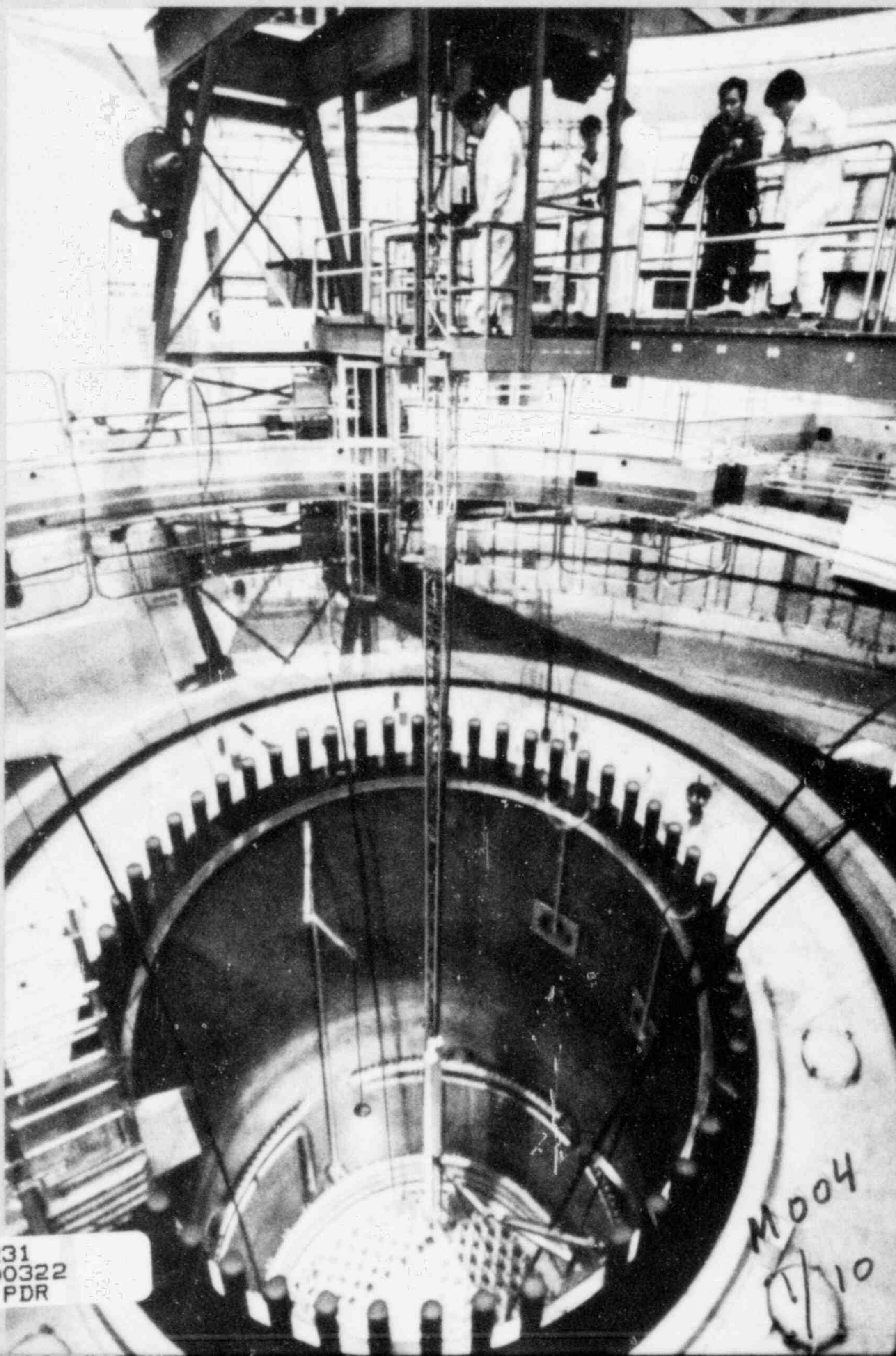
Long Island Lighting Company

1984 Annual Report

A major step in bringing the Shoreham Nuclear Power Station to commercial operation took place when fuel grapple operators lowered fuel assemblies into the reactor core 90 feet below the surface of the water in the reactor refueling cavity. Initial fuel loading began on December 21, 1984 and was completed 29 days later. The fully loaded core contains 560 fuel assemblies, each containing 400 pounds of uranium. This uranium will produce energy for a period of approximately 18 months following the commencement of commercial operation after which one-third of the assemblies will be replaced. Shoreham is expected to displace seven to eight million barrels of oil per year and generate about one-third of the electric energy used by LILCO customers.



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Corporate Information

Executive Offices
175 East Old Country Road
Hicksville, N.Y. 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

Preferred Stock
The First National Bank
of Boston
50 Morrissey Boulevard
Dorchester, MA 02125

Registrar
Common and Preferred Stock
Fidata Trust Company
67 Broad Street
New York, NY 10004

Shareowners' Agent for Automatic Dividend Reinvestment Plan
Manufacturers Hanover
Trust Company
450 West 33rd Street
New York, NY 10001

Annual Meeting
The Annual Meeting of Shareowners will be held on May 13, 1985 at 2:00 p.m. In connection with this meeting, proxies will be solicited by the Company. A notice of the meeting, a proxy statement, and a proxy will be mailed to shareowners in April.

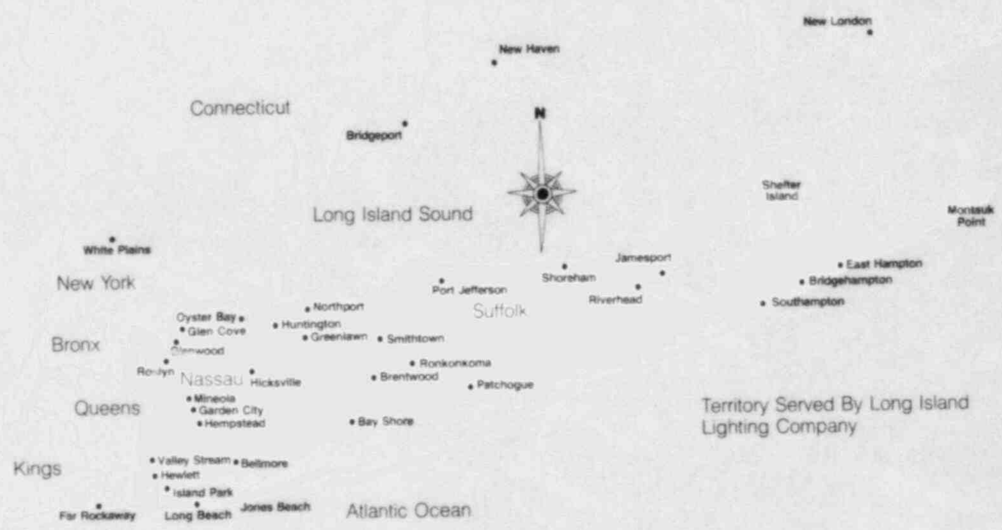
Form 10-K Annual Report
The Company will furnish, without charge, a copy of the Company's Annual Report, Form 10-K, as filed with the Securities and Exchange Commission, upon written request to: Investor Relations, Long Island Lighting Company, 175 East Old Country Road, Hicksville, NY 11801

Summary Highlights 1984

Summary of Operations (Millions*)	**1984**	1983
Total Revenues	**$1,974**	$1,788
Operating Income	**$ 308**	$ 269
Income for Common Stock*	**$ 340**	$ 287
Average Common Shares Outstanding	**110**	102
Earned Per Average Common Share*	**$ 3.09**	$ 2.80
Dividends Declared Per Common Share	**—**	$ 2.02

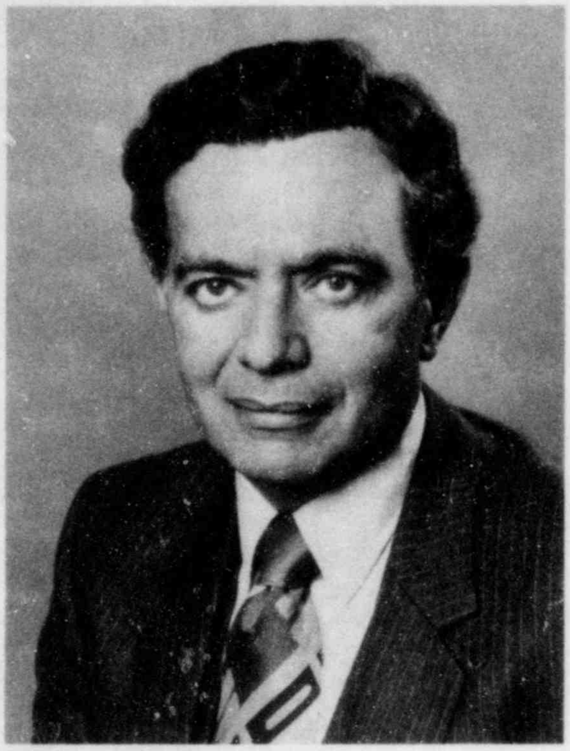
*Except Earned Per Average Common Share and Dividends Declared Per Common Share. Non-cash allowance for funds used during construction represented 91% in 1984 and 99% in 1983 of Income for Common Stock and Earned Per Average Common Share.

Territory Served



LILCO supplies electric and gas service in Nassau and Suffolk Counties and the Rockaway Peninsula in Queens County, all on Long Island, New York. The 1,230 square mile service area contains a population of approximately 2.7 million persons, 100,000 of whom live in Queens County. Nassau and Suffolk Counties together consititute a federally-designated Metropolitan Statistical Area (MSA) which has the highest median disposable income per household of the more than 300 MSA's of the nation and ranks in the top ten such areas, including metropolitan New York, Los Angeles and Chicago, in population, total income and retail sales. About 70% of all workers residing in Nassau-Suffolk are employed within the two counties. While the area served is predominantly residential, the Company receives significant commercial and industrial electric revenues. Although electronics and aerospace are the largest manufacturing industries in the area, about 85% of total employment is non-manufacturing.

To The Shareowners



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

LILCO just completed the most difficult year in its history. We have successfully maintained the Company's financial viability, but many critical hurdles still remain.

When I became Chairman 14 months ago, the Company faced significant problems, including an anticipated cash shortfall for 1984 of approximately $400 million even after drawing down all its available lines of credit. In addition, because of uncertainties over licensing Shoreham, the financial markets were closed to LILCO as a source of capital. Our immediate objective was to resolve the cash problem. A number of unprecedented moves were taken, all of which were reported to you as we proceeded. It is appropriate to recall briefly some of these major actions in reviewing 1984.

- Implementation of an internal austerity program including a roll back in management salaries and the elimination of 1,000 LILCO and contractor jobs.
- Discontinuance of construction payments for LILCO's 18% participation in the Nine Mile Point 2 project in upstate New York.
- Suspension of cash dividends on the common stock in March and on the preferred stock in October.

In part, because of these actions, we were successful in:

- Repaying $90 million of our mortgage bonds which came due in September of 1984, thus averting bankruptcy.
- Obtaining an increase in electric rates of $155 million annually effective September 1984.
- Entering into a Settlement Agreement with Niagara Mohawk Power Corporation (NMPC) whereby NMPC will make our construction payments on the Nine Mile Project with LILCO issuing bonds to NMPC.
- Issuing $100 million of General and Refunding Bonds.

The resolution of LILCO's financial problems is intertwined with Shoreham. One of the first steps we took last year was to review the various options available as they related to this facility. The Board of Directors carefully considered different alternatives including mothballing the plant or abandoning it, but determined it was in the best interest of ratepayers and shareowners to license the plant. In its deliberations, the Board considered the following factors:

- The demand for electricity in the Long Island community continues to grow. System kilowatthour electric sales increased 5.0% in 1983 over 1982 and 3.2% in 1984 over 1983. Sales increased 2.6% during the first two months of 1985 over the same period in 1984. Without Shoreham, we will be deficient during 1985 in generating reserve capacity as required by the New York Power Pool.
- Operating Shoreham would save between seven and eight million barrels of imported oil annually, significantly reducing Long Island's heavy dependence on foreign oil to generate electricity.

- The Shoreham plant is complete and ready to provide nearly one-third of Long Island's electricity. There are limited sites for power plants on Long Island and substitute coal plants would be expensive and would require an estimated ten years to plan, construct and license.

We continue to seek a license for the Shoreham plant before the U.S. Nuclear Regulatory Commission (NRC) in Washington. Here, we are pleased to report that we have made progress. The Appeal Board of the NRC upheld a licensing board's 1600 page decision which stated Shoreham (with the exception of the diesels and emergency planning) is safe and ready to operate. The NRC unanimously approved the first two phases of low power testing which permitted the Company to load fuel and test the reactor at very low power. The NRC has also approved a low power license for the final two phases which would test the plant at up to 5% power. However, an Appeal Board of the NRC remanded a diesel related issue to the Licensing Board which must be resolved before the Commission's action can become effective.

Two issues remain unresolved as we proceed toward fully licensing Shoreham.

First is the diesel generators which provide power to the plant in the event of the loss of off-site power supply. We completely rebuilt and retested the DeLaval diesels. In addition, we brought in reserve diesels from Colt Industries. These Colts will eventually supplement the DeLavals, although the latter are fully capable of supporting the plant. We are awaiting a decision from a Nuclear Regulatory Commission licensing board on whether the DeLavals are qualified to operate.

The second issue is the approval of an emergency evacuation plan for the federally mandated 10-mile area surrounding the Shoreham plant. In trying to resolve this, we have worked diligently throughout the year in seeking the cooperation of Suffolk County and New York State to arrive at a plan which would be acceptable. Unfortunately, our good faith efforts have met with continued resistance to date. Suffolk County officials continue to believe that the federal requirements of a 10-mile zone are inadequate, and that for Shoreham a 20-mile zone is required. The County believes an evacuation from a 20-mile zone around Shoreham is not possible. The Company has developed its own emergency plan using LILCO workers and has litigated that plan before an NRC licensing board. We are awaiting a decision from that board and have sought a full scale exercise of the plan under the auspices of the U.S. Federal Emergency Management Agency. Although the Company has been unsuccessful to date in the state and federal courts concerning matters related to emergency planning, the NRC is the body responsible for approving LILCO's plan.

