its net operating loss (NOL) carryforward arising principally from the loss was estimated to be $2.2 billion. The Company estimates that the balance of the NOL carryforward will be fully utilized to reduce federal income tax payments within the 15 year statutory carryforward period. Accordingly, for 1990, the Company's cash payments for federal income taxes were minimal.

The rate increases as contemplated under the 1989 Settlement are designed to provide the Company with pre-tax interest coverage ratio targets of 1.3 to 1.4 times in 1991 and an allowed rate of return on common equity of 12.75% in 1991 and targeted between 12.50% to 11.75% in 1992. In 1990, the pre-tax interest coverage was 1.2 times and the allowed rate of return on common equity was 13.0%.

The rate structure under the 1989 Settlement is intended to provide the Company with the adequate and timely rate relief which, when coupled with access to the capital markets, will enable the Company to meet its operating and capital requirements.

The 1989 Settlement committed the State to allocate to the Company up to $500 million of New York State private activity bond volume cap (at a minimum of $100 million per year through 1993), to permit the sale of tax-exempt securities for the Company's benefit. In conjunction with the 1989 Settlement, the Company was able to utilize $100 million of the volume cap in each of the years 1989 and 1990.

For a further discussion of the 1989 Settlement, see Note 2 of Notes to Financial Statements.

At December 31, 1990, the Company's cash and cash equivalents amounted to approximately $103 million, compared to $340 million at December 31, 1989 and $93 million on December 31, 1988. In addition, the Company has $300 million of credit available to it through October 1, 1992, provided by the 1989 Revolving Credit Agreement (1989 RCA). This line of credit is secured by the Company's accounts receivable and fuel oil inventories. The termination date of the 1989 RCA may be extended for one year periods upon the Company's request, which must be made not later than June of each year beginning in 1991. At December 31, 1990 no amounts were outstanding under the 1989 RCA.

During the period 1991 to 1995, the Company estimates that it will be required to seek external financing of approximately $2.5 billion. Although a portion of this financing will be used to meet its operating and capital requirements, most will be used to refund maturing debt.

Accordingly, during 1991:

- The Company utilized $10 million of tax-exempt securities in January 1991 to reimburse the Company's treasury for previously incurred capital expenditures.
- The Company plans to sell $250 million of G&R Bonds, the proceeds of which would be used to redeem $225 million G&R Bonds, 13¼% Series due in 1995.
- The Company is seeking permission to utilize the proceeds from the sale of another $100 million of tax-exempt securities which would be sold later in 1991. The proceeds would be applied to reimburse the Company's treasury for previously incurred capital expenditures.
- Finally, the Company has available its 1989 RCA to support 1991 capital requirements.

The Company filed a gas rate request in late January 1991 with the PSC seeking an annual increase in rate relief approximating $35 million, or 7.7%, to become effective on December 1, 1991.

Capital Requirements and Capital Provided

In 1990, capital requirements amounted to $672 million and consisted of construction requirements, refundings, dividends and Shoreham post settlement costs. Construction requirements were $230 million, refundings amounted to $96 million and dividend payments on the Company's preferred stock and common stock amounted to $68 million and $125 million, respectively. Shoreham post settlement costs in 1990 amounted to $153 million, including $73 million of property taxes.

For 1991, total capital requirements (excluding common stock dividends) are estimated at $506 million, of which construction requirements are estimated to be $246 million, refundings are $29 million, preferred stock sinking fund requirements are $14 million, preferred stock dividends are $67 million, and Shoreham post settlement costs are estimated at approximately $150 million, including $77 million of property taxes. However, the overall level of Shoreham post settlement costs in 1991 will largely depend on the proceedings currently before the Nuclear Regulatory Commission. For a further discussion respecting Shoreham, see Note 9 of Notes to Financial Statements.

Capital requirements and capital provided for 1990 and 1989 were as follows:

Capital Requirements	**1990**	1989
	(in millions of dollars)	
Construction		
Electric		
Non Nuclear	$ 125	$ 121
Nuclear		
Shoreham	—	104
Nine Mile Point 2 (NMP2)	9	6
Fuel	4	6
Total Electric	138	237
Gas	79	50
Common	13	10
Total Construction	230	297
Less: FSA Revenues	—	96
Total Construction	230	201
Refundings and Dividends		
Long-Term Debt	82	621
Short-Term Debt	—	112
Bank Loans	—	112
Preferred Stock	14	308
Preferred Stock Dividends	68	418
Common Stock Dividends	125	28
Treasury Stock	—	1
Total Refundings and Dividends	289	1,600
Subtotal	519	1,801
Shoreham Post Settlement Costs	153	75
Total Capital Requirements	$ 672	$ 1,876

Capital Provided	**1990**	1989
	(in millions of dollars)	
(Increase in) Use of Cash Balances	$ 237	$ (247)
Long-Term Debt	112	1,542
Short-Term Debt	—	112
Preferred Stock	—	309
Financing Costs	2	(81)
Internal Cash Generation from Operations	321	241
Total Capital Provided	$ 672	$ 1,876

For further information see the Statement of Cash Flows and Note 1 of Notes to Financial Statements. For information with respect to financial stability adjustment (FSA) revenues, see Notes 1 and 2 of Notes to Financial Statements.

Investment Rating

The 1989 Settlement was intended to improve the Company's credit ratings, and in 1989 the rating agencies significantly upgraded their ratings on each of the Company's principal securities.

During 1990, each of the rating agencies further upgraded its ratings on the Company's principal securities resulting in ratings at December 31, 1990 of minimum investment grade for the Company's First Mortgage Bonds and G&R Bonds.

The Company's securities are rated by Moody's Investors Service, Inc. (Moody's), Standard and Poor's Corporation (S&P), Fitch Investors Service, Inc. (Fitch) and Duff and Phelps (D&P).

The chart below indicates the ratings for each of the Company's principal securities at December 31, 1990 and the minimum investment grade ratings used by each agency.

	Moody's	S&P	Fitch	D&P
First Mortgage Bonds	Baa3	BBB-	BBB-	BBB-
G&R Bonds	Baa3	BBB-	BBB-	BBB-
Debentures	Ba1	BB+	BB+	BB
Preferred Stock	ba2	BB+	BB	BB-
Minimum Investment Grade	**Baa3**	**BBB-**	**BBB-**	**BBB-**

Capitalization

Capitalization (defined as the total of long-term debt, preferred stock and common shareowners' equity) was approximately $7.3 billion at December 31, 1990, an increase from $7.2 billion at December 31, 1989. The approximate $112 million increase in capitalization primarily reflects the increase in the Company's retained earnings which reflects the 1990 earnings for common stock of $263 million offset, in part, by the declaration of common stock dividends.

Capitalization, at December 31, 1989 was approximately $547 million higher than the December 31, 1988 balance of $6.6 billion. The increase in capitalization reflects the increase in debt associated with the 1989 financing activity, partially offset by the payment of dividends (including the payment of $390 million of preferred stock dividends in arrears), and a reduction in retained earnings caused by the Company's 1989 net loss.

At December 31, 1990, 1989 and 1988, the components of the Company's capitalization ratios were as follows:

Capitalization Ratios	1990	1989	1988
Long-Term Debt	**62.2%**	63.2%	51.7%
Preferred Stock	**9.4**	9.7	15.4
Common Shareowners' Equity	**28.4**	27.1	32.9
	100.0%	100.0%	100.0%

Results of Operations

Earnings

In 1990, earnings for common stock were approximately $263 million, or $2.36 per common share, which reflects the positive effects of the 1989 Settlement for the entire year.

Earnings for common stock in 1990 also reflect a change in the Company's method of recognizing gas revenues. Effective January 1, 1990, the Company's revenues include estimated consumption of gas delivered to customers, but not yet billed at month-end, resulting in the full accrual of all unbilled gas revenues. The cumulative effect of this accounting change increased 1990 earnings by approximately $12 million, net of tax effects, or 10 cents per common share. Excluding this item, earnings for common stock in 1990 would have been approximately $251 million, or $2.26 per common share.

In 1989, the Company incurred a loss for common stock of approximately $175 million, or $1.57 per common share resulting from recording non-cash charges to net income reflecting the 1989 Settlement and the Class Settlement becoming effective.

Under the 1989 Settlement, the Company recorded on its books the write-off of its remaining investment in Shoreham (and other related assets) and the establishment of the FRA. The net loss resulting therefrom, and the reduction of net income resulting from the cessation of AFC accruing on Shoreham, which mitigated such write-off, totaled approximately $269 million, net of tax benefits, or $2.41 per common share. Upon the effectiveness of the Class Settlement, the Company recorded a charge to income of approximately $113 million, net of tax benefits, or $1.02 per common share, which represented the present value, at June 30, 1989, of the total amount of the Class Settlement.

Also, the Company, the other cotenants of Nine Mile Point Nuclear Power Station, Unit 2 (NMP2), the PSC and other interested parties reached an agreement in January 1990 with respect to the construction of NMP2 and its operation through January 19, 1990. Under the terms of the agreement, the Company's share of disallowed costs would aggregate approximately $7 million, net of tax benefits, or 6 cents per common share, and these costs were charged to income in 1989 in accordance with Statement of Financial Accounting Standards No. 90 (SFAS No. 90).

Excluding these three items, earnings for common stock in 1989 would have been approximately $213 million, or $1.92 per common share.

In 1988, the Company incurred a loss for common stock of approximately $1.1 billion, or $10.08 per common share resulting from a non-cash write-down attributable to adopting SFAS No. 90. The write-down amounted to approximately $1.3 billion, net of tax benefits, or $12.10 per common share and resulted principally from certain costs of Shoreham and NMP2 which the PSC determined the Company may not recover. Before this write-down, earnings for common stock in 1988 were approximately $224 million, or $2.02 per common share.

Earnings (loss) per common share for 1990, 1989 and 1988 are shown below. The presentation reflects per share data on the basis of excluding and including the items described above.

	1990	1989	1988
Earnings, Excluding the Following Items	$ 2.26	$ 1.92	$ 2.02
• Unbilled Gas Revenues	.10	—	—
• 1989 Settlement	—	(2.41)	—
• Class Settlement	—	(1.02)	—
• SFAS No. 90	—	(.06)	(12.10)
Earnings (Loss) Per Common Share	$ 2.36	$ (1.57)	$ (10.08)

Excluding these items, the favorable variance between 1990 and 1989 earnings was due to higher revenues and lower federal income taxes in 1990 offset, in part, by higher fuel expenses, and higher operating expenses and operating taxes. The overall variance between 1989 when compared to 1988, on the basis of excluding the items listed, was due to higher operating expenses and operating taxes in 1989 offset, in part, by higher revenues.

Revenues

Total revenues in 1990, including revenues from recovery of fuel costs, were $2.4 billion, which represents an increase of $99 million, or 4.2%, over 1989 revenues. Total revenues for the Company's electric and gas operations for 1990, 1989 and 1988 are shown below:

	1990	1989	1988
	(in millions of dollars)		
Revenues			
Electric	$ 2,086	$ 1,983	$ 1,787
Gas	361	365	351
Total Revenues	$ 2,447	$ 2,348	$ 2,138

Electric Revenues: In 1990, electric revenues increased $103 million, or 5.2% over 1989. Revenues in 1989 had increased $196 million, or 11.0%, over 1988. The increases in electric revenues resulted primarily from the following factors:

	90/89	89/88
	(in millions of dollars)	
Customer Consumption	$ (69)	$ 29
Customer Additions	12	17
Fuel Cost Adjustments	77	75
Rate Increases	83	75
Total	$ 103	$ 196

Average customer consumption decreased by 517 kilowatt-hours (kWh), or approximately 3.1%, in 1990, primarily as the result of three factors: (1) sales to other utilities were down by 101 million kWh; (2) about 211 million kWh in potential sales were lost to independent power producers and cogeneration ventures, most notable of which is the Grumman Corporation and (3) the successful implementation of the Company's aggressive conservation programs. Weather was not a significant factor in 1990. In 1989, average consumption increased compared to 1988, due to colder weather in the fourth quarter of 1989, offset in part, by a cooler summer and the implementation of energy conservation programs.

The average number of electric customers served in 1990 was approximately 1,001,000, up about 6,000, or 0.6% over 1989. The increase in 1989 compared to 1988 was about 9,500, or 1.0%.

Revenues from fuel cost adjustments were higher in 1990, primarily due to increased oil prices. The average cost of oil burned in the Company's steam generating plants in 1990 was $20.49 per barrel, compared with $17.83 per barrel in 1989. The average cost of oil burned in 1988 was $15.78 per barrel.

On December 1, 1990, the Company was granted a rate increase of 5.0% and had received increases of 5.4% on February 15, 1989 and 5.0% on December 1, 1989. These rate increases provided additional revenues of $83 million in 1990. No rate increases were granted in 1988.

Gas Revenues: In 1990, gas revenues decreased by $4 million, or 0.8%, compared to 1989. Revenues in 1989 had increased $13 million, or 3.8% compared to 1988. The increases (decreases) in gas revenues resulted primarily from the following factors:

	90/89	89/88
	(in millions of dollars)	
Customer Consumption	$ (10)	$ 5
Customer Additions	4	4
Fuel Cost Adjustments	(2)	4
Rate Increases	4	—
Total	$ (4)	$ 13

The decrease in average customer consumption in 1990 was 5 dekatherms (dth), or 3.9%, and was largely attributable to warmer winter weather. The year 1990 was, on average, the warmest year recorded in the Company's service territory since such records have been kept.

The average number of gas customers served in 1990 was approximately 428,000, up about 4,000, or 1.0%, over 1989. In addition to the new customers, over 5,000 existing residential customers converted their heating systems to gas mostly in the second half of 1990.