On March 13, 1985, two New York State Public Service Commission (PSC) Administrative Law Judges recommended to the Commission that LILCO suffer a $1.2 billion prudency penalty for the Shoreham plant. The Company will appeal to the PSC and the courts, if necessary, to contest vigorously the Judges' recommendation.

On other matters relating to the current year:

- We are seeking from the PSC a 3.8% annual electric rate increase for $68.7 million to become effective January 1, 1986.
- We are planning to sell at least $100 million of G&R Bonds later this year.

At the start of 1985, we partially lifted the hiring freeze and restored the 10% and 5% pay reductions for salaried employees. The PSC has approved an Employee Stock Ownership Program which we proposed in order to retain management employees. Under the plan, employees must remain with the Company until April 1986 to receive this stock.

We urge you to read the financial information and Notes 4 and 7 of Notes to Financial Statements which review more extensively the matters just mentioned.

Our foremost objective remains to provide Long Island ratepayers with safe and reliable electric and gas energy at the most economical rates possible consistent with LILCO's continuation as a financially viable utility.

This goal is particularly important to us as a public Company which delivers essential services to the community and which is owned by over 160,000 shareowners, over half of whom live in New York State and a fourth of whom reside on Long Island. Our shareowners and our employees have made large sacrifices this past year to enable the Company to continue to provide the community with reliable service. In this report, we rededicate ourselves to serving our customers, with the eventual goal of returning LILCO to its former financial strength for the benefit of all shareowners.

We thank you for your support.

Respectfully,

W. J. Catacosinos

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

March 25, 1985

Financial Analysis

This analysis discusses matters of significance in the Company's Financial Statements, which follow, with regard to capital requirements and liquidity and with regard to results of operations for the last three years.

Capital Requirements and Liquidity

Financial Objectives: The electric utility industry is one of the most capital intensive industries in the world. Very large amounts of capital must be obtained over long periods to construct new generating facilities to meet customer demands for energy. To provide this capital, electric utilities customarily issue short-term debt, which is repaid periodically with the proceeds from the sale of permanent securities and from funds provided through internal cash generated from operations. A general objective in the industry is that internal cash generation from operations (as described under Capital Provided and Liquidity) should provide about 50% of the total funds required for construction. Until 1983, LILCO's financial corporate objectives also included (1) retirement of all short-term debt at least once a year; (2) in the normal course of events, a maximum amount of short-term debt outstanding not exceeding $100 million unless the Company had the clear ability to refinance completely such short-term debt with long-term securities; and (3) maintenance of capitalization ratios of (a) not over 50% long-term debt, including the Trusts, (b) 10-12½% preferred and preference stock, and (c) 40-37½% common stock and retained earnings.

Until mid-1983, the Company essentially met these objectives, with the exception of the level of internal cash generation from operations, discussed below.

(1) Short-term debt was fully retired at least once in each of the last ten years including each year-end except for 1980. In mid-1983, adjusting to the political and regulatory uncertainties facing the Company, the downrating of its securities to below investment grade, and the withdrawal of its commercial paper ratings, the Company modified its objectives to eliminate the use of all short-term debt and to maintain a total of cash and short-term investments of between $200 million and $300 million. Toward this objective, in 1983 the Company borrowed the full $400 million available under its domestic and Eurodollar Revolving Credit Agreements on a long-term basis. The Company had cash and short-term investments, excluding investments in the Trusts, totaling $275.4 million at the end of 1983.

The Company's original 1984 financing plan called for the sale of an aggregate of approximately $700 million of debt and equity securities. In January 1984, the Company sold five million shares of common stock providing gross proceeds of $52.5 million and in February 1984 the Company realized gross proceeds of $10.4 million through its dividend reinvestment plan. Thereafter, however, given the various adverse factors then impacting the Company, little or no assurance could be given regarding the Company's ability to raise additional funds in 1984 or in future years in order to meet its construction and other capital requirements and operational needs. In view of this situation, the Company's cash objective in 1984 was revised to balance its cash receipts and disbursements rather than maintaining a set level of cash. Accordingly, in order to conserve cash, beginning in February and March 1984, the Company (a) reduced its non-fuel related operations and maintenance expenditures and achieved other austerity cash savings totaling approximately $94 million in 1984, (b) suspended construction payments for its share of Nine Mile Point 2 (see Notes 4 and 7 of Notes to Financial Statements), and (c) omitted common stock dividends. In August 1984, the Company (a) was granted an electric rate increase effective September 1, 1984 to provide an additional $155 million of revenues annually, (b) entered into a Revolving Credit Agreement providing up to $150 million (expandable to $200 million with the consent of all the banks) through December 31, 1985, and (c) entered into a Settlement Agreement with Niagara Mohawk Power Corporation (NMPC) pursuant to which NMPC will finance up to $250 million of LILCO's share of construction costs for Nine Mile Point 2. In September 1984, the Company sold $100 million of General and Refunding Bonds (G&R Bonds), 17½% Series Due 1989. As a result of all these actions, at December 31, 1984, the Company had loans of $36.0 million outstanding under the 1984 Revolving Credit Agreement and had cash and short-term investments totaling $31.7 million.

(2) During 1984, no short-term debt was outstanding. During 1983 and 1982, the maximum aggregate amount of short-term bank loan and commercial paper borrowings at any one month-end was $212.7 million at June 1983 and $104.8 million at August 1982. The daily averages of total bank loan and commercial paper borrowings were $71.7 million, and $26.8 million, respectively, in 1983 and 1982. The approximate weighted average interest rates (excluding the effects of compensating balances and commitment fees) on revolving credit and commercial paper borrowings were 10.2% and 12.4%, respectively, in 1983 and 1982. (See Note 5 of Notes to Financial Statements.)

(3) At December 31, 1984, 1983 and 1982, the Company's capitalization ratios were:

Capitalization Ratios at December 31	**1984**	1983	1982
Debt (Includes Trusts)	**48.3%**	51.1%	46.6%
Preferred Stock	**12.1**	13.4	13.5
Common Stock and Retained Earnings	**39.6**	35.5	39.9
Total	**100.0%**	**100.0%**	**100.0%**

Capital Requirements: The Company's financial viability after 1985 depends upon its ability to continue to obtain required cash through external financing and through adequate and timely rate relief, including recovery in rates of its prudent investments in Shoreham and Nine Mile Point 2, whether or not either plant ever operates. As a result of entering into the 1984 Revolving Credit Agreement, the Company believes that it has the financial capability to complete its planned 1985 construction requirements and to meet its other 1985 capital requirements. The Company also believes that there are currently markets for high yield utility debt securities, such as those of the Company. Providing the funds to meet the Company's capital requirements after 1985 will be dependent upon the Company's ability to conserve cash, timely receipt of adequate additional rate relief, its ability to access the capital markets, and its ability to repay or to extend its 1984 Revolving Credit Agreement and to extend the maturities of some or all of $673 million of revolving credit

bank loans now scheduled to mature in 1986. The Company cannot at this time predict whether it will be able to obtain any or all of such external financing or rate relief. The Company has begun preliminary discussions with its lending banks respecting an extension of the maturity of the 1984 Revolving Credit Agreement from December 31, 1985 to June 30, 1986 and an increase in the amount of G&R Bonds that the Company is permitted to sell in 1985 from $100 million to $225 million.

The estimated capital requirements and capital provided shown in the tables that follow are based on the following assumptions: (1) Shoreham is operational October 1, 1985 and is reflected in rates effective January 1, 1986 (See Note 7 of Notes to Financial Statements under Rate Relief) and (2) the Company is able to continue to provide required cash.

Total capital requirements for 1984 and those estimated for 1985 are as follows:

	Actual	Estimated
Capital Reqirements (Dollars in Millions)	**1984**	1985
Construction Requirements		
Electric		
Shoreham (1)	**$612**	$446
Pre-Operational Credit	**-**	(44)
Nine Mile Point 2 (1)	**221**	206
Nuclear Fuel (1)	**15**	30
Other production	**20**	33
Other	**36**	54
Total Electric	**904**	725
Gas	**12**	16
Common	**5**	11
Total construction (Incl. AFC)	**921**	752
Less AFC	**(310)**	(308)
Total construction (Excl. AFC)	**611**	444
Refunding Requirements		
Senior Securities	**151**	22
Bank Loans	**-**	111
Resources Trust	**27**	-
Construction Trust	**-**	-
Total Refunding Requirements	**178**	133
Total Capital Requirements	**$789**	$577

(1) See Notes 4 and 7 of Notes to Financial Statements.

Capital expenditures for Shoreham after October 1, 1985 are estimated to add up to $40 to $50 million per month, including approximately $27 million of allowance for funds used during construction (AFC), to the cost of the plant. For additional data on construction expenditures for prior years, see Table 9 of "Selected Financial Data."

Capital Provided and Liquidity: Internal cash generation from operations provided 44% of total construction expenditures in 1984, negative 14% in 1983, and negative 5% in 1982. For this purpose, construction includes (1) LILCO construction less AFC plus (2) construction expenditures for the Company's share of Nine Mile Point 2 less interest capitalized by Tri-Counties Construction Trust plus (3) expenditures of Tri-Counties Resources Trust for nuclear fuel less interest capitalized by the Trust.

The capital provided in 1984 was, and that estimated for 1985 is, as follows:

	Actual	Estimated
Capital Provided (Dollars in Millions)	**1984**	**1985**
External Financing - Long-term		
Debt (1)	**$229**	$233
Preferred Stock	**-**	-
Common Stock	**64**	-
Total External - Long-Term	**293**	233
Cash and Short-Term Investments	**244**	15
Bank Loans	**36**	-
Internal Cash Generation from Operations (2)	**233**	315
Other Internal Funds Generation (3)	**(17)**	**14**
Total Capital Provided	**$789**	$577

(1) Includes G&R Bonds delivered to NMPC and amounts deferred on the grid note pursuant to the LILCO and NMPC Settlement Agreement.

(2) Includes:

(a)Retained earnings (net income less in 1984 dividends on preferred and common stock)

(b)Depreciation

(c)Deferred and other federal income taxes

Less:

(d)Allowance for funds used during construction

(3) Includes:

(a)Changes in working capital

(b)Other non-cash items - net

Federal legislation enacted into law in 1984 may permit tax-exempt refinancing of up to $2.8 billion of the costs of Shoreham. Such refinancing depends, among other factors, on the receipt of various approvals from certain agencies of the State of New York. The Company has been advised that it must be able to provide assurances that Shoreham will be permitted to become operational before the required State approvals will be forthcoming.

For information with regard to the Company's actions to recover its costs in the abandoned New Haven and Jamesport nuclear projects and to protect its investment in Bokum Resources Corporation, see Note 7 of Notes to Financial Statements.

For additional data on the Company's capitalization and other Balance Sheet items, see Table 10 of "Selected Financial Data". For quarterly data on the market prices of the Company's securities during the past two years, see Table 11 of "Selected Financial Data."

Through December 31, 1984, the Company had expended $2.7 million in defense of two shareowners' derivative actions and a class action settled in 1983 which alleged federal securities law violations with respect to disclosures concerning the BRC transactions. Of this amount, approximately $1.5 million was paid on behalf of certain of the Company's past and present directors and officers. The Company recovered $1.2 million of the $2.7 million through December 31, 1984, pursuant to its directors' and officers' liability insurance with the National Union Fire Insurance Company (National). This insurance and insurance currently with the New England Reinsurance Corp., the Buffalo Reinsurance Company, and

Associated Electric and Gas Insurance Services Limited (AEGIS) provide the Company with coverage for wrongful acts by directors and officers as well as indemnification for the Company and its directors and officers. In addition, the Company had also expended $0.4 million through December 31, 1984, in defense of another class action and derivative action, alleging federal securities law violations with respect to disclosures principally concerning the prudency of the construction costs of Shoreham and its management. The insurance from National and AEGIS also provides fiduciary liability coverage for the Company, its directors, officers and employees for any alleged breach of fiduciary duty under the Employee Retirement Income Security Act of 1974. The total premiums for all these coverages were $535,000 for the six month period ending February 28, 1985.

Results of Operations

Earnings: Summary results of recent earnings are:

Earnings	**1984**	1983	1982
Income for Common Stock (Millions)	**$340.3**	$287.2	$249.4
Average Common Shares Outstanding (Millions)	**110.1**	102.5	92.5
Earned Per Average Common Share	**$ 3.09**	$ 2.80	$ 2.70

The increases in average common shares outstanding indicated in the above table reflect the sale of a total of 6.1 million shares in 1984, 3.5 million shares in 1983, and 19.1 million shares in 1982. For all years, income for common stock increased, in part, because it includes increases in LILCO non-cash AFC which reflect the inflationary impact of higher costs of capital and additional capital raised (see Note 1 of Notes to Financial Statements). In 1984, the increase in income for common stock also reflects, to a limited extent, the effects of the Company's austerity program to conserve cash.

The ratio of earnings to fixed charges was 2.49 in 1984 compared with 2.46 in 1983, and 2.42 in 1982. The ratio of earnings to fixed charges and preferred dividend requirements was 1.91 in 1984, compared with 1.88 in 1983, and 1.90 in 1982. Both ratios, in each instance including AFC, are computed in accordance with Securities and Exchange Commission rules. A similar ratio of earnings, but excluding AFC, to fixed charges, was 1.40 in 1984, compared with 1.28 in 1983, and 1.34 in 1982.

Dividends: The February 1, 1984 common stock dividend was paid. On March 6, 1984, the Company announced that, as part of its austerity program to conserve cash, it would omit cash dividends on the common stock for the balance of 1984. The Company subsequently agreed (as part of the 1984 Revolving Credit Agreement) to suspend the declaration of preferred stock dividends payable on and after October 1, 1984, and not to declare or pay any dividend on its common stock through the maturity of the 1984 Revolving Credit Agreement, currently December 31, 1985. The Company is seeking to extend this maturity to June 30, 1986. Under its Certificate of Incorporation, the Company may not pay dividends on its common stock when it has failed to make payment in full of its cumulative preferred stock dividend requirements. (See "Capital Requirements and Liquidity" and "Revenues - Rate Increases").