Revenues from fuel cost adjustments were lower in 1990, due primarily to lower gas prices and lower sales. The average cost of gas sold in 1990 was $3.19 per dth, compared with $3.31 per dth in 1989. The average cost of gas sold in 1988 was $3.10 per dth.

In January 1990, the Company was granted a gas rate increase of approximately 1.3%, or $5.5 million annually. This rate increase provided the Company with revenues of $4 million in 1990. The Company did not receive any gas rate increases in 1989 or 1988.

Operating and Maintenance Expenses

Excluding fuels and purchased power, operating and maintenance (O&M) expenses were $476 million in 1990, an increase of $49 million, or 11.4%, over 1989. In 1989, these O&M expenses increased $69 million, or 19.4%, over 1988.

The increase in 1990 was, in part, attributable to higher provisions for doubtful accounts reflecting the weakness in the economy of the region. Although the Company believes that the increased level in accounts receivable arrears is temporary, nevertheless, the Company has expanded its procedures and instituted more aggressive collection practices. Also contributing to the increase in O&M expenses in 1990 were higher research and development expenditures on various projects including improving the fuel efficiency in the Company's generating plants, and increases in electric and gas distribution O&M expenditures. A significant portion of the operating costs are attributable to costs of maintaining production plant and enhanced system reliability in an effort to further improve customer service. The success of this continued effort is evidenced by the extraordinary performance and reliability of the Company's electric system and generating facilities. Higher costs for employee wages and health insurance also contributed to these increases.

The increases in 1989 were principally attributable to the implementation of an aggressive energy conservation program, the first full year of NMP2 operation and the costs of maintaining production plant. Higher costs for employee wages and health insurance also contributed to these increases.

Other Items

For a discussion of the accounting treatment of the 1989 Settlement and the Class Settlement, see Notes 2 and 3, respectively, of Notes to Financial Statements.

In 1990, federal income taxes were approximately $183 million, excluding the tax effect of the accounting change for unbilled gas revenues. In 1989, the Company recorded a federal income tax benefit of $1.1 billion, principally resulting from the Shoreham abandonment loss deduction and the Class Settlement. Federal income taxes in 1988 were approximately $112 million. Changes in federal income taxes are also due to variations in net income before taxes and recognition of investment tax credits.

Operating taxes, predominantly property taxes, were $370 million in 1990, compared to $364 million in 1989 and $311 million in 1988.

Depreciation expense increased by $9 million in 1990 and by $10 million in 1989, primarily attributable to additional plant in service. Interest expense increased by $24 million in 1990 and $54 million in 1989, principally due to financing activity in both years. Changes in debt levels and changes in interest rates were contributing factors to changes in interest expense in both years.

In 1990, the Company recorded non-cash charges to income of approximately $23 million, or $15 million, net of tax benefits, for the ongoing carrying costs of its obligation under the Class Settlement. In 1989 these ongoing charges amounted to approximately $16 million, or $11 million, net of tax benefits, in addition to the charge to income recorded on June 30, 1989, resulting from the Class Settlement becoming effective.

In order to limit the Company's rate of return to 12.75%, as allowed by the PSC's rate order for the 1991 rate year, which began on December 1, 1990, earnings for 1990 were adjusted downward by $6.6 million.

Selected Financial Data

Additional information respecting revenues, expenses, electric and gas operating income and operations data, capital expenditures and balance sheet information for the last five years is provided in Tables 1 through 10 of Selected Financial Data. Information with regard to the Company's business segments for the last three years is provided in Note 10 of Notes to Financial Statements.

Report of Ernst & Young Independent Auditors

To the Shareowners and Board of Directors of Long Island Lighting Company

We have audited the accompanying balance sheet of Long Island Lighting Company as of December 31, 1990 and 1989 and the related statements of income, shareowners' equity and cash flows for each of the three years in the period ended December 31, 1990. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Long Island Lighting Company at December 31, 1990 and 1989, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 1990 in conformity with generally accepted accounting principles.

Ernst & Young

Melville, New York
January 31, 1991

Ernst & Young

Financial Statements

Statement of Income

For year ended December 31 *(In thousands of dollars except per share amounts)*	1990	1989	1988
Revenues			
Electric	$ 2,085,605	$ 1,983,288	$ 1,786,933
Gas	361,242	364,326	350,901
Total Revenues	2,446,847	2,347,614	2,137,834
Expenses			
Operations — fuel and purchased power	786,999	772,452	674,429
Operations — other	340,518	297,518	248,698
Maintenance	135,291	129,788	109,198
Depreciation, depletion and amortization	112,784	103,430	93,596
Base financial component amortization	100,971	50,485	—
Regulatory liability component amortization	(86,101)	(43,038)	—
Rate moderation component	(297,214)	(131,167)	—
Regulatory liability component	—	793,592	—
Jamesport amortization	—	104,160	—
Operating taxes	370,317	364,391	310,864
Federal income tax — current	3,638	14,612	18,395
Federal income tax (credit) — deferred and other	177,014	(729,032)	181,716
Total Expenses	1,644,217	1,727,191	1,636,896
Operating Income	802,630	620,423	500,938
Other Income and (Deductions)			
Allowance for other funds used during construction, net of financial stability adjustment revenues	2,940	(54,918)	75,491
Other income and (deductions)	42,901	33,630	(10,049)
1989 Settlement	—	(303,947)	—
Class Settlement	(22,574)	(186,000)	—
Federal income tax credit (charge) — deferred and other	(2,629)	322,991	88,264
Total Other Income and (Deductions)	20,638	(188,244)	153,706
Income Before Interest Charges and Cumulative Effect of Accounting Changes	823,268	432,179	654,644
Interest Charges and (Credits)			
Interest on long-term debt	467,700	453,267	410,966
Other interest	40,559	31,366	19,702
Allowance for borrowed funds used during construction, net of financial stability adjustment revenues	(4,628)	43,349	(74,514)
Total Interest Charges and (Credits)	503,631	527,982	356,154
Income (Loss) Before Cumulative Effect of Accounting Changes	319,637	(95,803)	298,490
Cumulative Effect of Accounting Change for Unbilled Gas Revenues (net of applicable taxes of $6,017)	11,680	—	—
Cumulative Effect of Accounting Change for Disallowed Costs (net of applicable taxes of $448,978)	—	—	(1,345,110)
Net Income (Loss)	331,317	(95,803)	(1,046,620)
Preferred stock dividend requirements	68,161	79,232	74,508
Earnings (Loss) for Common Stock	$ 263,156	$ (175,035)	$ (1,121,128)
Average Common Shares Outstanding (000)	111,290	111,215	111,177
Earnings (Loss) per Common Share			
Before cumulative effect of accounting changes	$ 2.26	$ (1.57)	$ 2.02
Cumulative effect of accounting changes	.10	—	(12.10)
Earnings (Loss) per Common Share	$ 2.36	$ (1.57)	$ (10.08)
Dividends Declared per Common Share	$ 1.25	$ .50	$ —
Pro Forma Earnings — with Accounting Changes Applied Retroactively			
Earnings (loss) for common stock	$ 251,476	$ (173,251)	$ 223,712
Earnings (loss) per common share	$ 2.26	$ (1.56)	$ 2.01

See Notes to Financial Statements

Balance Sheet

Assets

At December 31 *(In thousands of dollars)*	1990	1989
Utility Plant		
Electric	$ 3,213,032	$ 3,115,879
Gas	565,272	519,979
Common	141,700	131,989
Construction work in progress	183,337	128,820
Nuclear fuel in process and in reactor	47,481	42,743
	4,150,822	3,939,410
Less — Accumulated depreciation, depletion and amortization	1,262,743	1,158,253
Total Net Utility Plant	2,888,079	2,781,157
Regulatory Asset		
Base financial component (less accumulated amortization of $151,456 and $50,485)	3,887,373	3,988,344
Other Property and Investments		
Nonutility property, principally at cost	4,327	4,574
Other investments and deposits	2,054	1,476
Total Other Property and Investments	6,381	6,050
Current Assets		
Cash and cash equivalents	102,936	340,304
Special deposits	21,492	27,636
Customer accounts receivable (less allowance for doubtful accounts of $18,684 and $5,072)	216,732	221,156
Other accounts receivable	9,694	12,904
Accrued revenue	138,917	173,031
Materials and supplies at average cost	92,138	82,776
Fuel oil at average cost	68,866	36,232
Gas in storage at average cost	41,466	35,422
Prepayments and other current assets	33,819	52,571
Total Current Assets	726,060	982,032
Deferred Charges		
Rate moderation component	411,443	102,971
Shoreham post settlement costs	225,818	75,044
Shoreham nuclear fuel	92,069	97,925
Unamortized storm damage costs	34,754	40,902
Unamortized cost of issuing securities	132,875	150,610
Accumulated deferred income taxes	359,768	262,298
Other	78,064	32,705
Total Deferred Charges	1,334,791	762,455
Total Assets	$ 8,842,684	$ 8,520,038

See Notes to Financial Statements.

Capitalization and Liabilities

At December 31 *(In thousands of dollars)*	1990	1989
Capitalization		
Long-term debt	$ 4,556,016	$ 4,560,016
Unamortized premium and (discount) on debt	(23,125)	(28,587)
	4,532,891	4,531,429
Preferred stock — redemption required	527,550	541,187
Preferred stock — no redemption required	154,674	155,592
Total Preferred Stock	682,224	696,779
Common stock	556,620	556,247
Premium on capital stock	992,885	991,724
Capital stock expense	(42,676)	(42,916)
Retained earnings	560,405	436,690
Total Common Shareowners' Equity	2,067,234	1,941,745
Total Capitalization	7,282,349	7,169,953
Current Liabilities		
Current maturities of long-term debt	29,000	7,000
Current redemption requirements of preferred stock	13,616	13,638
Accounts payable and accrued expenses	189,029	207,795
Accrued taxes (including federal income taxes of $28,453 and $25,631)	56,248	98,435
Accrued interest	69,175	64,425
Dividends payable	53,279	39,173
Class Settlement	20,000	21,960
Customer deposits	19,483	18,459
Total Current Liabilities	449,830	470,885
Deferred Credits		
1989 Settlement credits	182,720	191,933
Class Settlement	167,569	164,040
Accumulated deferred income taxes	634,704	430,933
Other	117,172	81,443
Total Deferred Credits	1,102,165	868,349
Reserves for Claims, Damages, Pensions and Benefits	8,340	10,851
Commitments and Contingencies	—	—
Total Capitalization and Liabilities	$ 8,842,684	$ 8,520,038

See Notes to Financial Statements.

Shareowners' Equity

At December 31 *(In thousands of dollars)*	Call Price Per Share December 31, 1990	Call Price Per Share Final	1990	1989	1988
Statement of Retained Earnings					
Balance, January 1			$ 436,690	$ 679,579	$ 1,801,919
Add — Restricted for preferred stock dividend requirements at beginning of year			—	341,008	265,288
Add (deduct) — Net income (loss) for the year			331,317	(95,803)	(1,046,623)
Deduct — Cash dividends declared on preferred stock			68,218	429,749	—
Deduct — Cash dividends declared on common stock			139,128	55,618	—
Deduct — Capital stock expense			256	2,727	—
Deduct — Restricted for preferred stock dividend requirements at end of year			—	—	341,008
Balance, December 31			$ 560,405	$ 436,690	$ 679,579
Preferred Stock					
Par Value $100 per Share, Cumulative:					
Shares authorized			7,000,000	7,000,000	7,000,000
Shares issued and outstanding			2,528,400	2,624,172	2,715,116
Shares held in treasury*			—	—	283,500
5.00% Series B	$101.00	$101.00	$ 10,000	$ 10,000	$ 10,000
4.25% Series D	102.00	102.00	7,000	7,000	7,000
4.35% Series E	102.00	102.00	20,000	20,000	20,000
4.35% Series F	102.00	102.00	5,000	5,000	5,000
5 1/8% Series H	102.00	102.00	20,000	20,000	20,000
5 3/4% Series I Convertible	100.00	100.00	2,674	3,592	4,050
8.12% Series J	101.00	101.00	25,000	25,000	25,000
8.30% Series K	103.29	103.29	30,000	30,000	30,000
7.40% Series L**	103.66	100.00	22,400	23,450	27,650
8.40% Series M**	103.92	100.00	26,600	28,000	33,600
8.50% Series R**	102.00	100.00	26,250	30,000	45,000
9.80% Series S**	103.00	100.00	57,916	60,375	72,562
Total Par Value $100			$ 252,840	$ 262,417	$ 299,862
Par Value $25 per Share, Cumulative:					
Shares authorized			30,000,000	30,000,000	30,000,000
Shares issued and outstanding			17,720,000	17,920,000	17,140,000
Shares held in treasury*			—	—	1,060,000
$2.47 Series O**	$ 25.25	$ 25.25	$ 28,000	$ 30,000	$ 40,000
$2.43 Series P	28.50	27.75	35,000	35,000	35,000
$3.31 Series T**	25.75	25.00	60,000	63,000	75,000
$4.25 Series U**	—	—	—	—	65,000
$3.50 Series V**	—	—	—	—	75,000
$3.52 Series W	—	—	—	—	65,000
$3.50 Series X**	—	—	—	—	100,000
$2.65 Series Y**	27.65	25.00	320,000	320,000	—
Total Par Value $25			$ 443,000	$ 448,000	$ 455,000
Less — Sinking fund requirements			$ 13,616	$ 13,638	$ 19,888
Less — Treasury stock at cost*			—	—	58,430
Add — Retained earnings restricted for preferred stock dividend requirements			—	—	341,008
Total Preferred Stock			$ 682,224	$ 696,779	$ 1,017,552
Common Stock					
Par Value $5 per Share					
Shares authorized			150,000,000	150,000,000	150,000,000
Shares issued and outstanding			111,324,081	111,249,468	111,193,008
Increase in shares outstanding			74,613	56,460	43,190
Increase in $5 par value			$ 373	$ 282	$ 216
Increase in premium on capital stock			$ 924	$ 608	$ 149
Increase (decrease) in capital stock expense			$ (240)	$ (13,235)	$ 7

See Notes to Financial Statements

**Held to meet annual sinking fund requirements*

***Redemption required, see Note 5*

Statement of Cash Flows

For year ended December 31 *(In thousands of dollars)*	1990	1989	1988
Operating Activities:			
Net Income (Loss)	**$ 331,317**	$ (95,803)	$ (1,046,620)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Cumulative effect of accounting change for unbilled gas revenues	**(11,680)**	—	—
Cumulative effect of accounting change for disallowed costs	—	—	1,345,110
Depreciation, depletion and amortization	**112,784**	103,430	93,596
Provision for doubtful accounts	**30,097**	12,347	8,694
Base financial component amortization	**100,971**	50,485	—
Regulatory liability component amortization	**(86,101)**	(43,038)	—
Rate moderation component	**(297,214)**	(131,167)	—
Regulatory liability component	—	793,592	—
Jamesport amortization	—	104,160	—
19[illegible] Settlement	—	303,947	—
Class Settlement	**22,574**	186,000	—
Federal income taxes (credit) — deferred and other	**179,643**	(1,052,023)	93,452
Allowance for other funds used during construction	**(2,940)**	1,166	(177,656)
Other	**18,040**	39,478	19,682
Changes in operating assets and liabilities:			
Accounts receivable	**(22,463)**	(53,324)	(33,269)
Accrued revenue	**30,748**	(97,983)	(31,185)
Materials and supplies, fuel oil and gas in storage	**(48,040)**	(6,681)	8,414
Prepayments and other current assets	**23,752**	23,890	4,965
Accounts payable and accrued expenses	**2,345**	42,818	11,814
Class Settlement	**(20,129)**	—	—
Accrued taxes	**(42,187)**	66,750	9,577
Other	**(459)**	(7,456)	5,695
Net Cash Provided by Operating Activities	**321,058**	240,588	312,269
Investing Activities:			
Construction and nuclear fuel expenditures	**(229,525)**	(297,396)	(586,514)
Financial stability adjustment revenues	—	96,180	203,013
Construction and nuclear fuel expenditures, net of financial stability adjustment revenues	**(229,525)**	(201,216)	(383,501)
Shoreham post settlement costs	**(152,675)**	(75,044)	
Receivable — Nine Mile Point 2 settlement	—	—	52,200
Other	**81**	(393)	(532)
Net Cash Used in Investing Activities	**(382,119)**	(276,653)	(331,833)
Financing Activities:			
Proceeds from issuance of long-term debt	**112,319**	1,541,350	—
Proceeds from issuance of short-term debt	—	111,585	—
Redemption of long-term debt	**(82,000)**	(732,585)	(81,195)
Redemption of short-term debt	—	(111,585)	—
Proceeds from sale of preferred stock	—	309,120	—
Redemption of preferred stock	**(13,659)**	(307,738)	—
Preferred stock dividends paid	**(68,046)**	(418,387)	—
Common stock dividends paid	**(125,192)**	(27,807)	—
Acquisition of treasury stock	—	(1,400)	(17,549)
Cost of issuing long-term debt	**(1,327)**	(53,156)	(280)
Cost related to the sale of preferred stock	—	(24,827)	—
Other	**1,598**	(750)	356
Net Cash Provided by (Used in) Financing Activities	**(176,307)**	283,820	(98,668)
Net Increase (Decrease) in Cash and Cash Equivalents	**$ (237,368)**	$ 247,755	$ (118,232)

Cash and cash equivalents at beginning of year	**$ 340,304**	$ 92,549	$ 210,781
Net increase (decrease) in cash and cash equivalents	**(237,368)**	247,755	(118,232)
Cash and Cash Equivalents at End of Year	**$ 102,936**	$ 340,304	$ 92,549

See Notes to Financial Statements

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies

The Company's accounting policies conform to generally accepted accounting principles (GAAP) as they apply to a regulated enterprise. Its accounting records are maintained in accordance with the Uniform System of Accounts prescribed by the Public Service Commission of the State of New York (PSC) and the Federal Energy Regulatory Commission (FERC).

Utility Plant

Additions to and replacements of utility plant are capitalized at original cost, which includes material, labor, overhead and an allowance for the cost of funds used during construction (AFC), net of financial stability adjustment (FSA) revenues. The cost of renewals and betterments relating to units of property is added to utility plant. The cost of property replaced, retired or otherwise disposed of is deducted from utility plant and, generally, together with dismantling costs less any salvage, is charged to accumulated depreciation. The cost of repairs and minor renewals is charged to maintenance expense. Mass properties (such as poles, wire and meters) are accounted for on an average unit cost basis by year of installation.

Allowance for Funds Used During Construction

The Uniform System of Accounts defines AFC, which is not an item of current cash income, as the net cost of borrowed funds for construction purposes and a reasonable rate of return upon the utility's equity, when so used. AFC is computed monthly using a rate permitted by FERC on that portion of construction work in progress (CWIP) which is not included in the Company's rate base. The portion of AFC relating to borrowed funds is included in the Interest Charges and (Credits) section of the Statement of Income.

FSA revenues, which were authorized by the PSC and received from 1984 up to the effectiveness of the 1989 Settlement, provided the Company with additional revenues, which were in excess of the amounts to which the Company was entitled under conventional ratemaking and reduced the cost of construction through an offset to AFC.

The average annual AFC rate, without giving effect to compounding was 11.03%, 12.20% and 12.12% for the years 1990, 1989 and 1988, respectively. The average annual AFC rate, net of tax, which had been principally applied to the Shoreham Nuclear Power Station (Shoreham) CWIP, without giving effect to compounding, was 9.95% for the year 1988.

Depreciation and Amortization

The provisions for depreciation result from the application of straight-line rates to the original cost, by groups, of depreciable properties in service. The rates are determined by age-life studies performed annually on depreciable properties. Depreciation was equivalent to approximately 3.2%, 3.2% and 3.6% for electric and 2.8%, 2.9% and 2.8% for gas of respective average depreciable plant costs for the years 1990, 1989 and 1988, respectively.

Abandonments and Disallowances of Plant Costs

In December 1986, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 90, Regulated Enterprises—Accounting for Abandonments and Disallowances of Plant Costs. SFAS No. 90 requires, among other matters, that a loss be recognized when it becomes probable that costs of a plant will be disallowed for ratemaking purposes or the cost of an abandoned plant is in excess of the present value of the future revenues expected to be realized relative to the abandoned plant. As a result of adopting SFAS No. 90 effective January 1, 1988, the Company's 1988 financial statements reflect a write-down of net assets, amounting to approximately \$1.3 billion, net of tax effects, or \$12.10 per common share, which was accounted for as the cumulative effect of a change in accounting principle. This write-down related principally to certain costs of Shoreham determined to be imprudent by the PSC in 1985 and to the estimate as of January 1, 1988 of the Company's share of Nine Mile Point Nuclear Power Station, Unit 2 (NMP2) costs in excess of the amount provided in the 1986 NMP2 settlement among the cotenants of NMP2. An additional adjustment relating to NMP2 was recorded in December 1989, which is discussed in Notes 4 and 11. In June 1989, the Company recorded the effects of the 1989 Settlement and in December 1989 recorded an additional charge to earnings reflecting revisions to certain estimates relating to the 1989 Settlement, which are discussed in Notes 2 and 11.

Nuclear Plant Decommissioning Costs

The Company's share of the estimated decommissioning costs for NMP2 are being provided for in electric rates and are being charged to operations as depreciation expense. For a further discussion of NMP2 decommissioning costs see Note 4.

Capitalization-Premiums, Discounts and Expenses

Premiums or discounts and expenses related to the issuance of long-term debt are amortized over the lives of the issues. Capital stock expense related to that portion of preferred stock required to be redeemed is written-off as an adjustment to retained earnings upon redemption unless the preferred stock is redeemed below par value, in which case any resulting gain, net of the related capital stock expense, is recorded as additional premium on capital stock.

The capital stock expense and redemption costs associated with redeeming Preferred Stock Series U, V, W and X and the cost of issuance of Preferred Stock Series Y are being amortized over ten years.

Reserves for Claims, Damages, Pensions and Benefits

Losses arising from claims against the Company and extraordinary storm losses are partially self-insured. Amounts provided are credited to the reserves based upon experience, risk of loss, actuarial estimates and/or specific orders of the PSC.

Revenues and Rates

Effective January 1, 1990, the Company changed its method of accounting for unbilled gas revenues to include estimated consumption and related revenues for all gas services delivered to customers but not yet billed at month-end. Previously, unbilled gas revenues were recognized only for customers billed on a bi-monthly cycle basis for the month in which they were normally not billed. This change, which was made in conjunction with the Company's gas rate case concluded in January 1990, results in better matching of revenues and expenses and provides consistency with the Company's revenue recognition method for electric revenues. The effect of the change on income before the cumulative effect of accounting changes and earnings for common stock for the year ended December 31, 1990 was not material.

Effective January 1, 1988, the Company recorded an asset for unbilled electric revenues, for all customers through December 31, 1987, and a corresponding liability amounting to $63.2 million to conform to an order of the PSC in its December 1987 rate decision. Previously, unbilled electric revenues were recognized only for customers billed on a bi-monthly cycle basis for the month in which they are normally not billed. Pursuant to the same order, the Company was allowed to amortize the liability and, therefore, increase electric revenues by approximately $1.8 million per month. The liability was fully amortized at December 31, 1990.

On January 25, 1991, the Company filed a request with the PSC to increase its gas rates effective December 1, 1991 by 7.7% or $35 million in additional revenues. This request reflects the expansion of the Company's gas business and presents its latest projections of capital expenditures and operations and maintenance expenses. In addition, the Company is proposing a weather normalization clause, consistent with the PSC's approval of weather adjustment clauses for other New York gas utilities, to eliminate the effect of weather on the revenue level to be established by the PSC.

Electric rates under the 1989 Settlement are discussed in Note 2.

Fuel Cost Adjustments

The Company's electric and gas tariffs include fuel cost adjustment clauses representing the difference between actual fuel costs and the fuel costs allowed in the Company's base tariff rates. The Company, to achieve a proper matching of costs and revenues, defers these adjustments, net of related income tax effects, to those future periods in which they will be billed or credited to customers. Pursuant to the 1989 Settlement, the Company transferred the deferred balance of $11.4 million of electric fuel costs collected from customers in excess of its actual fuel costs as of April 15, 1989, to a deferred credit account. The Company is currently recording electric fuel costs collected from ratepayers in excess of actual fuel costs as a liability, until the final disposition of such liability is determined by the PSC.

FERC had ruled that, subject to its regulations, interstate pipeline companies may pass on to their customers certain costs which resulted when demand for natural gas from interstate gas pipeline companies declined due to changing market conditions. In 1989, the PSC determined that 87.5% of these costs, known as take-or-pay (TOP) costs, will be recovered from ratepayers, and, accordingly, the Company wrote off in 1989 approximately $3.1 million, net of tax effects, which represents the estimated non-recoverable portion of TOP costs.

Federal Income Taxes

The Company provides deferred federal income taxes with respect to certain differences between net income before income taxes and taxable income in certain instances when approved by the PSC, as disclosed in Note 8. The Company defers the benefit of 60% of pre-1982 gas and pre-1983 electric and 100% of all other investment tax credits, with respect to regulated properties, when realized on its tax returns.

For ratemaking purposes, certain accumulated deferred federal income taxes are deducted from rate base and amortized or otherwise applied as a reduction (increase) in federal income tax expense in future years. Accumulated deferred investment tax credits are amortized ratably over the lives of the related properties.

The tax effects of other differences between income for financial statement purposes and for federal income tax purposes are accounted for as current adjustments in federal income tax provisions.

In December 1987, the FASB issued SFAS No. 96, Accounting for Income Taxes, effective for fiscal years beginning after December 15, 1988. The FASB subsequently deferred the effective date of SFAS No. 96 to fiscal years beginning after December 15, 1991. SFAS No. 96 will require, among other matters, recognition of the amount of current and deferred taxes payable or refundable at the date of the financial statements as a result of all events that have been recognized in the financial statements and

adjustment of deferred income taxes for an enacted change in tax laws. For regulated enterprises, SFAS No. 96 will prohibit net of tax accounting and reporting and require recognition of a deferred tax liability for the tax benefits which are flowed through to its customers and the equity component of AFC. A regulatory asset or liability should be recognized relating to such items if it is probable that the future increase or decrease in taxes payable thereon shall be recovered from or returned to customers through future rates. The Company does not expect to adopt SFAS No. 96 prior to January 1, 1992, which will provide additional time for the Company to complete its evaluation and analysis of SFAS No. 96. The impact of SFAS No. 96 on the Statement of Income is not expected to be material. However, the Company estimates that had it adopted SFAS No. 96 at December 31, 1990, the Company would have recorded an accumulated deferred tax liability and an offsetting regulatory asset of approximately $1.5 billion.

Supplemental Information for Statement of Cash Flows

The Company considers as cash equivalents all highly liquid investments with a maturity of three months or less when purchased. The Company made federal income tax payments of $900,000 and $17,090,000 during the years 1990 and 1988, respectively. The Company did not make any federal income tax payments during 1989. Additionally, the Company received refunds of federal income taxes applicable to prior years of $23,588,000, $2,660,000 and $7,827,000 during the years 1990, 1989 and 1988, respectively. The Company made interest payments totaling $479,278,000, $475,672,000 and $422,780,000, before the reduction of the allowance for borrowed funds used during construction, during the years 1990, 1989 and 1988, respectively.