Quarterly dividends on the common stock were paid as follows during the last three years:

	Paid Per Share		
Payment Dates	**1984**	1983	1982
Feb. 1	**50½¢**	50½¢	48½¢
May 1	-	50½¢	48½¢
Aug. 1	-	50½¢	50½¢
Nov. 1	-	50½¢	50½¢
Total Paid	**$0.505**	$2.02	$1.98

The Company estimates that for federal income tax purposes none of the common and preferred stock dividends paid in 1984 represent a return of capital and, therefore, these dividends will be taxable as ordinary income.

The Company estimates that for federal income tax purposes certain percentages of the dividends paid in 1983 and 1982 represented a return of capital and, therefore, may not be taxable as ordinary income. These percentages are 100% of the common stock and approximately 60% of the dividends paid on all series of preferred stock in 1983, and 100% of the common stock and approximately 81% of the dividends paid on all series of preferred stock in 1982. Such estimates are subject to audit by the Internal Revenue Service.

The trends of earnings, dividends, and coverage of interest and fixed charges over the past six years are provided in the Summary of Operations, Table 1, of "Selected Financial Data." Information with regard to the electric and gas segments of the Company's business for the most recent three years is provided in Note 8 of the Notes to Financial Statements. Additional data for prior years for both electric and gas operations is contained in the various tables of "Selected Financial Data".

Revenues: Total revenues, including revenues from the recovery of fuel costs, increased $185.7 million, or 10.4%, to $1,973.6 million in 1984 from $1,787.9 million in 1983. The increase in 1983 from 1982 was $154.3 million, or 9.4%. Revenues realized from sales of electricity and gas to the various classes of the Company's customers are shown in detail in Tables 2 and 3 of "Selected Financial Data." Electric and gas revenues reflect monthly adjustments in rates as a result of changes, up and down, in the cost of fuels for electric generation, purchased power costs and the cost of gas.

The principal factors causing these changes in revenues were:

Factors Causing Change In Revenues	**Increases from Prior Year**	
(Dollars in Millions)	**84/83**	83/82
(1) Fuels and Purchased Power	**$ 30.3**	$ 65.8
(2) Rate Increases	**127.2**	56.7
(3) Changes in Energy Sales and Other Changes	**28.2**	31.8
Total	**$185.7**	$154.3

Additional information about these factors:

(1) Fuels and Purchased Power: Changes between periods in the cost of electric fuels, purchased power, and gas fuels were influenced primarily by (a) the mix of fuels used and (b) changes in the cost of fuels.
(a) During 1984 and 1983, the Company displaced 40% and 38%, respectively, of the oil it would otherwise have used to generate electricity by burning gas and purchasing power from other utilities. Burning gas and purchasing power displaced 10.0 million barrels of oil in 1984 and 9.1 million barrels in 1983. The Company estimates that these and related interchanges of power with other utilities saved electric customers a total of $93.4 million in 1984 and $77.2 million in 1983 compared to the estimated cost of generating an equivalent amount of power on the LILCO system with oil. In addition, electric customers saved $25.0 million during 1984 and $33.2 million during 1983 as a result of burning higher sulfur oil through the Company's Environmental Quality Control System. As a result of sharing in the economies of burning gas to generate electricity, gas customers saved $14.9 million in 1984 and $11.6 million in 1983.

The mix of fuels and purchases of power for providing the Company's electric system energy requirements during 1984, 1983 and 1982 were as follows:

Fuel Mix	**1984**	1983	1982
Oil	**60%**	62%	64%
Purchases	**21**	23	20
Gas	**19**	15	16
Total	**100%**	100%	100%

(b) The cost of electric and gas fuels in 1984, 1983 and 1982 were:

Fuels and Purchased Power*

(Dollars in Millions)	1984	1983	1982
Electric Fuels	**$568.8**	$516.8	$501.4
Purchased Power	**123.7**	128.4	106.7
Gas	**192.6**	209.6	180.9
Total	**$885.1**	$854.8	$789.0

* Includes fuel cost adjustment deferred.

The average unit prices of fuels in 1984, 1983, and 1982 were as follows:

Average Unit Price*	**1984**	1983	1982
For Electric Operations ¢/kWh			
Fuels consumed for net generation	**4.68¢**	4.42¢	4.35¢
Purchased Power	**3.99¢**	3.95¢	3.88¢
For Gas Sendout - $/dth	**$3.67**	$4.13	$3.53

* Includes fuel cost adjustment deferred.

Additional fuel data for prior years is contained in Tables 4 and 5 of "Selected Financial Data."

(2) Rate Increases: Total revenues net of the above fuel costs increased $155.4 million, or 16.7%, in 1984 to $1,088.4 million and $88.5 million, or 10.5%, in 1983 to $933.0 million.

Rate increases of $127.2 million provided the major portion of the total $155.4 million increase in revenue net of fuels in 1984. The $28.2 million balance of the increase was due to a gain of $14.1 million from increased electric sales and an increase of $14.1 million in gas sales. Revenues resulting from rate increases of $56.7 million provided the major portion of the total $88.5 million increase in revenue net of fuels in 1983. The $31.8 million balance of the increase was due to a gain of $40.3 million from increased electric sales and a decrease of $8.5 million in gas sales.

In 1984, the PSC granted the Company permanent elecrtric rate relief totaling $245 million annually, including the $90 million interim rate relief granted in September 1983. The new rates became effective on September 1, 1984. This rate relief did not significantly reduce the Company's requirements for cash from other sources during 1984. However, this rate relief enabled the Company to obtain additional credit and made possible the Company's re-entry into the securities markets in 1984, and can be expected to satisfy a portion of the cash requirements for the Company's operational, construction and refunding needs in 1985.

On February 27, 1985, the Company filed for a 3.8% increase in electric rates to become effective January 1, 1986 to provide an annual increase of $68.7 million. In that filing, the Company indicated that it would request that an earlier proceeding be reopened to permit filing of a revised rate moderation proposal for reflecting Shoreham in rates (see Note 7 of Notes to Financial Statements under Rate Relief).

(3) Changes in Energy Sales and Other Changes: Changes in energy sales to customers result from changes in (a) the number of customers and (b) the level of consumption by customers, which, in turn, may be influenced by differences in weather conditions.

Electric Sales: The changes in the above factors between current and prior comparable periods were as follows:

	% Increase from Prior Year	
Customers and Average Use	**84/83**	83/82
(a) Average Number of Customers		
Residential	**0.9%**	0.9%
Commercial & Industrial	**2.0**	2.0
(b) Average kWh Use Per Customer		
Residential	**0.8**	5.2
Commercial & Industrial	**2.8**	2.2

Consumption by residential customers accounts for approximately 45% of the Company's annual system kWh sales of electricity. This is one of the highest proportions of such sales in the electric utility industry, and contributes to relatively stable operations of the Company.

Electric Sales

(Millions of kWh)	1984	1983	1982
System Sales			
Residential	**6,000**	5,900	5,557
Commercial & Industrial	**7,129**	6,797	6,524
Other	**448**	452	438
Total System Sales	**13,577**	13,149	12,519
Power Pool Sales	**418**	494	552
Total Sales	**13,995**	13,643	13,071

Total kWh sales to residential, commercial and industrial customers increased 3.4% in 1984 over 1983 and increased 5.1% in 1983 over 1982. Reflecting the strength of the Long Island economy, kWh sales to commercial and industrial customers increased 4.9% in 1984 over 1983 and increased 4.2% in 1983 over 1982.

Gas Sales: Approximately 72% of the Company's annual system dekatherm (dth) sales of gas results from consumption by space heating customers. Accordingly, total gas system revenues and sales are heavily influenced by seasonal temperature variations between periods and the availability of gas for sale to interruptible customers.

The average dth use of gas by space heating customers increased 6.4% in 1984 from 1983 compared with the 7.1% increase in the number of degree days. In addition, the average number of gas space heating customers increased 1.5% in 1984 together resulting in an 8.0% increase in total sales of gas to firm space heating customers. Sales of gas to firm non-space heating customers were up 2.7% in 1984 over 1983 while sales to interruptible customers increased 7.3%. The average dth use of gas by space heating customers decreased 5.8% in 1983 from 1982 compared with the 4.6% decrease in the number of degree days between the years. This decline was partially offset by a 2.5% increase in the average number of gas space heating customers, together resulting in a 3.5% decrease in total sales of gas to firm space heating customers. Sales of gas to firm non-space heating customers were up 0.1% in 1983 over 1982 while sales to interruptible customers decreased 12.8%.

Gas Sales

(dth in Millions)	1984	1983	1982
Firm System Sales			
Space Heating	**36.9**	34.2	35.4
Non-Space Heating	**8.3**	8.1	8.1
Total Firm	**45.2**	42.3	43.5
Interruptible	**5.7**	5.3	6.1
Total System Sales	**50.9**	47.6	49.6
Degree Days Billed	4,921	4,596	4,816

Additional energy sales data for prior years is contained in Tables 6 and 7 of "Selected Financial Data."

Operations and Maintenance Expenses: Total operations and maintenance expenses exclusive of fuels and purchased power decreased $5.9 million, or 2.3%, in 1984 to $256.4 million. These expenses increased $23.1 million, or 9.7%, in 1983 to $262.3 million. Nearly 58% in 1984 and in 1983 of these total costs represented employee wages and benefits. The $5.9 million net reduction in 1984 is after giving effect to increases of $5.6 million to reflect four months of amortization of the abandoned New Haven nuclear plant and $15.7 million of austerity expense reductions which were deferred in order to limit income for common stock to the rate of return on common equity allowed by the PSC. The decrease in 1984 from 1983 in operations and maintenance expenses exclusive of fuels and purchased power, totaling $27.2 million before the increases indicated above, was due principally to the austerity reductions. Most of the increase in 1983 over 1982 in operations and maintenance expenses exclusive of fuels and purchased power was due to higher labor and materials costs, with the balance due largely to higher administrative and general costs, including employee pensions and benefits, legal services, regulatory related expenses and research and development. Information concerning the effects of inflation on the Company's operation is contained in Note 10 of Notes to Financial Statements. Additional expense data is contained in Table 8 of "Selected Financial Data."

Other Items: Federal income taxes in 1984 were $51.1 million higher than in 1983. In 1983, federal income taxes were $17.0 million higher than in 1982. Changes in federal income taxes are due principally to variations in net income before income taxes, recognition of investment tax credits, and items capitalized for financial statement purposes that are allowed as current deductions on the Company's tax returns. (See Notes 1 and 6 of Notes to Financial Statements.)

Other items such as depreciation, operating taxes, interest expense and preferred stock dividend requirements, (including $21.3 million being reflected in the financial statements although unpaid beginning October 1, 1984) in aggregate increased $97.0 million, or 14.4%, to $771.9 million in 1984, from $674.9 million in 1983. These were partially offset by a $25.3 million increase in total AFC and a $22.9 million increase in Allowance for borrowed funds used during construction - trusts. The increase in these items in 1983 over 1982 was $95.6 million, or 16.5%, substantially offset by a $83.5 million increase in total AFC. Increases in depreciation generally result from the addition of plant in service. Increases in operating taxes are largely due to higher property taxes resulting from the addition of new plant and increased property tax rates. State and local gross income and franchise taxes vary with revenues. Increases in interest charges and preferred stock dividend requirements result primarily from increased bank borrowings and from the sale of additional securities. Interest charges on Trust obligations are capitalized and vary with changes in the lending rates of the Trust's credit banks. Such charges are offset by AFC related to Trust interest so there is no effect on net income.

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. The amount of AFC (including interest on Trust obligations which corresponds to AFC) fluctuates from period to period with changes in the cost of money, the level of construction activity, the amount of construction work in progress (CWIP) included in rate base, and modifications in regulatory policy. The amount of electric CWIP included in rate base (on which the Company is allowed to earn a cash return in lieu of non-cash AFC) was increased, effective May 29, 1981, from $300 million to $400 million. The average amount of electric CWIP allowed in rate base was $400.0 million in 1984, 1983 and 1982, including the $355.0 million related to Shoreham in 1984, 1983 and 1982.

LILCO AFC (excluding AFC related to Trust interest) totaled $310.1 million in 1984, $284.8 million in 1983 and $201.4 million in 1982, representing 91%, 99%, and 81% of income for common stock in each year, respectively.

Balance Sheet

Assets

At December 31 (In thousands of dollars)		1984	1983	1982
Utility Plant	Electric	**$1,831,580**	$1,798,490	$1,748,406
	Gas	**368,531**	360,174	341,137
	Common	**87,633**	85,734	82,730
	Construction work in progress	**4,317,759**	3,467,211	2,812,119
	Nuclear fuel in process	**9,113**	23	115
	Construction and nuclear fuel in trusts	**657,928**	710,888	552,235
		7,272,544	6,422,520	5,536,742
	Less — Accumulated depreciation, depletion and amortization	**788,565**	727,298	672,518
	Total Net Utility Plant	**6,483,979**	5,695,222	4,864,224
Other Property and Investments	Nonutility property, principally at cost	**2,811**	2,816	2,823
	Investment in subsidiary companies, at equity	**569**	637	608
	Other investments and deposits	**65,259**	64,240	59,488
	Total Other Property and Investments	**68,639**	67,693	62,919
Current Assets	Cash	**10,105**	3,301	8,838
	Temporary cash investments	**21,600**	272,074	18,200
	Special deposits	**61,900**	3,557	8,308
	Accounts receivable (less allowance for doubtful accounts of $3,838,000, $4,289,000 and $4,062,000)	**184,028**	169,947	155,689
	Accrued revenue on accounts billed bimonthly	**23,908**	21,328	19,030
	Materials and supplies at average cost	**28,010**	31,575	31,984
	Fuel oil at average cost	**49,359**	40,211	71,208
	Gas in storage at average cost	**43,715**	43,949	46,945
	Prepayments	**2,015**	1,060	1,017
	Total Current Assets	**424,640**	587,002	361,219
Deferred Charges	Electric fuel cost adjustment deferred	**1,038**	62	959
	Unamortized cost of abandoned New Haven generating project	**44,108**	—	—
	Other	**77,769**	39,604	60,404
	Total Deferred Charges	**122,915**	39,666	61,363
	Total Assets	**$7,100,173**	$6,389,583	$5,349,725

See Notes to Financial Statements.