Note 2. The 1989 Settlement

On February 28, 1989, the Company and the State of New York (by its Governor) entered into the 1989 Settlement settling certain issues relating to the Company and providing, among other matters, for the transfer of Shoreham and its subsequent decommissioning. The 1989 Settlement recites the intention of the parties that the Company shall be returned to investment grade financial condition and that the Company and the State of New York anticipate that the PSC shall ensure that the future impacts on rates are to be minimized to the maximum extent practicable. It is the Company's position that these objectives can be achieved, in part, through the continued receipt of adequate and timely rate relief.

Upon the effectiveness of the 1989 Settlement, the Company simultaneously recorded on its Balance Sheet the retirement of its investment in Shoreham and Bokum Resources Corporation (Bokum) and the establishment of a regulatory asset known as the Financial Resource Asset (FRA). The Rate Moderation Agreement (RMA), one of the constituent documents of the 1989 Settlement, provides for the full recovery of the FRA. The FRA has two components, the Base Financial Component (BFC) and the Rate Moderation Component (RMC). The BFC, which as initially established, represents the present value of the future net-after-tax cash flows which the RMA provided the Company for its financial recovery. The BFC, which is granted rate base treatment under the terms of the RMA, is included in the Company's revenue requirements through an amortization included in rates over a 40 year period on a straight-line basis, beginning July 1, 1989. The RMC, which will provide the Company with a substantial amount of non-cash earnings over the next several years, reflects the difference between the Company's revenue requirements under conventional ratemaking and the revenues resulting from the implementation of the rate moderation plan provided for in the RMA. This rate moderation plan is designed to hold electric rate increases to the levels provided for in the RMA, subject to the adjustments provided for therein. The RMC is based on forecast data filed in connection with the RMA, adjusted to reflect actual property taxes, cost of asbestos removal, interest expense, energy conservation and load management program costs, costs to provide added electric system reliability and inflation. The RMC initially increases as the difference between revenues resulting from the implementation of the rate moderation plan provided for in the RMA and revenue requirements under conventional ratemaking, together with a carrying charge based on the allowed rate of return on rate base, are deferred and will subsequently decrease and is expected, based on the rate filing discussed below, to be fully amortized by the year 2001 as these deferred revenue requirements are recovered.

Immediately prior to the effectiveness of the 1989 Settlement, the amount of the Company's investment in Shoreham and Bokum was approximately $4.2 billion. At June 30, 1989, the BFC was approximately $4.0 billion. The Company recognized a loss in June 1989, of approximately $62 million, net of tax effects, which primarily reflected the difference between the recorded costs of the Company's investment in Shoreham and Bokum and the BFC. As a result of the PSC's approval of the RMA in April 1989, the Company believed that the remaining approvals necessary for the effectiveness of the 1989 Settlement would be obtained and that the 1989 Settlement would become effective. Accordingly, the Company, effective January 1, 1989, ceased the accrual of AFC on Shoreham in its GAAP basis financial statements, the result of which was to reduce net income by approximately $200 million through June 1989. The discontinuance of accruing AFC on Shoreham had no effect on the Company's cash flow and mitigated the foregoing write-off resulting

from the effectiveness of the 1989 Settlement. The FSA revenue offset to AFC exceeded AFC recorded during the year ended December 31, 1989 through the date of the effectiveness of the 1989 Settlement, at which time the FSA revenues ceased.

The total amount of FSA revenues, net of tax effects, was $96 and $203 million during 1989 and 1988, respectively.

The RMA targets an allowed common equity return of 12.77% for the year ending November 30, 1991 and contemplates that the Company will apply to the PSC for the targeted annual rate increases of 4.5% to 5.0% in each year for an eight year period beginning December 1, 1991. The Company may retain an additional 70 basis points of the earned return on common equity in excess of the targeted allowed return as a result of reducing preferred stock dividend requirements, adjusted for scheduled sinking fund requirements, and if it successfully implements an aggressive conservation and demand side management program. Earned returns on common equity in excess of the targeted allowed returns, adjusted for the foregoing, will be applied to reduce the RMC or mitigate rates, as determined by the PSC at the end of each rate year. The Company did not earn in excess of the targeted allowed returns, as adjusted, for the years ended November 30, 1990 or November 30, 1989.

On December 28, 1990, the Company filed a rate request with the PSC to implement the initial targeted rate increases established in the 1989 Settlement. If approved by the PSC, the Company's proposal would increase electric rates by 5.0% a year beginning on December 1 in 1991, 1992 and 1993, respectively, before giving effect to the rate reductions required by the Class Settlement discussed in Note 3. The Company's request is consistent with the ratemaking principles established by the PSC when it approved the RMA. The return on equity is also consistent with the RMA. The allowed common equity returns contemplated by the Company under the new rate filing are 12.2% for the year ending November 30, 1992 and 11.75% for the years ending November 30, 1993 and 1994.

The RMA contemplates that the original assumptions underlying the RMA could change, with the PSC considering any changes in the assumptions upon which the targeted increases were based. The assumptions set forth in the filing have been updated to reflect current conditions, including, among others, reduced demand forecasts. The updated assumptions would have required rate increases in excess of the targeted amounts envisioned by the RMA in order to fully amortize the RMC in approximately ten years. However, in order to limit the rate request to the targeted levels, the Company proposes that the RMC be fully recovered in a twelve year period. In this filing, the RMC balance is projected to peak in 1994 at about $1 billion rather than the approximately $830 million originally assumed in the RMA. To keep the RMC amortization period from increasing beyond twelve years, the Company's filing contains a proposal to credit several deferred ratepayer benefits directly to the RMC, including amounts collected in excess of actual fuel costs and any earned returns in excess of targeted allowed returns, that may materialize. The Company has also proposed a mechanism to reduce the impact of experiencing electric sales that are significantly below the Company's forecast by providing the minimum level of sales revenues, net of fuel and gross receipts taxes, that the Company must receive to fully amortize the RMC within twelve years. In this rate filing, the Company has proposed that the 70 basis point incentive be limited to 50 points.

A regulatory liability of approximately $794 million was recorded in June 1989, to preserve an amount equivalent to the ratepayer tax benefits attributable to the Shoreham abandonment and is being amortized over a ten year period on a straight-line basis from the effective date of the 1989 Settlement. Under the 1989 Settlement, certain tax benefits of the transactions are to be shared between ratepayers and shareowners. The tax benefit arising from the abandonment loss deduction has been offset against the corresponding regulatory liability in the Company's Balance Sheet as it could not have been fully recognized under GAAP were it not for the fact that its recovery is assured under the 1989 Settlement through the regulatory liability offset.

The 1989 Settlement amount on the Statement of Income of approximately $304 million for the year ended December 31, 1989, principally reflects the net difference between the write-off of Shoreham and Bokum, the establishment of the BFC, and the adjustment required to correspond with the negotiated settlement amount.

Upon the effectiveness of the 1989 Settlement, nuclear fuel related to Shoreham was reclassified to deferred charges and is being amortized and recovered through rates over a 40 year period on a straight-line remaining life basis. Shoreham post settlement costs (decommissioning, payments in lieu of property taxes and other costs as incurred) are being capitalized and amortized and recovered through rates over a 40 year period on a straight-line remaining life basis, under the RMA.

The 1989 Settlement credits on the Balance Sheet of approximately $183 million, net of amortization, reflects an adjustment of the book write-off to the negotiated 1989 Settlement amount, and is being amortized over a 10 year period.

The Company believes that the accounting treatment afforded the FRA under the 1989 Settlement conforms to GAAP. For purposes of administering its Uniform System of Accounts, FERC has adopted the provisions of SFAS No. 90 which sets forth the criteria for recognition of regulatory created assets resulting from abandonments. Accordingly, the Company believes that the accounting treatment afforded the FRA conforms to FERC's standards for accounting and asset recognition of regulatory created assets. For a discussion of the events and uncertainties which challenge the 1989 Settlement see Note 9.

Note 3. The Class Settlement

On February 14, 1989, the Company and certain of its former officers entered into an agreement (Class Settlement) settling a civil lawsuit against the Company brought under the federal Racketeer Influenced and Corrupt Organizations Act (RICO Act), alleging that the Company made inadequate disclosures before the PSC concerning the construction and completion of nuclear generating facilities and seeking damages on behalf of the class of all present and former ratepayers. During 1990, the decisions of the District Court dismissing the RICO Act lawsuit and approving the Class Settlement were affirmed by the United States Court of Appeals and no further appeals were taken. The Class Settlement, provides for rate reductions aggregating \$390 million to be made to the ratepayers' monthly electric bills over a ten year period, as well as approximately \$10 million for attorneys' fees and expenses and certain other costs associated with the Class Settlement. During 1990, the Company made payments of \$10 million for such costs and \$10 million in satisfaction of the claims of the former ratepayers. Rate reductions under the Class Settlement began in December 1990 and will continue through May 2000. Upon the effectiveness of the Class Settlement, the Company recorded the present value of the Class Settlement at June 30, 1989 as a charge to income.

Note 4. Nine Mile Point Nuclear Power Station, Unit 2

The Company has an 18% undivided interest in NMP2 which is operated by Niagara Mohawk Power Corporation (NMPC) near Oswego, New York. Ownership of NMP2 is shared by five cotenants: the Company (18%), NMPC (41%), New York State Electric & Gas (18%), Rochester Gas and Electric Corporation (14%) and Central Hudson Gas & Electric Corporation (9%). At December 31, 1990, the Company's net utility plant investment in NMP2 was \$816 million, net of accumulated depreciation of \$60 million, which is included in the Company's rate base. Output of NMP2, which has a design capability of 1,084 megawatts, is shared in the same proportions as the cotenants' respective ownership interests. The operating expenses of NMP2 are also allocated to the cotenants in the same proportions as their respective ownership interests. The Company's share of these expenses are included in the appropriate operating expenses in the Statement of Income. The Company is required to provide its respective share of financing for any capital additions to NMP2. Nuclear fuel costs associated with NMP2 are being amortized on the basis of the quantity of heat produced for the generation of electricity. For regulatory purposes, April 5, 1988 has been recognized as the commercial operation date for NMP2.

Under a settlement approved in 1986 (1986 NMP2 settlement), the PSC had limited the Company's recovery from its ratepayers of the costs incurred in the construction of NMP2 to \$725 million, net of tax effects. Furthermore, on October 24, 1990, the PSC approved a settlement agreement (1990 NMP2 settlement) among the Company, other cotenants of NMP2 and other parties, including the New York State Attorney General and Staff of the PSC, resolving certain ratemaking issues regarding the construction of NMP2 and its operation through January 19, 1990. The 1990 NMP2 settlement also disposes of appeals concerning the 1986 NMP2 settlement and proceedings related to the prudence of the cotenants with respect to NMP2 outages prior to January 20, 1990. Under the terms of the 1990 NMP2 settlement the Company is limited to recovering \$716 million of original plant costs from its ratepayers, net of tax effects. The effect of the 1990 NMP2 settlement agreement was recorded by the Company in December 1989, as discussed in Note 11.

NMPC has contracted with the United States Department of Energy for the disposal of nuclear fuel. The Company is reimbursing NMPC for its 18% share of the cost under the contract of \$1.00 per megawatt hour of net generation.

The Company's share of the estimated decommissioning costs for NMP2, based upon a study performed by NMPC, is \$37 million (in 1989 dollars) assuming that decommissioning will commence in 2027 or \$237 million (in 2027 dollars). The amount of accumulated decommissioning costs collected from the Company's ratepayers through December 31, 1990 was \$2.1 million. Amounts collected by the Company for the decommissioning of the contaminated portion of the NMP2 plant, which approximate 84% of total decommissioning costs, are to be held in an independent decommissioning trust fund, established pursuant to regulations issued by the Nuclear Regulatory Commission (NRC) governing the funding of nuclear plant decommissioning costs. The Company's plan to fund the trust was submitted to the NRC for approval in July 1990. The Company's funding plan for decommissioning costs will provide reasonable assurance that, at the time of termination of operation, adequate funds for the decommissioning of the contaminated portion of NMP2 plant will be available. The Company is seeking a ruling from the Internal Revenue Service (IRS) in order to obtain qualified nuclear decommissioning fund status for the independent decommissioning trust fund. This status will allow the contributions for the decommissioning costs for contaminated plant to be deductible for income tax purposes in the tax year they are made.

NMPC has been notified by the NRC that NMP2 has been categorized "as requiring close monitoring". An industry sponsored oversight group performed a site evaluation of NMP2 and reported deficiencies in several key areas. NMPC has made commitments to address these findings.

The Company has been informed by NMPC that, during the first refueling outage at NMP2, NMPC discovered a potential problem with a pipe weld. The NRC has informed NMPC that the pipe weld must be reinspected. The Company estimates that its share of the costs of the reinspection and, if necessary, the repair, will not be material. The Company believes that it will be able to recover most of these costs.

Note 5. Capital Stock

Preferred Stock

Preferred stock dividends are cumulative. On September 1, 1989, the Company paid dividends amounting to approximately $390 million on all series of preferred stock, then in arrears. At December 31, 1990, there were no preferred stock dividends in arrears. Redemption of various series of preferred stock is effected through the operation of various sinking fund provisions. On July 25, 1989, simultaneous with the declaration of all preferred stock dividends in arrears, the Company satisfied sinking fund requirements totaling approximately $56 million then in arrears on all series of preferred stock by crediting previously acquired shares of preferred stock held in the Company's treasury. The aggregate par value of preferred stock required to be redeemed in each of the years 1991 through 1995 is $13.6 million. In October 1989, the Company sold 12,800,000 shares of Preferred Stock, $2.65, Series Y, cumulative, par value $25 per share. The Company used the proceeds from the issuance of the Series Y Preferred Stock to call at applicable redemption prices its high cost Preferred Stock Series U,V,W and X.

Preference Stock

None of the authorized 7,500,000 shares of nonparticipating preference stock, par value $1 per share, which ranks junior to the preferred stock, are outstanding.

Common Stock

Of the 150,000,000 shares of authorized common stock at December 31, 1990, 1,905,929 shares were reserved for sale to all employees and 155,948 shares were reserved for conversion of the Series 1 Convertible Preferred Stock at a rate of $17.15 per share. In addition, the Company had reserved 6,802,247 shares for the Automatic Dividend Reinvestment Plan which has been suspended since February 1984. Common and preferred stock dividend limitations contained in the mortgage securing the Company's First Mortgage Bonds are not material. There are no dividend limitations contained in the Company's other debt instruments.

Note 6. Long-Term Debt

Each of the Company's four mortgages is a lien on substantially all of the Company's properties.

First Mortgage

All of the bonds issued under the First Mortgage, including those issued after June 1, 1975 and pledged with the Trustee of the G&R Mortgage (G&R Trustee) as additional security for General and Refunding Bonds (G&R Bonds), are secured by the lien of the First Mortgage. First Mortgage Bonds pledged with the G&R Trustee do not represent outstanding indebtedness of the Company. Amounts of such pledged bonds outstanding were $449 million at December 31, 1990 and 1989. The annual First Mortgage depreciation fund requirement of $179 million and sinking fund requirement of $12 million were satisfied with property additions and retired First Mortgage Bonds, respectively, in January 1991.

G&R Mortgage

The lien of the G&R Mortgage is subordinate to the lien of the First Mortgage. The annual G&R Mortgage sinking fund requirement for 1990, due not later than June 30, 1991, is estimated at $26 million. The Company expects to satisfy this requirement with retired G&R Bonds.

Third Mortgage/1989 Term Loan Agreement

The Third Mortgage is subordinate to the liens of the First Mortgage and the G&R Mortgage. The bank debt secured by the Third Mortgage was restructured on June 30, 1989, at which time, the Company entered into the 1989 Amended and Restated Restructuring Credit Agreement (1989 Term Loan Agreement) pursuant to which the Company is to pay to its lending banks approximately $446 million in sixteen substantially equal consecutive quarterly installments commencing on January 1, 1993 and ending on October 1, 1996. Pursuant to the 1989 Term Loan Agreement, the Company has the option to commit to one of three interest rates including: (a) Adjusted Certificate of Deposit Rate (CD Rate) which is a rate based on the certificate of deposit rates of certain of the lending banks, (b) Base Rate which is generally a rate based on Citibank, N.A.'s prime rate and (c) Eurodollar Rate which is a rate based on the London Interbank Offering Rate (LIBOR). At December 31, 1990, the Company had approximately $446 million outstanding under the 1989 Term Loan Agreement at the LIBOR Rate which was 9.01% per annum.

Fourth Mortgage

The Fourth Mortgage secures $85 million of the Company's obligations under the letter of credit described below under the heading Authority Financing Notes. Through an Intercreditor Agreement, the letter of credit bank secured by the Fourth Mortgage holds a lien on Company property that is equal in rank to the lien held by the banks secured by the Third Mortgage.

1989 Revolving Credit Agreement

On June 30, 1989, the Company and certain of its lending banks entered into the 1989 Revolving Credit Agreement (1989 RCA) which provides credit to the Company through October 1, 1992, secured by a first lien upon its accounts receivable and fuel oil inventory, of up to $300 million. The Company has the option to commit to one of three interest rates including: (a) the CD Rate, (b) the Base Rate and (c) the Eurodollar Rate. Currently, the 1989 RCA is unused and remains available to the Company. The Company has agreed to pay a fee of one quarter of one percent per annum on the unused portion. The termination date of the 1989 RCA may be extended for one year periods upon the Company's request delivered to the lending banks in June of each year beginning in 1991.

Debentures

On April 17, 1989, the Company issued $375 million of debentures, 11 3/8% Series Due 1993. On July 11, 1989, the Company issued $1.1 billion of debentures ($400 million, 10.25% Series Due 1994; $350 million, 10.875% Series Due 1999 and $350 million, 11.375% Series Due 2019). The Company used $535 million of the proceeds from the issuance of the debentures to redeem, at applicable redemption prices, $495 million principal amount of high interest rate G&R Bonds in August 1989. The Company's debentures are equal in rank with all other unsecured indebtedness of the Company.

Authority Financing Notes

Authority Financing Notes are issued by the Company to the New York State Energy Research and Development Authority (NYSERDA) to secure certain tax-exempt Pollution Control Revenue Bonds (PCRBs), Electric Facilities Revenue Bonds (EFRBs) and Industrial Development Revenue Bonds issued by NYSERDA. Certain of these bonds are supported by letters of credit and are subject to periodic tender at which time their interest rates are subject to redetermination. When such letters of credit expire, the Company is required to obtain either an extension of the letter of credit or substitute credit backup. If neither can be obtained, the bonds must be redeemed unless the Company purchases the bonds in lieu of redemption and subsequently remarkets them.

The $100 million of EFRBs issued in 1990 are scheduled to be tendered by the holders on June 1, 1991. The $100 million of EFRBs issued in 1989 are scheduled to be tendered by the holders on September 3, 1991. The 1990 and 1989 EFRBs are each supported by letters of credit pursuant to which the letter of credit bank has agreed to pay the principal, interest and premium on any tendered EFRBs, in the aggregate, up to approximately $109 million for each issue in the event of default. The obligation of the Company to reimburse the letter of credit bank is unsecured. These letters of credit expire on June 3, 1993 and December 31, 1991, for the 1990 EFRBs and 1989 EFRBs, respectively.

The Company issued an additional $100 million of EFRBs in January 1991 with an initial interest rate of 6%. These EFRBs are scheduled to be tendered by the holders on December 1, 1991. The 1991 EFRBs are supported by a letter of credit pursuant to which the letter of credit bank has agreed to pay the principal, interest and premium on any tendered 1991 EFRBs, in the aggregate, up to approximately $109 million in the event of default. The obligation of the Company to reimburse the letter of credit bank is unsecured. The letter of credit expires on January 24, 1994.

The $150 million of PCRBs issued by NYSERDA in 1985 are deemed to be tendered by the holders each March 1. The letter of credit bank, partially secured by the Fourth Mortgage in the amount of $85 million, has agreed, in the event of default to pay the principal, interest and premium on the tendered PCRBs, in the aggregate, up to approximately $165 million. This letter of credit expires on September 15, 1992. Approximately $17 million of PCRBs issued by NYSERDA in 1982 may be tendered by the holders every three years. The next such tender will occur in October 1991. The remaining $47 million of PCRBs were issued at varying fixed rates and are not subject to tender.

Long-Term Debt

At December 31 *(In thousands of dollars)*	1990	1989
First Mortgage Bonds *(excludes Pledged Bonds)*		
5% Series L Due 1991	$ 25,000	$ 25,000
4.40% Series M Due 1993	40,000	40,000
4⅝% Series N Due 1994	25,000	25,000
4.55% Series O Due 1995	25,000	25,000
5¼% Series P Due 1996	40,000	40,000
5⅝% Series Q Due 1997	35,000	35,000
8.20% Series R Due 1999	35,000	35,000
7¾% Series S Due 2000	25,000	25,000
7¾% Series U Due 2001	40,000	40,000
7½% Series V Due 2001	50,000	50,000
7⅝% Series W Due 2002	50,000	50,000
8⅛% Series X Due 2003	60,000	60,000
Total First Mortgage Bonds	450,000	450,000
General and Refunding Bonds		
12⅝% Series Due 1992	—	75,000
13¼% Series Due 1995	225,000	225,000
11¼% Series Due 1996	250,000	250,000
9.75% Series Due 1999	67,000	74,000
9⅝% Series Due 2006	70,000	70,000
8⅜% Series Due 2006	50,000	50,000
8⅝% Series Due 2007	85,000	85,000
9.20% Series Due 2008	75,000	75,000
11⅞% Series Due 2015	275,000	275,000
Total General and Refunding Bonds	1,097,000	1,179,000
Third Mortgage		
1989 Term Loan Agreement	446,341	446,341
Other Long-Term Debt		
Debentures		
11¾% Series Due 1993	375,000	375,000
11.70% Series Due 1993	175,000	175,000
10.25% Series Due 1994	400,000	400,000
11.75% Series Due 1994	175,000	175,000
10.875% Series Due 1999	350,000	350,000
11.50% Series Due 2014	350,000	350,000
11.375% Series Due 2019	350,000	350,000
Total Debentures	2,175,000	2,175,000
Authority Financing Notes (current rate)		
Pollution Control Revenue Bonds		
1976 Series Due 2006 (7.5%)	28,375	28,375
1979 Series Due 2009 (7.8%)	19,100	19,100
1982 Series Due 2012 (8¼%)	17,200	17,200
1985 Series Due 2016 (5.75%)	150,000	150,000
Electric Facilities Revenue Bonds		
1989 Series Due 2019 (6.3%)	100,000	100,000
1990 Series Due 2020 (6.5%)	100,000	—
Industrial Development Revenue Bonds		
1976 Series Due 2006 (7.5%)	2,000	2,000
Total Authority Financing Notes	416,675	316,675
Total Other Long-Term Debt	2,591,675	2,491,675
Total Long-Term Debt	4,585,016	4,567,016
Current Maturities	29,000	7,000
Total Long-Term Debt Less Current Maturities	$ 4,556,016	$ 4,560,016

The aggregate of the Company's long-term debt due in the next five years is $29,000 (1991), $10,000 (1992), $705,585 (1993), $715,585 (1994) and $365,585 (1995).

Note 7. Retirement Benefit Plans

The Company maintains a primary defined benefit pension plan (Primary Plan) which covers substantially all employees, a supplemental plan (Supplemental Plan) which covers key executives and a retirement plan which covers the Board of Directors (Director's Plan). All pension costs are borne by the Company. The Company's funding policy is to contribute annually to the Primary Plan a minimum amount consistent with the requirements of the Employee Retirement Income Security Act of 1974 (ERISA) plus such additional amounts, if any, as the Company may determine to be appropriate from time to time. Pension benefits are determined by crediting the employee with an amount determined using the base salary for each year the employee is a participant in the plan, plus an additional amount credited for each year the employee remains a participant beyond the age of 50. Employees are vested in the pension plan after five years of service with the Company.

Primary Plan

The Primary Plan's funded status and amounts recognized in the Balance Sheet at December 31, 1990 and 1989 were as follows:

	1990	1989
	(in thousands of dollars)	
Actuarial present value of benefit obligation		
Vested benefits	$ 383,805	$ 335,535
Nonvested benefits	6,459	17,846
Accumulated benefit obligation	$ 390,264	$ 353,381
Plan assets at fair value	$ 468,050	$ 454,159
Actuarial present value of projected benefit obligation	464,797	423,769
Projected benefit obligation less than plan assets	$ 3,253	$ 30,390
Unrecognized January 1, net obligations	25,922	27,855
Unrecognized net gain	(30,741)	(56,535)
Net prepaid (accrued) pension cost	$ (1,566)	$ 1,710

Net periodic pension cost for 1990, 1989 and 1988 for the Primary Plan included the following components:

	1990	1989	1988
	(in thousands of dollars)		
Service cost — benefits earned during the period	$ 12,720	$ 10,797	$ 9,800
Interest cost on projected benefit obligation and service cost	32,264	31,458	29,004
Actual return on plan assets	(23,121)	(49,316)	(34,061)
Net amortization and deferral	(5,449)	22,955	8,773
Net periodic pension cost	$ 16,414	$ 15,894	$ 13,516

Assumptions used in accounting for the Primary Plan were:

	1990	1989	1988
Discount rate	**7.25%**	7.5%	8.0%
Rate of future compensation increases	**6.0%**	6.0%	6.0%
Long-term rate of return on assets	**7.0%**	7.0%	7.0%

The Primary Plan assets at fair value primarily include cash, cash equivalents, group annuities, bonds and listed equity securities.

Pursuant to an order issued by the PSC in 1987, the Company has deferred a total of $7.3 million as of December 31, 1990, which represents the excess of pension expense collected from its ratepayers over that determined under SFAS No. 87, Employers' Accounting for Pensions.

Supplemental Plan

The Supplemental Plan provides, without contribution from such employees, supplemental death and retirement benefits for officers and other key executives. The Supplemental Plan is a non-qualified plan under the Internal Revenue Code. Death benefits are currently provided by insurance. Retirement benefits, which are unfunded, total approximately $561,000, $546,000 and $688,000, and were recognized as an expense in 1990, 1989 and 1988, respectively.

Board of Directors Plan

The Director's Plan, adopted in February 1990, provides benefits to directors who are not officers of the Company. Directors who have served in that capacity for more than five years qualify as participants under the plan. The retirement benefits under the plan are unfunded and the expense for 1990 was not material. This plan is a non-qualified plan under the Internal Revenue Code.

Postretirement Benefits Other Than Pensions

In addition to providing pension benefits, the Company provides 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 and similar benefits for active employees are provided through insurance companies whose premiums are based on the benefits paid during the year. The cost of providing these benefits on a pay-as-you-go method was $29,410,000, $27,155,000 and $23,298,000 for 1990, 1989 and 1988, respectively, and were recognized as an expense as premiums were paid. The cost of providing those benefits for approximately 2,100 retirees, is not separable from the cost of providing benefits for approximately 5,900 active employees for the years 1988 through 1990.