Capitalization and Liabilities

At December 31 (In thousands of dollars)		1984	1983	1982
Capitalization	Long-term debt	**$2,316,175**	$2,180,721	$1,602,777
	Unamortized premium and (discount) on debt	**(9,658)**	(8,198)	(5,605)
		2,306,517	2,172,523	1,597,172
	Preferred stock — redemption required	**529,375**	540,013	478,050
	Preferred stock — no redemption required	**221,056**	221,119	157,070
	Treasury stock, at cost	**(505)**	(1,772)	—
	Total Preferred Stock	**749,926**	759,360	635,120
	Common stock	**551,061**	520,600	502,864
	Premium on capital stock	**999,996**	964,562	921,284
	Capital stock expense	**(56,103)**	(56,278)	(50,335)
	Retained earnings	**956,356**	580,115	501,806
	Total Common Shareowners' Equity	**2,451,310**	2,008,999	1,875,619
	Total Capitalization	**5,507,753**	4,940,882	4,107,911
Trust Obligations		**685,621**	713,484	598,335
Current Liabilities	Current maturities of long-term debt	**129,046**	107,057	107,052
	Current redemption requirements of preferred stock	**4,437**	38,037	11,600
	Accounts payable	**164,589**	140,227	175,431
	Accrued taxes (including federal income tax of $19,526,000, $2,252,000 and $2,307,000)	**124,131**	54,621	56,666
	Accrued interest	**59,580**	61,413	44,726
	Customer deposits	**12,762**	12,231	10,865
	Dividends payable	**—**	67,488	60,429
	Total Current Liabilities	**494,545**	481,074	466,769
Deferred Credits	Accumulated deferred income tax reductions	**338,607**	222,502	156,385
	Other	**54,649**	25,055	14,476
	Total Deferred Credits	**393,256**	247,557	170,861
Reserves for Claims, Damages, Pensions and Benefits		**18,998**	6,586	5,849
Commitments and Contingencies		**—**	—	—
	Total Capitalization and Liabilities	**$7,100,173**	$6,389,583	$5,349,725

See Notes to Financial Statements.

Statement of Income

For Year Ended December 31 (in thousands of dollars)	**1984**	1983	1982	1981	1980
Revenues					
Electric	**$1,613,397**	$1,435,947	$1,320,515	$1,402,719	$1,039,666
Gas	**360,153**	351,904	313,002	262,113	237,272
Total Revenues	**1,973,550**	1,787,851	1,633,517	1,664,832	1,276,938
Expenses					
Operations — fuel and purchased power	**885,096**	854,837	789,026	865,352	651,726
Operations — other	**195,829**	192,435	170,455	158,267	132,207
Maintenance	**60,568**	69,887	68,743	68,253	57,503
Depreciation, depletion and amortization	**65,209**	63,410	61,598	60,065	56,668
Operating taxes	**255,855**	241,204	207,952	198,979	172,916
Federal income tax — current	**14,096**	(4,128)	(662)	(1,008)	(2,915)
Federal income tax — deferred and other	**188,476**	101,217	89,712	89,036	14,205
Total Expenses	**1,665,129**	1,518,862	1,386,824	1,438,944	1,082,310
Operating Income	**308,421**	268,989	246,693	225,888	194,628
Other Income and (Deductions)					
Allowance for other funds used during construction	**235,840**	205,441	157,923	113,648	80,993
Other income and (deductions)	**(1,056)**	7,270	334	(1,084)	5,002
Federal income tax credit — current	**(315)**	(4,128)	(662)	(1,128)	(2,985)
Federal income tax credit — deferred and other	**86,757**	36,198	41,660	29,855	24,910
Total Other Income and (Deductions)	**321,226**	244,781	199,255	141,291	107,920
Income Before Interest Charges	**629,647**	513,770	445,948	367,179	302,548
Interest Charges and (Credits)					
Interest on long-term debt	**275,979**	214,952	170,574	134,174	113,679
Other interest	**161**	13,244	9,434	19,631	12,710
Allowance for borrowed funds used during construction	**(74,281)**	(79,400)	(43,454)	(34,358)	(28,859)
Interest capitalized by trusts	**87,186**	64,274	69,784	69,876	42,730
Allowance for borrowed funds used during construction — trusts	**(87,186)**	(64,274)	(69,784)	(69,876)	(42,730)
Total Interest Charges and (Credits)	**201,859**	148,796	136,554	119,447	97,530
Net Income	**427,788**	364,974	309,394	247,732	205,018
Preferred stock dividend requirements	**87,524**	77,811	59,989	48,830	40,103
Income for Common Stock	**$ 340,264**	$ 287,163	$ 249,405	$ 198,902	$ 164,915
Average Common Shares Outstanding — (000)	**110,120**	102,484	92,475	77,988	65,138
Earned per Common Share	**$ 3.09**	$ 2.80	$ 2.70	$ 2.55	$ 2.53
Dividends Declared per Common Share	**$ —**	$ 2.02	$ 2.00	$ 1.92	$ 1.84

See Notes to Financial Statements.

Shareowners' Equity

At December 31 (In thousands of dollars)	Call Price Per Share December 31, 1984	Call Price Per Share Final	1984	1983	1982	1981	1980
Statement of Retained Earnings							
Balance, January 1			**$580,115**	$501,806	$439,285	$391,113	$346,001
Add — Net income for the year			**427,788**	364,974	309,394	247,732	205,018
Less — Capital stock expense			**1**	38	—	1	1
Less — Cash dividends declared:							
Preferred stock			**51,546**	78,998	60,009	49,289	39,701
Common stock			**—**	207,629	186,864	150,270	120,204
Balance, December 31			**$956,356**	$580,115	$501,806	$439,285	$391,113
Common Stock							
Par Value $5 per Share							
Shares authorized			**150,000,000**	150,000,000	110,000,000	110,000,000	80,000,000
Shares issued and outstanding			**110,212,156**	104,120,072	100,572,887	81,370,597	69,981,436
Increase in shares outstanding			**6,092,084**	3,547,185	19,202,290	11,389,161	9,758,153
Increases in $5 par value			**$ 30,461**	$ 17,736	$ 96,011	$ 56,946	$ 48,791
Increases in Premium on capital stock			**35,434**	43,278	197,043	104,908	99,009
Increases (Decreases) in Capital stock expense			**(175)**	5,943	8,228	6,967	5,002
Preferred Stock							
Par Value $100 per Share, Cumulative:							
Shares authorized			**7,000,000**	7,000,000	7,000,000	7,000,000	5,050,000
Shares issued and outstanding			**2,985,813**	3,397,311	3,527,203	3,633,330	3,700,675
Shares held in treasury			**12,875**	24,375	—	—	—
5 % Series B	$101.00	$101.00	**$ 10,000**	$ 10,000	$ 10,000	$ 10,000	$ 10,000
4.25% Series D	102.00	102.00	**7,000**	7,000	7,000	7,000	7,000
4.35% Series E	102.00	102.00	**20,000**	20,000	20,000	20,000	20,000
4.35% Series F	102.00	102.00	**5,000**	5,000	5,000	5,000	5,000
5⅛ % Series H	102.00	102.00	**20,000**	20,000	20,000	20,000	20,000
5¾ % Series I Convertible	100.00	100.00	**4,056**	4,119	5,070	6,083	6,968
8.12% Series J	104.00	101.00	**25,000**	25,000	25,000	25,000	25,000
8.30% Series K	105.37	103.29	**30,000**	30,000	30,000	30,000	30,000
7.40% Series L*	104.98	100.00	**27,650**	29,750	30,800	31,850	32,900
8.40% Series M*	105.60	100.00	**33,600**	35,000	35,000	35,000	35,000
7.50% Series Q*	—	—	**—**	28,800	33,600	38,400	43,200
8.50% Series R*	115.00	100.00	**45,000**	52,500	56,250	60,000	60,000
9.80% Series S*	105.00	100.00	**72,562**	75,000	75,000	75,000	75,000
Total Par Value $100			**$299,868**	$342,169	$352,720	$363,333	$370,068
Par Value $25 per Share, Cumulative:							
Shares authorized			**30,000,000**	30,000,000	14,400,000	14,400,000	7,200,000
Shares issued and outstanding			**18,200,000**	18,280,000	11,760,000	8,805,200	6,310,000
Shares held in treasury			**—**	—	—	34,800	10,000
$2.47 Series O*	$ 26.50	$ 25.25	**$ 40,000**	$ 42,000	$ 44,000	$ 46,000	$ 48,000
$2.43 Series P	29.30	27.75	**35,000**	35,000	35,000	35,000	35,000
$3.31 Series T*	28.75	25.00	**75,000**	75,000	75,000	75,000	75,000
$4.25 Series U*	30.00	25.00	**65,000**	65,000	65,000	65,000	—
$3.50 Series V*	29.25	25.00	**75,000**	75,000	75,000	—	—
$3.52 Series W	32.00	27.50	**65,000**	65,000	—	—	—
$3.50 Series X*	29.25	25.00	**100,000**	100,000	—	—	—
Total Par Value $25			**455,000**	457,000	294,000	221,000	158,000
Less — Sinking fund requirements			**4,437**	38,037	11,600	11,600	7,850
Less — Treasury stock at cost**			**505**	1,772	—	569	186
Total Preferred Stock			**$749,926**	$759,360	$635,120	$572,164	$520,032

See Notes to Financial Statements.

*Redemption required, see Note 2.

**Held to meet annual sinking fund requirements.

Statement of Changes in Financial Position

For Year Ended December 31 (in thousands of dollars)	1984	1983	1982	1981	1980
Source of Funds					
Operations					
Net income	**$ 427,788**	$ 364,974	$ 309,394	$ 247,732	$ 205,018
Principal noncash charges and (credits) to income:					
Depreciation, depletion and amortization	**65,214**	63,415	61,603	60,070	56,668
Deferred and other federal income taxes	**101,720**	65,019	48,052	59,181	(10,705)
Write-off and amort. of abandoned projects	**18,100**	—	—	—	—
Allowance for funds used during construction	**(310,121)**	(284,841)	(201,377)	(148,006)	(109,852)
Other	**12,883**	14,344	14,786	8,473	9,145
Interest capitalized by trusts	**87,186**	64,274	69,784	69,876	42,730
Allowance for borrowed funds used during construction — trusts	**(87,186)**	(64,274)	(69,784)	(69,876)	(42,730)
Funds Provided from Operations	**315,584**	222,911	232,458	227,450	150,274
Long-term Financing					
Long-term debt	**264,500**	685,000	217,200	300,000	50,000
Preferred stock	**—**	171,769	76,121	65,399	75,114
Common stock	**63,585**	54,352	292,528	161,409	147,676
Other					
Increase in short-term debt	**—**	—	—	—	93,164
Decrease in working capital (excluding short-term debt)	**175,833**	—	106,215	—	45,353
Other sources	**47,927**	20,195	12,405	16,128	25,365
Total Source of Funds	**$ 867,429**	$1,154,227	$ 936,927	$ 770,386	$ 586,946
Use of Funds					
Construction expenditures	**$ 961,953**	$ 741,230	$ 742,789	$ 501,894	$ 422,473
Nuclear fuel expenditures	**9,090**	(92)	79	23	13
Construction and nuclear fuel in trusts	**(49,909)**	158,653	145,693	87,893	76,448
Less — Allowance for funds used during construction (AFC)	**310,121**	284,841	201,377	148,006	109,852
Construction and Nuclear fuel expenditures, less AFC	**611,013**	614,950	687,184	441,804	389,082
Dividends on preferred stock	**51,546**	78,998	60,009	49,289	39,701
Dividends on common stock	**—**	207,629	186,864	150,270	120,205
Reduction of long-term debt	**129,046**	107,056	107,052	72,048	60,044
Preferred stock conversions and retirements	**7,130**	40,761	12,613	12,867	9,159
Trust obligations	**27,863**	(115,149)	(158,910)	(90,490)	(61,628)
Decrease in short-term debt	**—**	—	—	118,000	—
Increase in working capital (excluding short-term debt)	**—**	211,478	—	17,191	—
Electric fuel cost adjustment deferred	**976**	(897)	(3,229)	(35,031)	16,510
Gas cost adjustment	**6,099**	(17,561)	4,934	6,410	(4,838)
Other investments and deposits	**1,019**	4,752	715	3,903	—
Capital stock expense	**424**	7,121	9,405	8,144	6,179
Cost of removal	**3,391**	4,041	3,658	3,797	4,638
Other uses	**28,922**	11,048	26,632	12,184	7,894
Total Use of Funds	**$ 867,429**	$1,154,227	$ 936,927	$ 770,386	$ 586,946
Increase (Decrease) in Working Capital *(excluding short-term debt)*					
Cash	**$ 6,804**	$ (5,537)	$ (1,185)	$ 4,113	$ (2,715)
Temporary cash investments	**(250,474)**	253,874	(24,000)	42,000	(3,280)
Special deposits	**58,343**	(4,751)	7,706	(977)	(10,848)
Accounts and notes receivable	**14,081**	14,258	69	13,098	26,668
Accrued revenue	**2,580**	2,298	(523)	3,436	2,250
Materials, supplies, gas in storage and fuel	**5,349**	(34,402)	17,595	26,660	14,635
Prepayments	**955**	43	(301)	151	(39)
Current maturities on long-term debt	**(21,989)**	(5)	(35,004)	(12,004)	(40,004)
Sinking fund requirement on preferred stock	**9,600**	(2,437)	—	(3,750)	—
Redemption required Preferred Stock Series Q	**24,000**	(24,000)	—	—	—
Accounts payable	**(24,362)**	35,204	(22,500)	(42,624)	(13,923)
Accrued taxes	**(69,510)**	2,045	(28,140)	10,236	(6,295)
Accrued interest	**1,833**	(16,687)	(4,510)	(12,396)	(5,625)
Customer deposits	**(531)**	(1,366)	(1,097)	(1,163)	(526)
Dividends payable	**67,488**	(7,059)	(14,325)	(9,589)	(5,651)
Net Increase (Decrease)	**$ (175,833)**	$ 211,478	$ (106,215)	$ 17,191	$ (45,353)

See Notes to Financial Statements.

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies

The accounting records of the Company are maintained in accordance with the Uniform Systems 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 recorded at original cost, which includes material, labor, overheads, and an allowance for the cost of funds used during construction (AFC). 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 Systems 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 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. Since September 1984 and prior to February 1983 the Company computed AFC on its Shoreham Nuclear Generating Plant (Shoreham) at a rate which reflected the income tax effect of the interest portion of AFC. However, between February 1983 and August 1984, with certain restrictions and limitations as ordered by the PSC to reflect related rate treatment, AFC on certain construction costs, including costs of Shoreham, has been computed at a rate which does not reflect the income tax effect of the interest portion of AFC.

This change increased AFC, which resulted in a non-cash increase in income for common stock of $18.8 million, or 18¢ per share in 1983. However, as a result of the interim rate increase, between September 15, 1983 and August 31, 1984 what otherwise would have been future non-cash AFC earnings were replaced, retroactive to June 1983, by cash earnings in an amount equivalent to the amount granted as the interim rate increase. Accordingly, the Company estimates that $10.5 million of net after tax cash earnings were received in lieu of non-cash AFC earnings between September 15 and December 31, 1983 and $32.4 million between January 1 and August 31, 1984.

The average annual AFC rate, without giving effect to compounding or the reduced net of tax rate, was 13.26%, 12.83%, 12.68%, 11.52% and 10.54% for the years 1984 through 1980, respectively.

In compliance with a FERC order, the Company allocates the portion of AFC relating to borrowed funds to the Interest Charges and (Credits) section of the Statement of Income.

Depreciation

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 annual age-life studies of depreciable properties. Depreciation was equivalent to 3.3% for electric and 2.4% for gas of respective average depreciable plant costs for each of the five years ending December 31, 1984.

Revenues

Revenues are recorded when billed. Billings are rendered on a monthly or bimonthly cycle basis. The Company accrues estimated revenues for customers billed bimonthly in the month in which they are normally not billed.

The Company's tariffs for electric service include a fuel adjustment clause under which electric rates charged to most customers are adjusted to reflect changes in the average cost of fuels and of certain purchased power costs. The Company's tariffs for gas service contain a comparable clause.

Deferred Fuel Cost Adjustments

The Electric Fuel Cost Adjustment represents 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 this difference along with the related income tax effects to those future periods in which it will be billed to customers. The Company's tariffs for gas service contain comparable adjustments. The Company believes that the PSC will continue to permit the recovery of deferred fuel costs.

Federal Income Taxes

The Company's general policy is to reflect as income tax expense the amount of income taxes currently payable; however, in certain instances authorized by the PSC, provision is made for income tax effects of the differences between net income before income taxes and taxable income, as disclosed in Note 6.

The major items which are part of the deferred tax provision are as follows:

- Income tax deductions for reduced depreciable lives permitted by the Revenue Act of 1971.
- Income tax deductions for deferred fuel cost.
- Income tax deductions for the Metropolitan Transportation Authority (MTA) tax surcharge.
- Income tax deductions for interest on amounts financed through the Company's Tri-Counties Construction and Resources Trusts.
- Income tax deductions for real property taxes and certain construction costs associated with Shoreham.
- Income tax deduction associated with cancelled generating projects.
- Income tax deductions for increased tax depreciation on post 1980 asset additions mandated by the Economic Recovery Tax Act of 1981.
- Increase in investment tax credits under the Tax Reduction Act of 1975.
- Normalization of investment tax credit under the Economic Recovery Tax Act of 1981.
- Income tax deduction for operations and maintenance expenses under the Austerity Plan. See Regulatory Accounting below.

Investment tax credits allowable under the Revenue Act of 1971 are accounted for as a reduction of federal income tax expense. The basis of accounting for these credits was modified by PSC rate orders, the effect of which was to recognize a cumulative total of $13,422,000 of additional credits for financial accounting and ratemaking purposes for the three years ended 1980 (See Note 6). The balance was amortized over 36 months beginning in June 1981. The utilization of such additional credits for tax purposes, however, continues to be subject to the provisions of the Internal Revenue Code.

Reserves for Claims, Damages, Pensions and Benefits

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

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 or, if redeemed below par value, as a gain on reacquired capital stock in "Premium on capital stock". Such gain was $3,637,000, $1,333,000 and $1,064,000 at the end of 1984, 1983 and 1982, respectively.

Regulatory Accounting
In accordance with present generally accepted accounting principles, plant, operating and financing costs may be deferred in certain circumstances for recovery in the future under a rate moderation plan; regulatory disallowance of a portion of a plant's cost would not, in itself, require an immediate charge to income. The Financial Accounting Standards Board (FASB) is currently reviewing various aspects of Statement of Financial Accounting Standards No. 71, Accounting for the Effects of Certain Types of Regulation; changes in accounting requirements may evolve from this review. The Company is unable to predict with certainty what changes could occur as a result of the review of these topics by the FASB.

After the Company instituted a cost savings plan called The Austerity Plan, the PSC ordered that the Company provide an accounting mechanism to recognize and preserve the benefits of its Austerity Plan. In its rate order effective September 1, 1984, the PSC recognized approximately $36 million of these cost savings in rates and ordered the continued recognition and preservation of the remainder. As of December 31, 1984, the accumulated preserved austerity savings of $15.7 million were recorded in "Deferred Credits - Other" and have been included in "Operations - Other" expense on the Statement of Income. After provision for the related income tax effect, the effect on "Income for Common Stock" was a reduction of $8.5 million, or 8¢ per share.

Pursuant to a PSC rate order effective September 1, 1984, the Company began accounting for the effects of a Financial Stability Adjustment (FSA). The order provided the Company with current cash inflows and provided that plant cost would be reduced by such amounts. The total amount of such cash inflows is $198 million per year of which $56.6 million (or $29.2 million after tax effects) was recorded during 1984. See Note 7 under Rate Relief.

The cost of abandoned generating projects continues to be classified as CWIP until such time as an order is received from the PSC concerning disposition.

Note 2. Capital Stock

Of the 150,000,000 shares of authorized Common Stock at December 31, 1984, 216,330 shares were reserved for sale to employees, 6,802,247 shares were committed to the Automatic Dividend Reinvestment Plan, 733,600 shares were reserved for the Employee Stock Ownership Program (ESOP) described below and 236,519 shares were reserved for conversion of the Series I Convertible Preferred Stock at $17.15 per share.

Redemption of Series, L,M,O,R,S,T,U,V, and X Preferred Stock is contemplated through the operation of various sinking fund provisions. However, the Company has purchased an aggregate number of shares of its Preferred Stock Series L,M and R equivalent to the number of shares of such series scheduled to be redeemed by way of sinking funds during the period October 1, 1984 through December 1, 1985. The aggregate amount of Preferred Stock required to be redeemed in each of the years 1985 through 1989 is $4,437,000, $13,638,000, $16,888,000, $19,888,000 and $23,888,000, respectively. Dividends on the Preferred Stock are required to be paid in preference to dividends on the Common Stock. The Company's Certificate of Incorporation states that all Preferred Stockholders have the right to elect the smallest number of members of the Board of Directors so as to constitute a majority, should the Company be in arrears for a total of four quarterly dividend payments in any one series of Preferred Stock.

On February 20, 1985, the PSC approved a Company proposed ESOP which will provide LILCO employees with Company stock in lieu of salary lost as a result of salary reductions in 1984 in connection with the Company's Austerity Plan. The provisions of the ESOP require that employees remain employed with the Company until April 1, 1986 in order to receive the stock.

Restrictions as to the declaration of Preferred and Common Stock dividends as well as sinking fund redemptions of Preferred Stock were imposed by the 1984 Revolving Credit Agreement. For further information refer to Note 7 under 1984 Revolving Credit Agreement. Cumulative preferred dividends in arrears resulting from the dividend suspensions referred to above were equal to $21.3 million representing one quarterly dividend per series, at December 31, 1984.

None of the authorized shares of nonparticipating Preference Stock, par value $1 per share which ranks junior to the Preferred Stock, are outstanding.

Note 3. Retirement Benefit Plans

The Company maintains two pension plans. The total costs related to the plans were $17,796,000, $16,820,000, $15,840,000, $14,418,000 and $12,946,000 for the years 1984 through 1980 (of which $5,082,000, $5,092,000, $4,655,000, $3,901,000 and $3,699,000 were included in construction costs), respectively. The costs of the defined benefit retirement plan, which covers most employees, are determined as the amount needed to meet current service costs and to amortize unfunded past service costs over a 30 year period. All pension costs are borne by the Company. The Company makes annual contributions to the plan equal to the amounts accrued for costs related to the plan.

The Company also provides, without contribution from such employees, supplemental death and retirement benefits for officers and other key executives. Death benefits are currently provided by insurance. Retirement benefits, which are not available until 1986, have been recognized as expense but are unfunded.

A comparison of accumulated plan benefits and plan net assets for the Company's retirement plans is presented below:

	January 1, 1984	1983	1982
	(In thousands of dollars)		
Actuarial present value of accumulated plan benefits:			
Vested	**$267,593**	$248,571	$230,966
Nonvested	**10,199**	9,615	9,037
Total	**$277,792**	$258,186	$240,003
Net assets available for benefits	**$263,676**	$238,396	$207,783

The weighted average assumed rate of return used in determining the actuarial present value of accumulated plan benefits was 6% for all years.

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 normal 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 Company recognizes the cost of providing these benefits by expensing the annual insurance premiums, which were $13,058,000 for 1984. The cost of providing those benefits for 1,809 retirees is not separable from the cost of providing benefits for the 5,242 active employees.

Note 4. Trust Obligations

The Company established Tri-Counties Resources Trust and Tri-Counties Construction Trust to finance, respectively, the Company's nuclear fuel program and its share of the costs of construction of a nuclear plant, Nine Mile Point 2, and its fuel. The Resources Trust and the Construction Trust are currently financed by revolving credit loans which were fully utilized at December 31, 1983 and which initially provided for borrowings of up to $180,000,000 and $500,000,000, respectively. The amounts outstanding, however, at December 31, 1984 were $176,437,000 for the Resources Trust and $509,184,000 for the Construction Trust. Of the $176,437,000 outstanding under the Resources Trust, $145,981,000 had been used to finance nuclear fuel expenditures and $30,456,000 had been invested in the Company for general corporate purposes. The Company has guaranteed the obligations of the two Trusts and additionally has secured those obligations (along with certain other Company obligations) by a Third Mortgage on substantially all of the Company's properties. The lien of the Third Mortgage is subordinate to the liens of the First Mortgage and the General and Refunding Mortgage described in Note 5. The revolving credit agreements of both Trusts provide for borrowings principally at the prime interest rate prevailing from time to time or, if advantageous, at alternate borrowing rates based on the London Interbank Offering Rate or the Certificate of Deposit Rate. Currently, these borrowings are based on six-month Certificate of Deposit Rates averaging 9.45%.

The Company is obligated to purchase nuclear fuel owned by the Resources Trust, or heat from such fuel. In this connection, the Company has elected to purchase heat from the initial core at Shoreham. Loans under the revolving credit agreement of the Resources Trust mature in September 1986.

Similarly, the Company is obligated to reimburse the Construction Trust for nuclear fuel and construction costs not later than sixty days after the earliest to occur of several events, including the issuance of an operating license for Nine Mile Point 2, fuel loading at Nine Mile Point 2 and October 31, 1986. Upon termination of, or default by, either Trust, the Company is obligated to repay fully the obligations of the Trust. The present maturity date of the loans under the revolving credit agreement of the Construction Trust is December 31, 1986, but the loans may be converted to a term loan maturing in 1988 provided that certain conditions for the conversion are met as to which the Company cannot presently give any assurances. One of the conditions under which the Construction Trust's revolving credit agreement might be converted to a term loan is that, since December 31, 1981 or at a later date acceptable to the Construction Trust's lending banks, there has been no change in the condition or operation of the Company which would have a material adverse effect on the ability of the Company to carry out its obligations under the Construction Trust Agreements. Another condition is in substance that, since the same date, there has been no litigation against the Company which, if adversely determined, would prevent the Company from performing its obligations under the Construction Trust agreements. Additional information is set forth in Note 7 under Nine Mile Point 2.

Funds currently required by the Resources Trust to finance the Company's nuclear fuel program and by both Trusts to make interest payments are being provided by the Company. With respect to such advances by the Company to the Construction Trust in excess of the $500,000,000 advanced by the banks, the banks had indicated that the Company's advances violated provisions of the Construction Trust agreements. It was the Company's view, however, that such advances were not intended to be covered by the Construction Trust agreements. To resolve this question, the Company and the banks in 1984 agreed to amend the agreements to cover prior advances by the Company in excess of $500,000,000 and exclude future advances by the Company for the purpose of enabling the Construction Trust to make interest payments under the Construction Trust agreements. These amendments were approved by the PSC in February 1985.

The Trusts' average annual interest rates (excluding commitment fees) on average borrowings of $696,941,000, $658,902,000, $500,198,000, $381,614,000 and $314,360,000 (excluding loans from the Company) outstanding during the years 1984, 1983, 1982, 1981 and 1980 were 11.9%, 10.3%, 14.7%, 19.4% and 15.6%, respectively. Of the total average borrowings, $54,649,000, $50,546,000, $45,889,000, $45,100,000 and $45,100,000 related to general corporate purposes for the respective periods. The Trusts' interest costs on borrowings utilized to finance construction and nuclear fuel are reflected in the Company's Construction and Nuclear Fuel in Trust accounts and are deducted currently for tax purposes on the Company's tax return.

Note 5. Debt at December 31

The First Mortgage is a first lien on substantially all of the Company's properties. The General and Refunding Mortgage (G&R Mortgage), which is a second lien on substantially all of the same properties, is subordinate to the lien of the First Mortgage. All First Mortgage Bonds issued on and after June 1, 1975 (Pledged Bonds) were issued to the Trustee of the G&R Mortgage as additional security for General and Refunding Bonds (G&R Bonds).

The Third Mortgage, which is a third lien on substantially all of the same properties, is subordinate to both the First Mortgage and the G&R Mortgage and was created to secure the Company's debt under (1) a Revolving Credit Agreement with several domestic banks for borrowing up to $250 million, (2) the Eurodollar Revolving Credit Agreement with several foreign banks for borrowings up to $150 million, (3) the revolving credit agreement between Tri-Counties Resources Trust and several banks for borrowings up to $180 million, (4) the revolving credit agreement between Tri-Counties Construction Trust and several banks for borrowings up to $500 million and (5) intermediate term loans with several banks providing for $105 million, all of which are discussed below.