In December 1990, the FASB issued SFAS No. 106, Employers' Accounting for Postretirement Benefits Other Than Pensions. SFAS No. 106 establishes accounting standards for employers' accounting for such benefits. SFAS No. 106 will require the Company to change its method of accounting for such benefits from a pay-as-you-go basis to an accrual basis by requiring the accrual of the expected cost of providing postretirement benefits over the period the employee service is rendered. The Company must adopt SFAS No. 106 by January 1, 1993 and does not expect to do so prior to that date. The Company has not yet completed its analysis and therefore cannot determine the impact on the Company's financial statements of adopting SFAS No. 106. The Company believes that the PSC would permit it to record a regulatory asset for any increase in expense resulting from the adoption of this statement which would be recovered through rates at the time these expenses are funded; this accounting is subject to PSC approval.

Note 8. Federal Income Taxes

The federal income tax amounts included in the Statement of Income differ from the amounts which result from applying the statutory federal income tax rate to net income (loss) before income taxes. The table below sets forth the reasons for such differences. The 1989 difference results principally because the tax basis attributable to Shoreham was less than its recorded basis for financial statement purposes and the FRA and certain other 1989 Settlement items recorded by the Company pursuant to the 1989 Settlement have no tax basis.

(In thousands of dollars)	1990		1989		1988	
	Amount	% of Pre-tax Income	Amount	% of Pre-tax Income	Amount	% of Pre-tax Income
Federal income tax, per Statement of Income — current	$ 3,638		$ 14,612		$ 18,395	
Deferred and other (see Note 1):						
1989 Settlement						
Shoreham abandonment	3,239		(907,467)		—	
Jamesport recovery	—		(104,160)		—	
Bokum Resources Corporation	—		(35,977)		—	
Rate moderation component	101,053		44,597		—	
Other 1989 Settlement items	(13,577)		(37,500)		—	
Shoreham post settlement costs	61,475		6,656		—	
Class Settlement	(534)		(63,240)		—	
Interest capitalized	(3,220)		(3,752)		185	
Accrued utility revenues	727		(2,803)		8,131	
Deferred tax credits	(424)		(580)		(13,611)	
Accelerated tax depreciation	33,342		36,242		47,926	
Call premiums	(3,111)		12,452		(221)	
Fuel cost adjustments	4,879		4,451		1,448	
Nine Mile Point 2 deferred revenues	—		4,151		(4,151)	
Capitalized overheads	2,287		1,272		55,504	
TRA 86 benefits	2,059		1,283		1,659	
Other items, net	(8,552)		(7,648)		(3,418)	
Total Deferred	179,643		(1,052,023)		93,452	
Total federal income tax expense (credit)	183,281		(1,037,411)		111,847	
Income (loss) before cumulative effect of accounting changes	319,637		(95,803)		298,490	
Income (Loss) Before Cumulative Effect of Accounting Changes and Income Taxes	$ 502,918		$ (1,133,214)		$ 410,337	
Statutory federal income tax (credit)	$ 170,992	34.0%	$ (385,293)	34.0%	$ 139,515	34.0%
Additions (reductions) in federal income tax resulting from:						
1989 Settlement						
Shoreham abandonment	4,035	0.8	(691,242)	61.0	—	—
Jamesport recovery	—	—	20,101	(1.8)	—	—
Bokum Resources Corporation	—	—	(34,015)	3.0	—	—
Rate moderation component	—	—	(7,360)	0.7	—	—
Other 1989 Settlement items	—	—	(19,821)	1.8	—	—
Allowance for funds used during construction	(2,573)	(0.5)	31,527	(2.8)	(54,899)	(13.4)
Lien date property taxes	(8,757)	(1.8)	20,034	(1.8)	(2,67[illegible])	(0.6)
Tax credits	1,537	0.3	13,534	(1.2)	4,15[illegible]	1.0
Excess of book depreciation over tax depreciation	11,987	2.4	10,842	(1.0)	10,014	2.4
TRA 86 benefits	2,059	0.4	1,283	(0.1)	1,659	0.4
Interest capitalized	6,031	1.2	3,251	(0.3)	8,066	2.0
Other items, net	(2,030)	(0.4)	(252)	0.0	6,012	1.5
Total Federal Income Tax Expense (Credit)	$ 183,281	36.4%	$ (1,037,411)	91.5%	$ 111,847	27.3%

On April 17, 1989, the Company received a private letter ruling from the IRS which stated that the Company would be entitled, for federal income tax purposes, to an abandonment loss deduction in connection with Shoreham, upon effectiveness of the 1989 Settlement. The Company claimed an abandonment loss deduction on its 1989 federal income tax return of approximately $1.8 billion. The Company's net operating loss carryforward is estimated to be approximately $2.2 billion at December 31, 1990.

On January 8, 1990, the Company received a Revenue Agent's Report disallowing certain deductions claimed by the Company on its tax returns for the years under audit. The Revenue Agent's Report reflects proposed adjustments to the Company's federal income tax returns for 1984 through 1987 which, if sustained, would give rise to tax deficiencies totaling approximately $87 million. The Company is protesting some of the adjustments and seeks an administrative and, if necessary, a judicial review of the conclusions reached in the Revenue Agent's Report. The Company cannot predict either the timing or the manner in which this matter will be resolved. If, however, the ultimate disposition of any or all matters raised in the Revenue Agent's Report is adverse to the Company, the Company expects that any deficiencies that may arise will be substantially offset by the net operating loss carrybacks associated with the Shoreham abandonment loss deduction and thus any impact would not have a material effect on the Company's financial condition or cash flows.

The amount of investment tax credit (ITC) carryforward for financial statement purposes after 1990 is approximately $192 million. These credits expire by the year 2002. In accordance with the Tax Reform Act of 1986 (TRA 86), ITC allowable as credits to tax returns for years after 1987 must be reduced by 35%. The amount of the reduction will not be allowed as a credit for any other taxable year.

The Company has not provided deferred taxes on approximately $500 million of various other deductions and depreciation method differences for property placed in service prior to 1981 which, in conformity with the ratemaking practices of the PSC, have been flowed through. These various other flow-through tax deductions, which are deductible currently for tax purposes but capitalized for accounting and ratemaking purposes, include certain taxes, a portion of AFC, pensions and certain other employee benefits. See Note 1 with respect to SFAS No. 96 which the Company must adopt by no later than 1992.

The PSC required the Company to defer the effect of certain TRA 86 tax changes, including the lower corporate federal income tax rate, for future disposition. This resulted in recording an additional $2.1 million, $1.3 million and $1.7 million of income tax expense in 1990, 1989 and 1988, respectively.

Note 9. Commitments and Contingencies

The 1989 Settlement

The 1989 Settlement prohibits the Company from operating Shoreham at any level of power. In furtherance of this requirement, the Company has removed the nuclear fuel from Shoreham's reactor and applied to the NRC for relief from certain of the obligations imposed by the full-power operating license. The 1989 Settlement also provides for the transfer of Shoreham to the Long Island Power Authority (LIPA) and the decommissioning of Shoreham following authorization from the NRC. The Company expects that this transfer will be completed without creating a default under the Company's mortgages. The Company and LIPA have filed an application with the NRC, which is pending, to transfer Shoreham's operating license to LIPA. LIPA has filed a decommissioning plan for Shoreham with the NRC. In proceedings before the NRC and the courts, the Shoreham-Wading River Central School District and Scientists and Engineers for Secure Energy, Inc. are opposing the Company's efforts to fulfill its objectives under the 1989 Settlement. In addition, three actions brought against the Company and others, challenging the 1989 Settlement have been appealed by the plaintiffs to the New York Court of Appeals where they are still pending. The first seeks, among other things, to enjoin the defueling of Shoreham and to declare that one of the documents of the 1989 Settlement is null and void. The second case seeks a judgment declaring one of the documents of the 1989 Settlement null and void and enjoining the proposed transfer of Shoreham. The third case seeks to annul the determination of the PSC which granted the Company rate relief in connection with the 1989 Settlement.

The Company believes that under the RMA the Company will be able to recover from its customers all prudent costs relating to Shoreham, incurred after the effectiveness of the 1989 Settlement, through electric rates over the balance of a forty-year period ending 2029. The Company believes that the RMA will remain in force regardless of an inability to transfer Shoreham. The Company has no reason to believe that the PSC will fail to honor its commitments, contained in the RMA, respecting rate increases for the years beginning December 1, 1991 through December 1, 1998 or recovery of the FRA and other 1989 Settlement-related deferred charges.

Litigation

Asbestos: The Company is a co-defendant with manufacturers, distributors, contractors and other utilities in personal injury and wrongful death actions brought by approximately 800 plaintiffs in New York County Supreme Court and in the United States District Court for the Eastern District of New York alleging exposure since the 1930s to asbestos in buildings. The damages demanded in each of these complaints range up to $55 million, including punitive damages, against all defendants. To date, the cases of 91 plaintiffs have proceeded to pre-trial discovery of which 25 cases have been disposed of. The Company has been dismissed in 24 of these cases and has settled one case for a *de minimus* amount. Discovery is continuing with respect to the remaining claims.

Environmental Matters: The Company has been named by the United States Environmental Protection Agency as a potentially responsible party for the disposal of certain wastes at three different sites. While the outcome of these matters is not certain, based upon the Company's past experience in similar matters and the respective financial condition of the other parties involved, the Company does not believe these matters will have a material impact on its financial condition.

Contract Suit: The Company is also involved in litigation against Suffolk County in which both parties are seeking damages for the other's alleged breach of contract concerning the preparation of an offsite emergency response plan for Shoreham. In its proposed counterclaims, Suffolk County seeks damages in the amount of $146 million for alleged fraud in the inducement, breach of contract by the Company, tortious conduct and fraudulently procured utility rates, as well as $700 million in alleged punitive damages. The Company has moved the court to impose sanctions on Suffolk County relating to these claims on the basis that the allegations are frivolous and ignore significant precedent, including the NRC's approval of the Company's evacuation plan for Shoreham and various Second Circuit Court of Appeal's decisions in related litigation between the parties. In addition, the Company has argued that there is no basis for punitive damages in this case. The Company intends to vigorously prosecute its claims against Suffolk County and to defend against Suffolk County's counterclaims.

Commitments

The Company has entered into substantial commitments for fossil fuel, gas supply and purchased power. The costs of fuel, gas supply and purchased power are normally recovered from ratepayers through provisions in the Company's rate schedules. The Company has also entered into a contract with New York Power Authority to pay for a new interconnection between Westchester and Nassau Counties. The Company will seek to recover the costs of the interconnection, estimated at approximately $314 million, from its ratepayers.

Nuclear Plant Insurance

The Company has property damage insurance and third-party bodily injury and property liability insurance for its 18% share in Nine Mile Point 2 and for Shoreham. The premiums for this coverage are not material. The policies for this coverage provide for retroactive premium assessments under certain circumstances. Maximum retroactive premium assessments could be as much as approximately $6 million. For property damage at each nuclear generating site, the NRC requires a minimum of $1.06 billion of coverage. The NRC has given the Company a partial exemption from these requirements for Shoreham.

Under certain circumstances, the Company may be assessed additional amounts in the event of a nuclear incident. Under agreements established pursuant to the Price Anderson Act, the Company could be assessed up to approximately $74 million per nuclear incident in any one year at any nuclear unit, but not in excess of approximately $12 million in payments per year for each incident. The Price Anderson Act also limits liability for third-party bodily injury and third-party property damage arising out of a nuclear occurrence at each unit to $7.4 billion.

Note 10. Segments of Business

The Company is a public utility operating company engaged in the generation, distribution and sale of electric energy and the purchase, distribution and sale of natural gas to residential and commercial customers in Nassau and Suffolk Counties and the Rockaway Peninsula in Queens County, all on Long Island, New York. Identifiable assets by segment include net utility plant, financial resource asset, materials and supplies (excluding common), accrued revenues, gas in storage, fuel and deferred charges (excluding common). Assets utilized for overall Company operations consist of other property and investments, cash, temporary cash investments, special deposits, accounts receivable, prepayments and other current assets, unamortized debt expense and other deferred charges.

(In thousands of dollars)

For year ended December 31	1990	1989	1988
Operating revenues:			
Electric	$ 2,085,605	$ 1,983,288	$ 1,786,933
Gas	361,242	364,326	350,901
Total	$ 2,446,847	$ 2,347,614	$ 2,137,834
Operating expenses: *(excluding income taxes)*			
Electric	$ 1,141,050	$ 2,115,994	$ 1,139,335
Gas	322,515	325,617	297,450
Total	$ 1,463,565	$ 2,441,611	$ 1,436,785
Operating income (loss): *(before income taxes)*			
Electric	$ 944,555	$ (132,706)	$ 647,598
Gas	38,727	38,709	53,451
Total	983,282	(93,997)	701,049
AFC, net of FSA revenues	(7,568)	98,267	(150,005)
Other income and deductions	(20,327)	456,317	10,049
Interest charges	508,259	484,633	430,668
Income taxes—operating	180,652	(714,420)	200,111
Income taxes—non operating	2,629	(322,991)	(88,264)
Income (loss) before cumulative effect of accounting changes	319,637	(95,803)	298,490
Cumulative effect of accounting changes (net of taxes)	11,680	—	(1,345,110)
Net income (loss)	$ 331,317	$ (95,803)	$ (1,046,620)
Depreciation, depletion and amortization:			
Electric	$ 99,922	$ 91,759	$ 82,811
Gas	12,862	11,671	10,785
Total	$ 112,784	$ 103,430	$ 93,596
Construction and nuclear fuel expenditures:*			
Electric	$ 151,425	$ 148,388	$ 521,971
Gas	81,040	51,662	39,186
Total	$ 232,465	$ 200,050	$ 561,157
Identifiable assets: (at December 31)			
Electric	$ 7,643,963	$ 7,133,161	$ 7,221,472
Gas	540,355	451,447	410,115
Total	8,184,318	7,584,608	7,631,587
Assets utilized for overall Company operations	658,366	935,430	694,750
Total Assets	$ 8,842,684	$ 8,520,038	$ 8,326,337

**Includes non-cash allowance for other funds used during construction and excludes Shoreham post settlement costs.*

Note 11. Quarterly Financial Information

(Unaudited)

(In thousands of dollars except earnings per common share)

		1990	1989
Operating revenues:			
For the quarter ended	March 31	$ 665,531	$ 606,733
	June 30	510,788	509,670
	September 30	707,820	664,169
	December 31	562,708	567,042
Operating income:			
For the quarter ended	March 31	$ 202,899	$ 137,000
	June 30	167,410	109,968
	September 30	282,104	261,490
	December 31	150,217	111,965
Net income (loss):			
For the quarter ended	March 31	$ 90,356 (a)	$ 5,591 (b)
	June 30	47,780	(215,314) (b)
	September 30	156,848	139,028
	December 31	36,333	(25,108) (c)
Earnings (loss) for common stock:			
For the quarter ended	March 31	$ 73,205 (a)	$ (14,271) (b)
	June 30	30,681	(234,588) (b)
	September 30	139,845	119,314
	December 31	19,425	(45,490) (c)
Earnings (loss) per common share:			
For the quarter ended	March 31	$ .66 (a)	$ (.13) (b)
	June 30	.28	(2.11) (b)
	September 30	1.26	1.07
	December 31	.16	(.40) (c)

(a) Effective January 1, 1990, the Company changed its method of accounting for unbilled gas revenues. The cumulative effect of this change increased net income by approximately $11.7 million, net of tax effects, or $.11 per common share, for the first quarter.

(b) Effective January 1, 1989, the Company ceased accruing AFC on Shoreham which reduced net income by approximately $100 million, or $.90 per common share, in each of the first and second quarters. Addidonally, in June 1989, the Company recognized losses in connection with the 1989 Settlement and the Class Settlement of approximately $62 million, net of tax effects, and $113 million, net of tax effects, respectively, or $.55 and $1.02 per common share.

(c) In December 1989, the Company recorded an additional charge to earnings of $7.2 million, net of tax effects, or $.06 per common share, to reflect revisions to certain estimates relating to the 1989 Settlement. In addition, as a result of an agreement in principle, reached in early 1990 on the terms of the 1990 NMP2 settlement, in December 1989, the Company recorded a charge to earnings of $7.3 million, net of tax effects, or $.07 per common share. Further, as a result of a PSC order relating to gas take-or-pay costs, the Company recorded, during the fourth quarter of 1989, a charge to earnings of $3.1 million, net of tax effects, or $.03 per common share

Selected Financial Data

Summary of Operations *(See Notes to Financial Statements)* — Table 1

	1990	1989	1988	1987	1986
Total revenues (000)	**$ 2,446,847**	$ 2,347,614	$ 2,137,834	$ 2,072,077	$ 1,977,121
Total operating income (loss) (000)					
Before federal income taxes	**$ 983,282**	$ (93,997)	$ 701,049	$ 670,324	$ 640,021
After federal income taxes	**$ 802,630**	$ 620,423	$ 500,938	$ 382,604	$ 387,077
Income (loss) before cumulative effect of accounting changes (000)	**$ 319,637**	$ (95,803)	$ 298,490	$ 269,888	$ 316,675
Cumulative effect of accounting change for unbilled gas revenues (net of taxes) (000)	**$ 11,680**	—	—	—	—
Cumulative effect of accounting change for disallowed costs (net of taxes) (000)	—	—	$ (1,345,110)	—	—
Earnings (loss) for common stock (000)	**$ 263,156**	$ (175,035)	$ (1,121,128)	$ 192,312	$ 236,864
Average common shares outstanding (000)	**111,290**	111,215	111,177	111,129	111,085
Earnings (loss) per common share before cumulative effect of accounting changes	**$ 2.26**	$ (1.57)	$ 2.02	$ 1.73	$ 2.13
Earnings (loss) per common share	**$ 2.36**	$ (1.57)	$ (10.08)	$ 1.73	$ 2.13
Common stock dividends declared per share	**$ 1.25**	$ .50	—	—	—
Book value per common share at year end	**$ 18.57**	$ 17.45	$ 19.61	$ 29.71	$ 27.99
Common shareowners at year end	**82,903**	85,142	93,267	106,117	117,962
Ratio of earnings to fixed charges	**1.98**	*	1.95	2.02	2.17
Ratio of earnings to combined fixed charges and preferred stock dividends	**1.64**	*	1.58	1.56	1.68
Ratio of earnings to fixed charges (excluding AFC and RMC)	**1.39**	*	1.60	1.60	1.53
Ratio of earnings to combined fixed charges and preferred stock dividends (excluding AFC and RMC)	**1.15**	*	1.30	1.24	1.18
Pro forma earnings — with accounting changes for unbilled gas revenues and disallowed project costs applied retroactively:					
Earnings (loss) for common stock (000)	**$ 251,476**	$ (173,251)	$ 223,712	$ 177,414	$ 30,864
Earnings (loss) per common share	**$ 2.26**	$ (1.56)	$ 2.01	$ 1.60	$ .28

**The Company had no earnings to cover fixed charges.*

Operations and Maintenance Expense Details *(In thousands of dollars)* — Table 2

	1990	1989	1988	1987	1986
Total payroll and employee benefits	**$ 378,831**	$ 349,242	$ 333,359	$ 315,114	$ 283,427
Less — Charged to construction and other	**97,650**	117,761	129,990	115,315	102,987
Payroll and Employee Benefits Charged to Operations	**281,181**	231,481	203,369	199,799	180,440
Fuels — electric operations	**444,458**	461,576	410,174	422,997	311,872
Fuels — gas operations	**175,877**	188,139	172,431	174,610	205,616
Purchased power costs	**168,749**	128,368	88,465	93,186	134,347
Fuel cost adjustments deferred	**(2,085)**	(5,631)	3,359	(5,104)	14,180
Total Fuel and Purchased Power	**786,999**	772,452	674,429	685,689	666,015
All other	**194,628**	195,825	154,527	142,201	142,514
Total Operations and Maintenance Expense	**$ 1,262,808**	$ 1,199,758	$ 1,032,325	$ 1,027,689	$ 988,969
Employees at December 31	**6,630**	6,239	6,281	6,378	6,219

	1990	1989	1988	1987	1986
Electric Operating Income *(In thousands of dollars)*					**Table 3**
Revenues					
Residential	**$ 997,868**	$ 915,644	$ 835,584	$ 800,952	$ 744,898
Commercial and industrial	**1,017,387**	981,740	883,267	849,626	804,387
Other	**46,210**	43,024	43,930	56,394	51,447
System revenue	**2,061,465**	1,940,408	1,762,781	1,706,972	1,600,732
Sales to other utilities	**24,140**	42,880	24,152	11,889	11,057
Total Revenues	**2,085,605**	1,983,288	1,786,933	1,718,861	1,611,789
Expenses					
Operations — fuel and purchased power	**611,122**	584,313	501,998	511,079	460,399
Operations — other	**271,608**	237,931	195,283	187,573	173,702
Maintenance	**118,545**	115,502	96,599	88,431	91,611
Depreciation	**99,922**	91,759	82,811	63,840	61,194
Base financial component amortization	**100,971**	50,485	—	—	—
Regulatory liability component amortization	**(86,101)**	(43,038)	—	—	—
Rate moderation component	**(297,214)**	(131,167)	—	—	—
Regulatory liability component	**—**	793,592	—	—	—
Jamesport amortization	**—**	104,160	—	—	—
Operating taxes	**322,197**	312,456	262,644	250,047	230,508
Federal income tax — current	**3,138**	14,612	18,394	64,095	24,[illegible]52
Federal income tax — deferred and other	**169,274**	(738,500)	166,557	208,954	218,256
Total Expenses	**1,313,462**	1,392,105	1,324,286	1,374,019	1,260,122
Electric Operating Income	**$ 772,143**	$ 591,183	$ 462,647	$ 344,842	$ 351,667

	1990	1989	1988	1987	1986
Gas Operating Income *(In thousands of dollars)*					**Table 4**
Revenues					
Residential — space heating*	**$ 198,754**	$ 209,192	$ 201,312	$ 194,303	$ 207,937
— other	**30,854**	31,692	31,803	32,877	35,393
Non-residential, firm — space heating*	**68,441**	72,351	68,114	63,267	68,380
— other	**26,501**	28,674	28,078	28,443	31,473
Total firm sales revenue	**324,530**	341,909	329,307	318,890	343,183
Interruptible sales	**30,515**	19,226	18,821	24,150	22,132
Total system sales revenue	**355,045**	361,135	348,128	343,040	365,315
Sales to other utilities	**—**	—	—	4,970	—
Total sales revenue	**355,045**	361,135	348,128	348,010	365,315
Other revenue	**6,197**	3,191	2,773	5,206	17
Total Revenues	**361,242**	364,326	350,901	353,216	365,332
Expenses					
Operations — fuel	**175,877**	188,139	172,431	1[illegible]4,610	205,616
Operations — other	**68,910**	59,587	53,415	53,140	46,607
Maintenance	**16,746**	14,286	12,599	12,856	11,034
Depreciation, depletion and amortization	**12,862**	11,671	10,785	10,065	8,945
Operating taxes	**48,[illegible]20**	51,935	48,220	50,112	47,484
Federal income tax — current	**500**	—	—	19,482	16,895
Federal income tax — deferred and other	**7,740**	9,468	15,160	(4,811)	(6,659)
Total Expenses	**330,755**	335,086	312,610	315,[illegible]54	329,922
Gas Operating income	**$ 30,487**	$ 29,240	$ 38,291	$ 37,762	$ 35,410

**In the heating classifications, the revenues shown cover all gas used including nonheating use.*

Electric Sales and Customers

Table 5

	1990	1989	1988	1987	1986
Sales — millions of kWh					
Residential	**7,022**	7,063	6,979	6,603	6,251
Commercial and industrial	**8,359**	8,636	8,566	8,004	7,713
Other	**472**	470	495	439	429
System sales	**15,853**	16,169	16,040	15,046	14,393
Sales to other utilities	**532**	633	433	239	244
Total Sales	**16,385**	16,802	16,473	15,285	14,637
Customers — monthly average					
Residential	**895,294**	890,406	882,962	872,419	861,011
Commercial and industrial	**101,562**	100,481	98,450	95,871	93,228
Others	**4,504**	4,452	4,436	4,389	4,362
Customers — total monthly average	**1,001,360**	995,339	985,848	972,679	958,601
Customers — total at year end	**1,001,441**	996,488	989,097	976,928	963,197
Residential					
kWh per customer	**7,844**	7,932	7,905	7,569	7,260
Revenue per kWh	**14.21¢**	12.96¢	11.97¢	12.13¢	11.92¢
Commercial and Industrial					
kWh per customer	**82,304**	85,943	87,005	83,487	82,732
Revenue per kWh	**12.17¢**	11.37¢	10.31¢	10.62¢	10.43¢
System — total revenue per kWh sold	**13.01¢**	12.00¢	10.97¢	11.35¢	11.12¢

Gas Sales and Customers

Table 6

	1990	1989	1988	1987	1986
Sales — thousands of dth					
Residential — space heating*	**29,810**	32,024	31,276	29,239	28,438
— other	**3,448**	3,491	3,589	3,952	3,629
Non-residential — space heating*	**11,271**	11,548	11,054	10,055	9,711
— other	**4,352**	4,539	4,580	4,389	4,533
Total firm sales	**48,881**	51,602	50,499	47,635	46,311
Interruptible sales	**6,347**	5,300	5,078	6,456	5,507
Total system sales	**55,228**	56,902	55,577	54,091	51,818
Sales to other utilities	—	—	—	2,218	—
Total Sales	**55,228**	56,902	55,577	56,309	51,818
Customers — monthly average					
Residential — space heating*	**211,40[illegible]**	204,982	198,949	192,550	186,625
— other	**176,0[illegible]**	79,415	181,926	184,411	186,600
Non-residential — space heating*	**29,07[illegible]**	27,733	25,979	24,234	22,514
— other	**11,310**	11,517	11,725	11,778	11,889
Total firm customers	**427,782**	423,647	418,579	412,973	407,628
Interruptible customers	**410**	359	325	301	289
Customers — total monthly average	**428,192**	424,006	418,904	413,274	407,917
Customers — total at year end	**430,571**	426,060	421,429	415,629	410,064
Degree days — billed	**4,344**	4,987	5,074	4,802	4,795
Residential					
dth per customer	**85.8**	92.4	91.5	88.0	85.9
Revenue per dth	**$ 6.90**	$ 6.78	$ 6.69	$ 6.84	$ 7.59
Non-residential, firm					
dth per customer	**386.9**	409.9	414.6	401.1	414.0
Revenue per dth	**$ 5.08**	$ 6.28	$ 6.15	$ 6.35	$ 7.01
System — total revenue per firm dth sold	**$ 6.64**	$ 6.63	$ 6.52	$ 6.69	$ 7.41

*In the heating classifications, the sales shown cover all gas used including nonheating use.