The $250 million Revolving Credit Agreement which terminates December 1988, has provisions for four annual extensions until December 1992, with the consent of the lending banks. Borrowings are at fluctuating alternative available interest rates, namely,

a rate based on the prime rate, a rate based on the London Interbank Offering Rate or a rate based on rates charged by lenders for domestic certificates of deposit or time deposits. The commitment fee is 3/8 of 1% per year on the average daily unused portion of each bank's commitment.

The Eurodollar Revolving Credit Agreement with several foreign banks provides for borrowings up to $150 million including $75 million that will mature in August 1985. Borrowings will be at a rate based on the London Interbank Offering Rate. The commitment fee is 1/4 of 1% per year on the average daily unused portion of each bank's commitment.

At December 31, 1984, the Company had borrowed all of the $400 million of funds available under its Revolving Credit Agreement and its Eurodollar Revolving Credit Agreement. There are no requirements for compensating balances or fees in lieu thereof in either agreement.

The Company's $105 million of intermediate term notes have fixed interest rates averaging 12.72% per annum. Of these loans, $30 million matures in 1986; the remainder in 1988.

The Company's 1984 Revolving Credit Agreement provides up to $150 million of revolving credit, expandable with the consent of the fourteen lending banks to $200 million. The termination date is December 31, 1985. At December 31, 1984, the Company had outstanding $36 million under such agreement. For additional details concerning this agreement, see Note 7 under 1984 Revolving Credit Agreement.

The Company entered into an agreement in 1984 with Niagara Mohawk Power Corporation (NMPC) to finance the Company's share of the cost of Nine Mile Point 2. Pursuant thereto, the Company issued $250 million of its G&R Bonds, of which $128.5 million had been delivered to NMPC at December 31, 1984 and the remaining Bonds are held in pledge as of that date to be delivered as needed. The last of such bonds are expected to be delivered in late 1985 or early 1986. Such G&R Bonds held in pledge for future delivery are not yet debt in the Company's capital structure. For additional details of this agreement, see Note 7 under Nine Mile Point 2.

The Company has authority from FERC to issue up to a total of $400 million in unsecured short-term notes to banks and commercial paper. No commercial paper or short-term bank borrowings were outstanding at December 31, 1984, 1983 or 1982. The Company has no current arrangements for borrowings under this authorization.

The annual First Mortgage depreciation fund and sinking fund requirements for 1984 are estimated at $187 million and $12 million, respectively. The Company expects to meet these requirements, due June 30, 1985, primarily by utilizing matured First Mortgage Bonds and bondable property additions.

Long-term Debt at December 31 (In thousands of dollars)

Rate of Interest	Series	Due	1984	1983	1982
First Mortgage Bonds					
3½ %	F	1983	**$ -**	$ -	$ 25,000
3¼	G	1984	**-**	15,000	15,000
3⅜	H	1985	**15,000**	15,000	15,000
4¾	I	1986	**20,000**	20,000	20,000
4⅛	J	1988	**20,000**	20,000	20,000
5	L	1991	**25,000**	25,000	25,000
4.40	M	1993	**40,000**	40,000	40,000
4⅝	N	1994	**25,000**	25,000	25,000
4.55	O	1995	**25,000**	25,000	25,000
5¼	P	1996	**40,000**	40,000	40,000
5½	Q	1997	**35,000**	35,000	35,000
8.20	R	1999	**35,000**	35,000	35,000
9⅛	S	2000	**25,000**	25,000	25,000
7¼	U	2001	**40,000**	40,000	40,000
7½	V	2001	**50,000**	50,000	50,000
7⅝	W	2002	**50,000**	50,000	50,000
8⅛	X	2003	**60,000**	60,000	60,000
† Pledged First Mortgage Bonds			**465,000**	535,000	615,000
			970,000	1,055,000	1,160,000
† Less - Pledged First Mortgage Bonds			**465,000**	535,000	615,000
			505,000	520,000	545,000
Less - Current maturities			**15,000**	15,000	25,000
Total First Mortgage Bonds			**490,000**	505,000	520,000
General and Refunding Bonds					
9¼% Series Due 1983			**-**	-	**80,000**
9⅞% Series Due 1984			**-**	90,000	90,000
9⅝% Series Due 2006			**70,000**	70,000	70,000
8⅝% Series Due 2006			**50,000**	50,000	50,000
8⅝% Series Due 2007			**85,000**	85,000	85,000
9.20% Series Due 2008			**75,000**	75,000	75,000
9.75% Series Due 1999			**94,000**	96,000	98,000
14¼% Series Due 2010			**50,000**	50,000	50,000
15.75% Series Due 1991			**100,000**	100,000	100,000
17⅜% Series Due 2011			**50,000**	50,000	50,000
16¾% Series Due 1991			**50,000**	50,000	50,000
18% Series Due 2011			**50,000**	50,000	50,000
17% Series Due 1991			**50,000**	50,000	50,000
17⅛% Series Due 2012			**100,000**	100,000	100,000
15¼% Series Due 2012			**100,000**	100,000	100,000
12⅝% Series Due 1992			**75,000**	75,000	-
13½% Series Due 2013			**105,000**	105,000	-
17½% Series Due 1989			**100,000**	-	-
†† ½% Series Due 1993			**250,000**	-	-
			1,454,000	1,196,000	1,098,000
†† Less - Bonds held by pledgee			**121,500**	-	-
Less - Current maturities			**3,000**	92,000	82,000
Total General and Refunding Bonds			**1,329,500**	1,104,000	1,016,000
Other Long-term Debt					
Authority Financing Notes 7½% to 8¼% Due 2006-2012			**66,675**	66,675	66,675
Bank Notes 11½% to 14.18% Due 1985-1988			**541,000**	505,000	-
Promissory Note 8½% Due 1985			**46**	102	154
			607,721	571,777	66,829
Less - Current maturities			**111,046**	56	52
Total Other Long-term Debt			**496,675**	571,721	66,777
Total Long-term Debt			**$2,316,175**	$2,180,721	$1,602,777

The aggregate of the Company's long-term debt due in the next five years is $129,000,000 (1985), $733,000,000 (1986), $23,000,000 (1987), $481,000,000 (1988) and $160,000,000 (1989).

Note 6. 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 before income taxes. The reasons are as follows:

(In thousands of dollars)	**1984**		1983		1982		1981		1980	
	Amount	**% of Pre-tax Income**	Amount	% of Pre-tax Income	Amount	% of Pre-tax Income	Amount	% of Pre-tax Income	Amount	% of Pre-tax Income
Federal income tax, per Statement of Income — current	**$ 14,097**		$ (4,128)		$ (662)		$ (1,008)		$ (2,915)	
Included in other income and deductions—current	**315**		4,128		662		1,128		2,985	
Total Current	**14,412**		0		0		120		70	
Deferred and other (see Note 1)										
Accelerated tax depreciation	**6,547**		3,085		1,177		(1,967)		4,740	
Fuel cost adjustments	**1,509**		(8,145)		2,150		(7,072)		5,330	
Investment tax credits deferred	**108,365**		57,746		34,611		32,568		38	
Interest capitalized	**20,950**		4,836		2,005		18,038		-	
Shoreham overheads	**(22,891)**		3,432		1,038		7,196		-	
Westinghouse settlement	**(169)**		(46)		(126)		(2,847)		-	
Cancelled generating projects	**(1,203)**		501		-		(24,743)		31,060	
Austerity adjustment	**(7,202)**									
Tax benefits of net operating loss	**3,937**		3,291		(3,338)		42,283		(45,390)	
Investment tax credits - other	**(5,762)**		5,562		12,562		5,911		(10,512)	
MTA surcharge tax	**1,846**		1,061		1,270		-		-	
Other items, net	**(4,208)**		(6,304)		(3,297)		(10,186)		4,029	
Total Deferred	**101,719**		65,019		48,052		59,181		(10,705)	
Total Federal income tax expense	**116,131**		65,019		48,052		59,301		(10,635)	
Net income	**427,788**		364,974		309,394		247,732		205,018	
Net income before income taxes	**$ 543,919**		$ 429,993		$ 357,446		$ 307,033		$ 194,383	
Statutory Federal income tax	**$ 250,203**	**46.0%**	$ 197,797	46.0%	$ 164,425	46.0%	$ 141,235	46.0%	$ 89,416	46.0%
Reductions in Federal income tax resulting from:										
Cancelled generating projects	**3,508**	**0.6**								
Excess of tax depreciation over book depreciation	**4,084**	**0.8**	2,930	0.7	(2,771)	(0.8)	(2,402)	(0.8)	(2,808)	(1.4)
AFC, which does not constitute taxable income	**(142,656)**	**(26.2)**	(131,028)	(30.5)	(92,633)	(25.9)	(68,083)	(22.2)	(50,526)	(26.0)
Costs charged to plant but deducted currently	**(4,629)**	**(0.9)**	(3,679)	(0.9)	(3,873)	(1.1)	(2,973)	(1.0)	(12,105)	(6.2)
Lien date property taxes	**7,218**	**1.3**	(5,626)	(1.3)	(6,291)	(1.8)	(4,428)	(1.4)	(4,655)	(2.4)
Interest capitalized	**(4,279)**	**(0.7)**	-	-	-	-	1,832	0.6	(17,964)	(9.3)
Investment tax credits	**3,398**	**0.6**	810	0.2	(13,384)	(3.7)	(9,758)	(3.2)	(11,632)	(6.0)
Other items, net	**(716)**	**(0.1)**	3,815	0.9	2,579	0.7	3,878	1.3	(361)	(0.2)
Total Federal income tax expense	**$ 116,131**	**21.4%**	$ 65,019	15.1%	$ 48,052	13.4%	$ 59,301	19.3%	$ (10,635)	(5.5%)

Certain originating timing differences included in the deferred income tax provision above are in part shown net of investment tax credit.

The amount of ITC carryforward available as credits to tax returns for years after 1984 is approximately $220,000,000. These credits expire by 1999.

The Company has not provided deferred taxes on approximately $660 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.

Note 7. Commitments and Contingencies

Shoreham

General: Approximately $3.8 billion had been expended on Shoreham through December 31, 1984, of which $612 million was expended in 1984. The Company expects that its subsequent expenditures, including AFC, for Shoreham through the date of commercial operation will be approximately $45 to $55 million each month, almost all of which would be for carrying charges, including financing charges, insurance, taxes, interest and other overhead expenses. The Company is unable at this time to determine when Shoreham will go into commercial operation, if ever.

Various uncertainties, including the Company's continued economic viability, exist with respect to the recoverability of Shoreham-related costs. The Company believes that all Shoreham-related costs including AFC have been prudently incurred and should be recoverable from current or future revenues. However, the recovery of some of these costs may be disallowed as a result of an administrative finding of imprudence (see "Prudency Hearings" below). The Company is monitoring all of these matters and will monitor any future related matters in determining whether it continues to be appropriate to capitalize all or a portion of Shoreham-related costs. Despite the resolution in 1984 of some of the problems which had prevented the earlier issuance of authorization to load fuel at Shoreham and operate up to 0.001% of full power, the Company is continuing to encounter difficulties, described below, in obtaining an operating license permitting operation at levels in excess of 0.001% of full power. Therefore, the prospect exists for further delays and uncertainties, further increases in the cost of Shoreham and severe financial strains upon the Company until the license to operate at full power is granted and the prudency and rate phase-in issues are resolved.

A favorable partial initial decision (PID) respecting an operating license for Shoreham is pending on appeal before the Nuclear Regulatory Commission (NRC). The PID decided substantially all of the issues which were previously litigated in administrative proceedings before Atomic Safety and Licensing Boards (ASLBs) of the NRC and affirmed by its Atomic Safety and Licensing Appeal Board (the Appeal Board) with the exception of the issues discussed below relating to the adequacy of emergency power sources and the adequacy of the Company's offsite radiological emergency response plan (including the issue of the authority of the Company to implement such plan). The PID is also before the United States Court of Appeals, District of Columbia Circuit (the Circuit Court) as part of a challenge initiated by the State of New York and the County of Suffolk, both of which are opposed to the operation of Shoreham, to an order authorizing low-power testing of Shoreham up to 0.001% of full power. Since the State and County have taken the position that an approved offsite emergency response plan is a prerequisite to low-power testing, they have argued that there is no need at this time to proceed with low-power testing until the offsite emergency response plan issues have been resolved. The State and the County argue that it is unlikely that the Company will ever obtain approval of the Company's offsite emergency response plan.

The New York State Consumer Protection Board has filed a petition with the Public Service Commission of the State of New York (PSC) requesting that the PSC not allow the Company to recover certain of the costs associated with low-power testing, including the costs to decontaminate the reactor, in the event Shoreham is ultimately denied a full operating license for lack of an approved emergency response plan. The Company has moved to dismiss the petition on the grounds that it is premature and that it relates to a matter properly and presently before the NRC and the federal courts. Fuel loading and low-power testing up to 0.001% of full power pursuant to an operating license issued by the NRC was completed on Feburary 16, 1985.

In the event that low-power testing and, with appropriate authorization from the NRC, ascension of power to levels substantially above 5% are conducted for a period sufficient to indicate that Shoreham will be a reliable source of base power, the Company may then declare the unit to be in commercial operation, at which time the Company expects that it will cease to accrue AFC.

Emergency Power Sources: On February 21, 1985, the Appeal Board, as part of the administrative review process, remanded for further proceedings that portion of the NRC's fuel load and low-power testing orders which permitted low-power testing from 0.001% to 5% of full power in order that an ASLB might further review physical security provisions of alternate emergency power sources (e.g., protection from sabotage). In addition to preparing for the remanded proceeding, the Company has asked the NRC to review this Appeal Board decision on an expedited basis.

NRC regulations require on-site standby generating capacity which would be utilized in the unlikely event that all offsite power sources failed at a time when it was necessary to shut down Shoreham. The low-power testing authorized by the NRC relies principally on four 2.5 MW diesel generators and one 20 MW gas turbine as an alternative to the three diesel generators manufactured by Transamerica DeLaval, Inc. (TDI) which have been completely rebuilt after cracks were discovered in the original crankshafts in August 1983. The three rebuilt generators have been completely retested and hearings before an ASLB respecting their adequacy were concluded on March 12, 1985. While the NRC has expressed its concern with diesels manufactured by TDI located at other nuclear plants as well as at Shoreham and is conducting an investigation of the problems, it has issued a low-power license for one such nuclear plant and a full-power license for another. The Company does not expect the results of this investigation to impact adversely the licensing of the Company's TDI diesel generators. If the TDI diesel generators are licensed, the Company intends to use those diesel generators when Shoreham becomes operational. If the TDI diesel generators are not licensed, the Company intends to connect and utilize three additional emergency diesel generators manufactured by Colt Industries Inc. (the Colt diesel generators) which have been installed in a new specially constructed building. The Company estimates that the cost of this additional project will be approximately $100 million, almost all of which was expended in 1984. Testing of the Colt diesel generators is scheduled to be completed by May 1985. Approval by the NRC respecting the use of the Colt diesel generators is required and ASLB hearings may also be required under certain circumstances. In effect, the process of licensing the Colt diesel generators could require extensive NRC staff review and could involve State and County litigation.

Regardless of the source of the on-site standby generating capacity, the State and the County are expected to continue their opposition to low-power testing.

Offsite Radiological Emergency Response Plan: The Company faces serious problems in obtaining approval of the offsite emergency response plan which it has developed without the cooperation of Suffolk County or the State of New York. The approval of the offsite emergency response plan and its successful demonstration in a federally graded exercise are conditions to obtaining a full power operating license from the NRC. The County and the State have taken the position that an adequate emergency response plan is not possible, have refused to participate in offsite emergency response planning, and have opposed the Company's efforts to obtain licensing. Nevertheless, it is the Company's view that federal law authorizes the NRC to accept an offsite

emergency response plan submitted by a utility, notwithstanding the lack of participation of state and local governments, provided the NRC determines that such plan provides reasonable assurance that public health and safety are not endangered by operation of the facility. Under the circumstances, the Company has argued before the ASLB that the Company's offsite emergency response plan can be evaluated by the NRC and that the federally graded exercise may be conducted and evaluated by the Federal Emergency Management Agency (FEMA) without local and state governmental participation. The ASLB has not acted on the Company's request that the ASLB determine that it and ultimately the NRC have the legal authority to approve a Company-implemented offsite emergency response plan under such circumstances. Hearings before an ASLB respecting the Company's offsite emergency response plan have been concluded. The County and the State have requested hearings with respect to additional issues. The earliest time now expected for a decision is in April 1985. No date has been set as yet by FEMA for it to supervise and grade an exercise of the Company's offsite emergency response plan. Hearings before an ASLB may be required following the graded exercise.

The State, the County and the Town of Southampton instituted separate lawsuits in New York courts seeking declaratory judgments that the Company lacks the legal authority to undertake its offsite emergency response plan and that the Company's plan is unlawful and illegal under the United States Constitution and the laws of New York State. These actions were consolidated in New York Supreme Court, Suffolk County. The Company moved to dismiss the complaints. On February 20, 1985, a decision was rendered holding that under the laws of New York State, the Company lacks legal authority to take certain steps necessary to implement Shoreham's emergency response plan. The Company intends to appeal the decision. The Company is unable to predict the outcome of its appeal.

The Company is an intervenor in a suit brought in November 1983 in the U.S. District Court for the Eastern District of New York against the County of Suffolk by a group called Citizens for an Orderly Energy Policy (COEP). The issue raised by COEP is whether Suffolk County resolutions prohibiting County participation in emergency planning at Shoreham are preempted by the United States Atomic Energy Act. COEP claims Suffolk County has a duty under New York law to participate in the planning process. The Company claims that Suffolk County has violated the Company's rights to due process and equal protection under the law, providing grounds for liability under federal law. The Company was granted leave to intervene and subsequently filed its complaint in April 1984. The Company also filed a complaint in June 1984 in U.S. District Court for the Eastern District of New York against Peter Cohalan, County Executive of Suffolk County, New York, and Suffolk County, seeking declaratory relief and damages resulting from the defendants' refusal to develop and implement an offsite radiological emergency response plan for the Shoreham Nuclear Power Station. The complaint alleges that as early as 1982 the defendants sought to prevent Shoreham's operation, usurp the regulatory functions of the NRC and cripple the Company economically. The complaint also alleges that, should the defendants succeed in preventing Shoreham's operation, either through denial of an operating license by the NRC or by causing the Company to abandon the plant, the defendants' action will amount to an inverse condemnation of Shoreham without just compensation in violation of the Company's constitutional rights. The complaint further alleges that Suffolk County breached its contractual obligations with the Company to prepare a radiological emergency response plan as agreed to in a 1981 contract between the Company and Suffolk County. The complaint seeks a declaration by the court that the actions of the defendants are unlawful and that the Company is entitled to damages in excess of $4 billion. The County moved to dismiss the complaints in both lawsuits. On March 18, 1985, a Federal District Court Judge rendered a decision in each case dismissing the respective complaints. In the COEP lawsuit, the court rejected the Company's arguments that the County's actions in declining to participate in radiological emergency response planning were federally preempted and that the County was required to participate in the planning process. However, the court stated that Congress had considered the possibility that a state or local government might fail to participate in emergency planning and, rather than require participation, provided for the utility to present its own plan to the NRC. In the lawsuit against the County Executive alleging inverse condemnation, the court concluded that the Company's request was prematurely brought. The Company is considering whether to appeal from the decisions of the court.

While the Company believes its own emergency response plan will adequately provide for the safety of the public, there can be no assurance that such plan will be accepted in the licensing proceedings or that an operating license will ultimately be issued.

Property Taxes: As it had done with all of the 1983-1984 real property taxes attributable to Shoreham, the Company deposited on January 10, 1985 an amount equal to the first installment of real property taxes and related charges, amounting to approximately $30.9 million, attributable to Shoreham for the tax year 1984-1985, with a third party, pending resolution of litigation by the Company in New York Supreme Court, Suffolk County, seeking review and correction of the assessments of the Shoreham property for the tax years 1976-1977 through 1978-1979, and 1980-1981 through 1984-1985. The Company has taken the position that the unpaid taxes, and the taxes assessed for prior years which have been paid, were illegally and excessively assessed and, accordingly, that the Company is entitled to a net refund of taxes. This action of withholding the tax payments was taken because the Company believes that, if the Company is successful in pending tax litigation respecting the claimed overassessments, it would be unable to enforce a judgment directing a refund of the substantial amounts of taxes already paid. These arrangements for the deposit of the moneys permit the money to be withdrawn if the Company's Board of Directors determines in good faith that funds equal to the taxes, penalties, interest and other charges no longer need to be on deposit. The total amount on deposit at December 31, 1984 was approximately $61 million. In separate actions brought in New York Supreme Court, Suffolk County, by the New York State Attorney General and the Receiver of Taxes of the Town of Brookhaven, the Supreme Court has decided that the Company is not legally required to turn over the funds on deposit to either plaintiff. The plaintiffs have appealed this decision.

Under certain conditions, the Company's First Mortgage, its General and Refunding Indenture and its Third Mortgage permit the payment of the taxes to be deferred pending good faith litigation challenging the tax assessments. The Company believes that it is in compliance with the applicable provisions of the First Mortgage, the General and Refunding Indenture and the Third Mortgage.

In November 1984, Suffolk County purchased the lien, amounting to approximately $60.6 million, for the unpaid 1983-1984 taxes. The Suffolk County Tax Act and a Suffolk County local law provide, in the case of a purchase by the County, that the owner of property on which a tax lien has been sold has a 45-month period from the date of such sale within which to redeem the property by paying the delinquent taxes. In the normal course, the lien for any unpaid 1984-1985 taxes will be offered for sale in November 1985.

Prudency Hearings: The PSC is currently investigating the prudency of the costs incurred by the Company in the construction of Shoreham. On March 13, 1985, two Administrative Law Judges (ALJs), before whom hearings were conducted and to whom the parties — the Company, the PSC Staff and intervenors — submitted briefs in a phase of the investigation which began in August 1981, recommended to the PSC that, based on a previously submitted projected cost of $4.2 billion, $1.2 billion of such cost should be excluded from rate base as having been imprudently incurred. Thus, the ALJs in effect have made a recommendation, based on such projected cost, that $3.0 billion will have been prudently incurred and will therefore be includable in rate base. The PSC Staff had recommended to the ALJs that no more than $2.296 billion of the Shoreham costs be allowed in rate base regardless of the date that Shoreham goes into operation. The New York State Consumer Protection Board, Suffolk County and Long Island Citizens in Action, three of the intervenors in the prudency investigation, in their filed testimony, alleged that "a strong presumption is raised that any expenditures on Shoreham in excess of $1.9 billion through 1983 are the result of imprudence." The Company believes that its direct testimony, filed in 1981 and supplemented in 1983, together with its rebuttal testimony filed in 1984, supports its view that all of the costs of Shoreham have been prudently incurred. The parties have an opportunity to submit exceptions to the recommended decision before it is considered by the PSC and the Company intends to do so. The PSC has discretion to raise or lower the amount of the recommended decision. The Company cannot predict when the PSC will act on the recommended decision, or what its determination will be. Its decision, however, will be subject to judicial review.

In the event the PSC disallows a portion of the Shoreham costs from the Company's rate base, the effect of such disallowance on the Company's financial condition and results of operations could, under certain circumstances, jeopardize the Company's ability to meet its financial obligations. In such event, the Company might be required to file a petition for relief under the Federal Bankruptcy Code. Under certain assumptions, if the Company were not allowed to include a significant portion of Shoreham's cost in its rate base and cost of service, it believes that a write-down of the Company's investment in Shoreham through a charge to income may be required by generally accepted accounting principles. The Company cannot now determine the amount, if any, of such disallowance or of such write-down. See also the discussion in Note 1 respecting a reconsideration of existing financial accounting standards.

Shoreham Rate Proposals: Levelized rate phase-in proposals to limit rate increases due to Shoreham have been considered by the New York State Legislature in 1982, 1983 and 1984, but none of these proposals became law. The Governor of the State of New York has submitted for consideration by the New York State Legislature in 1985 a proposal, among others, which would prevent a utility company from recovering from its ratepayers the costs of a nuclear power plant if the nuclear power plant fails to commence commercial operation and would bar, from the effective date of the proposed legislation, the recovery in rates of any construction work in progress associated with an unlicensed nuclear power plant. In this connection, the Attorney General of the State of New York has argued, in litigation affecting another New York utility company, that under New York law a utility may not recover any of its investment in property unless it is "used and useful to its customers" and consequently the PSC could not lawfully have allowed recovery of expenses relating to a generating station project that had been cancelled prior to commencement of construction. The New York Supreme Court Appellate Division, Third Department, upheld the PSC and dismissed the Attorney General's petition for review of the PSC decision. The decision of the Court is subject to further judicial review. The program submitted by the Governor of the State of New York for consideration at the 1985 session of the New York State Legislature also includes a proposal that would require a levelized rate phase-in of at least ten years for Shoreham. The Company is unable to predict what action the legislature might take on the Govenor's proposals and, if enacted into law, what action the Company might then take or what impact the new legislation might have upon the Company's financial condition and results of operations. A legislative proposal has been submitted by two New York State legislators which, if enacted into law, would prevent the Company from seeking increases in rates so long as the Company withholds payment of its real property taxes. The Company, the County Executives of Nassau and Suffolk Counties and a group of Long Island business and labor leaders have agreed to submit to the New York State legislature a program designed to hold down future rate increases which the Company would charge its ratepayers whether or not Shoreham becomes operational.

The PSC has suspended a proceeding begun in 1982 respecting the rate treatment to be applied to Shoreham when it begins commercial operation. In this proceeding, various proposals to moderate the impact on consumers resulting from inclusion of Shoreham in the Company's rate base were under consideration. The Company proposed a moderation plan designed to establish a level of rates over a period of time which is economically acceptable to the public and the Company. In general, the proposals, including the one submitted by the Company, would have restricted the size of rate increases resulting from Shoreham's inclusion in rate base during the first few years, contrary to conventional ratemaking policy. The Company intends to request the PSC to reopen the suspended proceeding and to consider appropriate rate phase-in proposals in light of changed circumstances since the proceeding first began, including the consequences of the $1.2 billion disallowance proposed by the ALJs in the prudency proceeding discussed above and the reconsideration discussed in Note 1 respecting certain existing financial accounting standards.

Certain State and local government officials have suggested that Shoreham be totally abandoned or indefinitely mothballed. The Company believes that it is in the public interest that Shoreham be permitted to become operational. Any such action, absent timely and adequate rate increases in the future, could have a serious adverse financial impact and could result in a filing of a petition for relief under the Federal Bankruptcy Code.

Other Litigation: Separate class action and shareowners' derivative action lawsuits initiated in 1984 by holders of the Company's Common Stock and holders of certain classes of the Company's Preferred Stock, alleging violations of the Securities Act of 1933 and the Securities Exchange Act of 1934, have been consolidated into a single proceeding in U.S. District Court for the Eastern District of New York. The Company and certain of its past and present officers are named in the consolidated lawsuit as are certain of the Company's past and present directors, certain of the underwriters in its Common Stock offerings and its independent accountants. In general, the plaintiffs allege that over a period of years one or more of the defendants, either individually or in concert, failed to make adequate disclosures or made false and misleading statements respecting the cost of Shoreham and the management of its construction. The allegations of mismanagement appear to be based either upon reports appearing in newspapers or statements appearing in the testimony of the PSC filed in the prudency investigation discussed above. The plaintiffs seek damages to be proved in the litigation. The Company will oppose the litigation, has moved to dismiss portions of the complaints alleging fraud on the ground that such allegations are not

made with the required specificity, and is proceeding with analysis and preparation for defense of the consolidated actions. The motion was argued on September 19, 1984 and has not yet been decided. The Company is presently unable to measure the impact, if any, that the ultimate resolution of such litigation will have on its financial condition or results of operations.