	1990	1989	1988	1987	1986
Electric Operations					**Table 7**
Energy — millions of kWh					
Net generation	**13,981**	15,220	15,228	14,004	11,707
Power purchased and (sold) — net	**2,989**	2,087	1,940	2,516	3,952
Total system requirements	**16,970**	17,307	17,168	16,520	15,659
Company use and unaccounted for	**(1,117)**	(1,138)	(1,128)	(1,474)	(1,266)
System sales	**15,853**	16,169	16,040	15,046	14,393
Sales to other utilities	**532**	633	433	239	244
Total Sales	**16,385**	16,802	16,473	15,285	14,637
Peak Demand — mW					
Station coincident demand	**3,260**	3,178	3,347	3,333	2,969
Purchased or (sold) — net	**426**	510	475	243	472
System Peak Demand	**3,686**	3,688	3,822	3,576	3,441
System Capability — mW					
LILCO stations	**4,077**	4,066	3,834	3,799	3,743
Firm purchase or (sale) — net	**300**	400	482	550	454
Total Capability	**4,377**	4,466	4,216	4,349	4,197
Fuel Consumed for Electric Operations					
Oil — thousands of barrels	**16,401**	20,480	19,927	18,624	15,625
Gas — thousands of dth	**36,477**	26,490	29,126	29,762	26,103
Nuclear — thousands of mW days	**108**	105	87	—	—
Total — billions of Btu	**139,874**	154,669	153,828	146,536	124,098
Dollars per million Btu	**$ 3.07**	$ 2.86	$ 2.53	$ 2.86	$ 2.51
Cents per kWh of net generation	**3.24¢**	3.06¢	2.67¢	3.01¢	2.66¢
Heat rate — Btu per net kWh	**10,564**	10,704	10,545	10,509	[illegible],600

	1990	1989	1988	1987	1986
Gas Operations					**Table 8**
Energy — thousands of dth					
Natural gas	**55,407**	60,359	58,743	58,832	53,035
Manufactured gas and change in storage	**(15)**	53	(18)	(63)	65
Total Natural and Manufactured Gas	**55,392**	60,412	58,725	58,769	53,100
Total system requirements	**55,392**	60,412	58,725	56,551	53,100
Company use and unaccounted for	**(164)**	(3,510)	(3,148)	(2,460)	(1,282)
System sales	**55,228**	56,902	55,577	54,091	51,818
Sales to other utilities	**—**	—	—	2,218	—
Total Sales	**55,228**	56,902	55,577	56,309	51,818
Maximum Day Sendout — dth	**406,177**	462,610	431,940	404,679	365,991
System Capability — dth per day					
Natural gas	**507,344**	461,788	411,596	388,400	345,200
LNG manufactured or LP gas	**128,200**	145,600	145,600	145,600	145,600
Total Capability	**635,544**	607,388	557,196	534,000	490,800
Calendar Degree Days (64-year average 5,044)	**4,139**	5,169	5,162	4,805	4,715

	1990	1989	1988	1987	1986
Construction Expenditures* *(In thousands of dollars)*					**Table 9**
Electric					
Production	**$ 36,400**	$ 59,880	$ 419,028	$ 453,544	$ 603,916
Transmission	**23,418**	9,022	13,379	23,668	6,451
Distribution	**82,975**	66,679	64,653	32,209	50,847
General	**(6,503)**	(4,677)	1,588	6,470	4,165
Electric Total	**136,290**	130,904	498,648	515,891	665,379
Gas Total	**78,766**	49,847	37,518	34,270	31,978
Common Total	**12,671**	11,007	9,352	17,795	5,434
Total Construction Expenditures	**$ 227,727**	$ 191,758	$ 545,518	$ 567,956	$ 702,791
Nuclear Fuel	**$ 4,738**	$ 8,292	$ 15,639	$ 13,219	$ 10,353

**Includes non-cash allowance for other funds used during construction and excludes Shoreham post settlement costs.*

	1990	1989	1988	1987	1986
Balance She[illegible] [illegible] *thousands of dollars)*					**Table 10**
Assets					
Utility plant	**$ 4,150,822**	$ 3,939,410	$ 8,017,047	$ 9,274,103	$ 8,706,857
Less — Accumulated depreciation, depletion and amortization	**1,262,743**	1,158,253	1,071,923	980,066	916,246
Total Net Utility Plant	**2,888,079**	2,781,157	6,945,124	8,294,037	7,790,611
Regulatory asset	**3,887,373**	3,988,344	—	—	—
Other property and investments	**6,381**	6,050	69,271	68,763	68,383
Current assets	**726,060**	982,032	571,934	606,579	702,825
Deferr[illegible]arges:					
Ra[illegible]tion component	**411,443**	102,971	—	—	—
Shor[illegible] settlement costs	**225,818**	75,044	—	—	—
Sh[illegible]ar fuel	**92,069**	97,925	—	—	—
Ac[illegible]erred income taxes	**359,768**	262,298	525,029	127,061	65,799
Othe[illegible]	**245,693**	224,217	214,979	227,247	230,537
Total [illegible] Charges	**1,334,791**	762,455	740,008	354,308	296,336
Total As[illegible]	**$ 8,842,684**	$ 8,520,038	$ 8,326,337	$ 9,323,687	$ 8,858,155
Capitaliz[illegible]ion and Liabilities					
Capitalization:					
Long-term debt	**$ 4,556,016**	$ 4,560,016	$ 3,449,821	$ 3,724,601	$ 3,805,796
Unamortized premium and (discount) on debt	**(23,125)**	(28,587)	(25,011)	(26,646)	(28,281)
Preferred stock — redemption required	**527,550**	541,187	513,924	520,788	527,465
Preferred stock — no redemption required	**154,674**	155,592	221,050	221,051	221,053
Treasury stock, at cost	**—**	—	(58,430)	(40,881)	(25,7[illegible]
Retained earnings restricted for preferred stock dividend requirements	**—**	—	341,008	265,288	18[illegible]
Common stock and premium	**1,549,505**	1,547,971	1,557,293	1,556,928	1,556,4[illegible]
Capital stock expense	**(42,676)**	(42,916)	(56,151)	(56,144)	(56,138)
Retained earnings	**560,405**	436,690	679,579	1,801,919	1,609,268
Total Capitalization	**7,282,349**	7,169,953	6,623,083	7,966,904	7,797,996
Current Liabilities	**449,830**	470,885	583,017	339,573	277,173
Deferred Credits:					
1989 Settlement credits	**182,720**	191,933	—	—	—
Class Settlement	**167,569**	164,040	—	—	—
Accumulated deferred income taxes	**634,704**	430,933	963,975	921,397	692,758
Other	**117,172**	81,443	144,015	83,217	75,195
Total Deferred Credits	**1,102,165**	868,349	1,[illegible]07,990	1,0[illegible]4,614	767,953
Reserves for Claims, Damages, Pensions and Benefits	**8,340**	10,851	12,247	12,596	15,033
Total Capitalization and Liabilities	**$ 8,842,684**	$ 8,520,038	$ 8,326,337	$ 9,323,687	$ 8,858,155

Common and Preferred Stock Prices **Table 11**

The Common Stock of the Company is traded on the New York Stock Exchange and the Pacific Stock Exchange. The Preferred Stock $100 par value, Series B, E, I, J, K and S and the Preferred Stock $25 par value, Series O, P, T and Y of the Company are, and Series U, V, W and X were, traded on the New York Stock Exchange. The table below indicates the high and low prices on the New York Stock Exchange listing of composite transactions for the years 1989 and 1990.

		1989 Quarter				1990 Quarter			
		First	Second	Third	Fourth	First	Second	Third	Fourth
Common Stock	High	15⅛	17⅞	19	20¼	20¼	19⅝	21¼	21⅜
	Low	12⅝	14⅞	16¼	17⅞	18⅝	17¼	17¾	17½
Preferred Stock									
Series B 5.0[illegible]	High	60½	68	74½	51½	50⅞	49⅞	50	49½
	Low	51½	60½	46½	46½	49	46	48	47⅜
Series E 4.35%	High	54¼	58½	64	44½	44¾	42½	44	44½
	Low	44	52	41	41	42	40½	41	41¼
Series I 5¾%	High	106	122	134⅞	117	116	112	118	115
	Low	100	107	106½	104½	110½	109	114	109
Series J 8.12%	High	97¾	106¼	112½	82	82	79	81¾	78⅞
	Low	80½	96⅝	75¼	76¼	77	74	75	77
Series K 8.30%	High	100¼	109	118½	84	85	79¼	83	81
	Low	83¼	97½	76¼	76	78	77½	78½	77½
Series O $2.47	High	31⅝	34	36⅛	25⅛	24⅞	24⅞	25¼	25½
	Low	26⅝	31⅛	23⅜	23½	23⅜	23¼	24⅜	23¼
Series P $2.43	High	30⅛	33	35	25¼	25⅛	24	25	24¾
	Low	25¼	29	22⅝	22½	23⅜	22¼	21⅞	23½
Series S 9.80%	High	122	131	142	96	97⅝	96½	99⅛	97
	Low	106	123	92½	94	93⅜	92	95	94
Series T $3.31	High	38½	40¼	42¼	26¾	26¾	26⅝	26⅞	27
	Low	32	38¼	25¼	25⅝	25⅜	25½	25¾	25⅞
Series U $4.25	High	43⅞	46¼	48¼	27¼	—	—	—	—
	Low	36½	43¼	26⅛	26⅜	—	—	—	—
Series V $3.50	High	40½	42¾	44¼	[illegible]	—	—	—	—
	Low	33¼	39⅞	26	26½	—	—	—	—
Series W $3.52	High	42⅝	44¾	46⅞	29¼	—	—	—	—
	Low	35	[illegible]¼	28½	29	—	—	—	—
Series X $3.5[illegible]	High	40[illegible]	[illegible]2½	44	27⅜	—	—	—	—
	Low	33⅛	39½	26	26¼	—	—	—	—
Series Y $2.65	High	—	—	—	26½	26⅝	26	26⅝	26⅛
	Low	—	—	—	25	24¼	24⅝	24½	24¼

The Preferred Stock $100 par value, Series D 4.25% is traded in the over-the-counter market and no price data is available. The Preferred Stock $100 par value, Series F, H, L, M and R Preferred Stock are held privately.

Corporate Information

Executive Offices
175 East Old Country Road
Hicksville, NY 11801

Common Stock Listed
New York Stock Exchange
Pacific Stock Exchange

Ticker Symbol: LIL

Transfer Agents
Common Stock
Manufacturers Hanover Trust Company
450 West 33rd Street
New York, NY 10001
800-647-4273

Preferred Stock
The First National Bank of Boston
50 Morrissey Boulevard
Dorchester, MA 02102
800-442-2001

Registrar
Common and Preferred Stock
Mellon Securities Trust Company
120 Broadway
New York, NY 10271

Shareowners' Agent for Automatic Dividend Reinvestment Plan
Manufacturers Hanover Trust Company
Dividend Reinvestment Department
P.O. Box 24850, Church Street Station
New York, NY 10242
800-647-4273

Annual Meeting

The Annual Meeting of Shareowners will be held on Tuesday, May 7, 199[illegible], at 3:00 p.m. In connection with this meeting, proxies will be solicited by the Company. A notice of the meeting, a proxy statement, and a proxy will be mailed to shareowners in March.

Form 10-K Annual Report

The Company will furnish, without charge, a copy of the Company's Annual Report, Form 10-K, as filed with the Securities and Exchange Commission, upon written request to: Investor Relations, Long Island Lighting Company, 175 East Old Country Road, Hicksville, NY 11801

Directors

William J. Catacosinos
Chairman of the Board and
Chief Executive Officer
Long Island Lighting Company

Anthony F. Earley, Jr.
President and
Chief Operating Officer
Long Island Lighting Company

George Bugliarello
President
Polytechnic University

Winfield E. Fromm
Retired Vice President
Eaton Corporation
Electrical Engineering

Lionel M. Goldberg
Senior Vice President
Alexander & Alexander
of New York, Inc.
Insurance

Basil A. Paterson
Partner
Meyer, Suozzi, English
& Klein, PC
Law

Eben W. Pyne
Corporate Director
and Consultant
W.R. Grace and Company
Retired Senior Vice President
Citibank, N.A.

John H. Talmage
Partner
H.R. Talmage & Son
Agriculture

Phyllis S. Vineyard
Director
Long Island Community
Foundation

Officers

William J. Catacosinos
Chairman of the Board and
Chief Executive Officer

Anthony F. Earley, Jr.
President and
Chief Operating Officer

George J. Sideris
Senior Vice President Finance
and Chief Financial Officer

James T. Flynn
Group Vice President
Engineering and Operations

Ralph T. Brandifino
Vice President
Finance

William N. Dimoulas
Vice President
Information Systems
and Technology

Robert X. Kelleher
Vice President
Human Resources

John D. Leonard, Jr.
Vice President
Corporate Services and
Nuclear Operations

Adam M. Madsen
Vice President
Corporate Planning

Arthur C. Marquardt
Vice President
Strategic Business Planning

Brian R. McCaffrey
Vice President
Administration

Joseph W. McDonnell
Vice President
Communications

William G. Schiffmacher
Vice President
Electric Operations

Robert B. Steger
Vice President
Fossil Production

William E. Steiger, Jr.
Vice President
Engineering and Construction

Christian G. Wilding
Vice President
Conservation and
Load Management

Walter F. Wilm, Jr.
Vice President
Gas Operations

Edward J. Youngling
Vice President
Customer Relations

Victor A. Staffieri
General Counsel and
Corporate Secretary

Michael Czumak
Controller and Chief
Accounting Officer

Andrew R. Ragogna
Treasurer

Herbert M. Leiman
Assistant General Counsel
and Assistant Corporate
Secretary

Kathleen A. Marion
Assistant Corporate
Secretary and Assistant
to the Chairman

Long Island Lighting Company
175 East Old Country Road
Hicksville, New York 11801

BULK RATE
U.S. POSTAGE
PAID
Hicksville, NY
Permit No. 254