Nine Mile Point 2

The Company has an 18% undivided interest in Nine Mile Point 2, a nuclear power plant under construction near Oswego, New York. The cotenants of Nine Mile Point 2, in addition to the Company, are Niagara Mohawk Power Corporation (Niagara Mohawk), New York State Electric & Gas Corporation (NYSEG), Rochester Gas and Electric Corporation and Central Hudson Gas & Electric Corporation.

In January 1985, Niagara Mohawk, which is also the project manager for Nine Mile Point 2, announced a $250 million increase in the estimated total project cost, including financing costs, to $5.350 billion. The increase is required to accomplish work not completed in 1984 and assumes production rates historically achieved. The Company's share of this newly announced cost estimate is $963 million including financing costs. The new construction cost estimate includes $637 million for 1985, exclusive of financing costs, of which the Company's share, approximately $115 million, is to be provided through a loan made by Niagara Mohawk in 1984. The Niagara Mohawk loan is secured by the $250 million of the Company's General and Refunding Bonds discussed below.

At December 31, 1984, the Company had expended $813 million for its share of Nine Mile Point 2, before giving effect to federal income tax benefits of $100 million resulting from the deduction of the interest portion of such costs. The $813 million consists of $501 million for direct construction costs, $12 million for nuclear fuel and $300 million for financing costs.

The newly announced cost estimate for Nine Mile Point 2 contemplates a commercial operation date in October 1986. Niagara Mohawk has advised the Company that if certain construction activities scheduled for completion in the Spring of 1985 are not met, the scheduled commercial operation date may not be met. A report issued in January 1985 by a consultant retained by the PSC has questioned whether a commercial operation date in October 1986 can be met. Any delay in achieving the scheduled commercial operation date is estimated to add $60 million each month, including financing costs, to the total cost of the project. Based upon the Company's assessment of the Nine Mile Point 2 project's ability to meet construction milestones and increased progress in other areas, particularly in piping installation and successful engineering review of installed systems, the Company believes that a commercial operation date in October 1986 is achievable given continued aggressive construction management. The Company will closely monitor such efforts as system turn-overs and start-up operations, as well as construction milestones, in order that the commercial operation date may be continuously assessed.

In April 1982, the PSC concluded that continued construction of Nine Mile Point 2 was warranted. The PSC also indicated that it would closely monitor construction activities and, in reviewing costs, would apply a strict standard of prudence. The PSC also adopted an Incentive Rate of Return Plan (IROR) to provide an added inducement for timely and efficient completion of the plant. The IROR provides that the revenue requirements associated with the equity portion of each cotenant's share of the costs in excess of $4.6 billion would be reduced by 20%. Subsequently, the PSC ordered that there would be no recovery of prudent expenditures above $5.4 billion. Based on the latest estimate of the Company's share of the cost of Nine Mile Point 2, the Company currently believes that the imposition of these limitations, including the IROR penalty, over the expected life of Nine Mile Point 2 would not have a material adverse effect on the financial condition of the Company, although no such assurance can be given.

The proposals submitted for action in 1984 by the Governor of the State of New York to the New York State Legislature included some which related to Nine Mile Point 2. None of the Nine Mile Point 2-related proposals were adopted. As part of his program submitted to the New York State Legislature for action in 1985, the Governor has proposed a bill that would require a levelized rate phase-in of at least five years for a new nuclear plant, such as Nine Mile Point 2, owned by two or more utility companies. The Company is unable to predict what action the legislature might take on this proposal and, if enacted into law, what action the Company might then take or what impact the new legislation might have upon the Company's financial condition and results of operations.

In 1983, the Staff of the NRC, in accordance with its regular procedures, reviewed the construction program of Nine Mile Point 2, concluded that management's attention to certain aspects of the program should be increased and proposed the imposition of a $100,000 fine which has been paid. Niagara Mohawk has implemented corrective actions and, under an NRC-approved plan, has provided for independent verification of the actions taken by it as project manager to correct these and other deficiencies (notably work performed by contractors) identified by the NRC. A report of the independent review was completed in 1984. The implementation of the recommendations resulting from this review process is not presently expected to impact adversely the cost estimates or the scheduled completion date of Nine Mile Point 2.

The Company expects that beginning sometime in 1985 the PSC will commence a proceeding to determine the prudency and recoverability of the costs incurred in construction of Nine Mile Point 2. The Company does not know when such proceeding will begin, the amount, if any, which the PSC Staff or other potential intervenors might claim to have been imprudently incurred or the amount, if any, which the PSC itself might disallow from the Company's rate base. At this time, the Company is unable to predict the extent, if any, of disallowance of the costs of Nine Mile Point 2 or the impact thereof on the financial condition or results of operations of the Company. For a discussion of the possible results of the PSC's prudency investigation of the Company's Shoreham costs, see "Prudency Hearings" under the heading Shoreham above.

Operation of Nine Mile Point 2 is subject to the completion of its construction and the issuance by the NRC of an operating license. One of the steps in the operating license proceedings is a technical review of Nine Mile Point 2 by the NRC's Advisory Committee on Reactor Safeguards (ACRS). After performing its technical review of Nine Mile Point 2, the ACRS recommended to the NRC that "there is reasonable assurance that the Nine Mile Point Nuclear Station Unit Two can be operated at levels up to 3323 MWt (full power) without undue risk to the health and safety of the public." Moreover, construction of Nine Mile Point 2 has not occasioned any local or state opposition comparable to that which the Company has experienced at Shoreham. Nevertheless, the Company cannot predict when, or whether, the operating license will be issued.

The Company's arrangements to date for financing its share of the costs of Nine Mile Point 2 include (i) the Construction Trust which has provided $500 million, the maximum amount available to the Trust under its revolving credit agreement with lending banks, (ii) the sale and issuance of the Company's securities, including the issuance to Niagara Mohawk of $250 million of the Company's General and Refunding Bonds (the Bonds) and an unsecured promissory note to Niagara Mohawk with a maximum principal amount of $150 million (the Grid Note), (iii) other borrowings from banks and (iv) funds raised internally. Upon the basis of the latest estimate of the cost of Nine Mile Point 2, the Company will be required to obtain additional financing beyond the $900 million represented by the arrangements with the Construction Trust and Niagara Mohawk. However, the Company presently has made no provision for financing any substantial portion of such costs.

The Company issued the Bonds to secure its obligations for advances of funds made by Niagara Mohawk since February 7, 1984, for related interest and for additional funds which Niagara Mohawk will advance on behalf of the Company for the Company's 18% share of Nine Mile Point 2. These Bonds bear interest at an annual rate of ½%, mature in 1993 and are subject to a mandatory cash sinking fund between 1989 and 1993. The Company has also agreed to make quarterly supplemental payments to Niagara Mohawk equal to 4.625% (18.5% on a per annum basis) of an amount equivalent to the principal amount of General and Refunding Bonds held from time to time by Niagara Mohawk. Such supplemental payments will be recorded as interest expense by the Company. The Company has the option of making the supplemental payments in cash or deferring the cash payments until the earliest date (the Crossover Date) to occur of (a) the commercial operation of Nine Mile Point 2, (b) the assignment by the Company or by the Company's Construction Trust of any part of their interest in Nine Mile Point 2 or (c) August 1, 1987. The Company has elected to defer cash payment of the first of such supplemental payments, amounting to $4.6 million, which became due on February 1, 1985. Such supplemental payments are reflected as principal in the Grid Note and bear interest at a rate of 19% per annum. Such interest may also be paid in cash or deferred and, in either event, will be recorded as interest expense by the Company; if deferred, it will also be reflected as principal in the Grid Note. The Grid Note will be amortized over not more than 16 quarterly payments beginning on the Crossover Date. In approving the issuance to Niagara Mohawk of the Bonds and of the Grid Note, the PSC indicated that it would address at later dates the propriety of the interest rate for ratemaking purposes and of the overall ratemaking and accounting treatment of the transactions.

The issuance by the Company of the Bonds and its agreement to make quarterly supplemental payments to Niagara Mohawk, discussed in the preceding paragraph, resolved the dispute between the Company and the other cotenants which arose in February 1984 when the Company suspended payments of its share of the costs of Nine Mile Point 2. The agreements pursuant to which the dispute was resolved did not modify the Company's obligations under the Basic Agreement between itself and the other cotenants of Nine Mile Point 2. The Basic Agreement remains in full force and effect.

Rate Relief

On February 27, 1985, the Company filed a request with the PSC to increase its electric rates beginning January 1, 1986 by 3.8%, or $68.7 million, in additional revenues. In its filing, the Company indicated that, as a result of the proposed increase, combined with the effect of a forecasted increase in the price of fossil fuels (over which the Company has little control), the 1986 costs to ratepayers would be 5.6% higher than the comparable 1985 costs. The increase in rates is necessary in order to meet the Company's total operating and maintenance costs in the rate year. Assuming that Shoreham will be in service throughout 1986, the increase reflects fuel savings attributable to the operation of Shoreham. However, the filing addresses the requirement of at least a 5.6% increase under any Shoreham eventuality. The Company proposes to depart from conventional rate treatment for Shoreham in that it does not seek to include all of the prudently incurred costs of Shoreham in rate base during its first year of operation. Instead, the Company has requested the recovery of depreciation and a fair rate of return on only a portion of its total investment in Shoreham. The Company's filing states that the amount of the investment to be factored into rates in 1986 should be no higher than the level of Shoreham's construction work in progress (CWIP) currently in rate base plus an amount which will produce revenues equivalent to the additional cash flow relief granted by the PSC as a financial stability adjustment to the Company in its most recently concluded rate case described below. In addition to seeking rate relief to begin on January 1, 1986, the Company's filing states that a Commission determination is necessary as to the manner in which the remainder of the prudently incurred costs of Shoreham will be recovered. The Company will seek such a determination in a separate proceeding.

In 1984 the PSC granted the Company permanent electric rate relief totaling $245 million annually, including the $90 million interim rate relief granted in September 1983. The relief granted was in response to a Company application for $281 million annually, including the $90 million interim rate relief. The new rates became effective on September 1, 1984. In the opinion and order granting the Company this rate relief, the PSC stated that a significant portion of the rate relief was justified only if it would allow the Company to obtain new financing and thus avoid bankruptcy. Approximately $47.4 million of the rate relief is based on a conventional cost of service calculation, including a return on common equity of 16.3%. Any income that would result in an earned return on common equity in excess of the 16.3% allowed rate of return will be deferred and made subject to future dispostion by the PSC. At December 31, 1984, the amount so deferred, representing the estimated return on common equity for the period May 1 through December 31, 1984 in excess of the allowed return granted by the PSC, was $15.7 million. The balance, approximately $197.6 million, of the rate relief granted in 1984 represents a financial stability adjustment intended to provide the Company with a portion of its cash requirements for 1984 and 1985. Since such cash flow rate relief is intended to permit the Company to remain financially viable and to provide assurance of revenues to support new financing, the opinion and order contains a provision rescinding the cash flow portion of the relief in the event the Company seeks protection or is adjudicated as bankrupt under the Federal Bankruptcy Code.

The Long Island Progressive Coalition and the Long Island Power Project in concert with New York State Assemblyman Paul Harenberg and the New York Community Action Network, filed a petition with the PSC for reconsideration of the final rate order of the Commission. The petition alleged an "abandon[ment] of impartiality" and prejudgment on the part of certain "decision makers capable of prejudicing the proceeding." The petition also alleged there is no "evidence in the record that bankruptcy would, in fact, create a larger detriment to LILCO's ratepayers" than granting the rate increase. The Commission has denied the petition.

Naming both the PSC and the Company as respondents, the New York State Consumer Protection Board, the New York State Attorney General, the County of Suffolk and four New York State legislators commenced an Article 78 proceeding in New York Supreme Court, Albany County, seeking to annul the rate order on the grounds that it was affected by an error of law and was arbitrary and capricious. The Article 78 petition alleged that the

PSC had prematurely provided rate relief to support the construction of Shoreham, that it permitted retroactive ratemaking and that it denied petitioners a fair and impartial hearing. In addition, the Article 78 petitioners, like the petitioners who sought the rehearing, claimed that the order was not supported by evidence in the record that the prevention of the Company's bankruptcy was in the public interest. The Company responded that the allegations in the petition were without legal or factual substance. The court has dismissed the appeal on the ground that it was prematurely filed. The appeal may be renewed at a later time.

1984 Revolving Credit Agreement

The Company has an agreement with fourteen banks (the 1984 Revolving Credit Agreement) providing up to $150 million of revolving credit, expandable, with the consent of the banks, to $200 million, for a term extending to December 31, 1985. The amounts outstanding under the 1984 Revolving Credit Agreement at December 31, 1984 totalled $36 million. The cost of funds under the 1984 Revolving Credit Agreement includes (a) interest payable on borrowed funds at the Citibank Alternate Base Rate, 10.75% at December 31, 1984, (b) a commitment fee of ½ of 1% per annum on the unused funds and (c) other fees and expenses. Future advances by the banks will be subject to certain terms and conditions; and the occurrence of an event of default (including, in addition to other events of default, a default by the Company in meeting certain financial tests or in maintaining valid security interests) will give the banks the right to accelerate payment of their loans and to take other remedial action.

The loans made pursuant to the 1984 Revolving Credit Agreement are secured by a first lien on the Company's accounts receivable. The Company is in the process of supplementing this collateral with a lien on its #6 fuel oil inventory. At the time the Company completed the arrangements for the 1984 Revolving Credit Agreement, the Company also created a third mortgage (the Third Mortgage) to secure previously unsecured bank debt, in the maximum amount of $1.195 billion. The Third Mortgage is a lien upon substantially all of the Company's properties and is subordinate to the Company's First Mortgage and its General and Refunding Mortgage. The Third Mortgage is to remain a lien upon the Company's properties until payment in full of the debt which it secures, the latest scheduled maturity of which is in late 1988. The holders of the bank debt secured by the Third Mortgage are secured as well by a second lien on the Company's accounts receivable mentioned above. The Third Mortgage is also discussed in Notes 4 and 5. Under the 1984 Revolving Credit Agreement, the Company is permitted to sell no more than $100 million of G & R Bonds in 1985 and an additional $200 million of G & R Bonds from January 1, 1986 through September 30, 1986. The arrangements with the banks permit the Company to sell an unlimited amount of G&R Bonds after September 30, 1986 but require varying portions of the proceeds from the sale of such G & R Bonds to be applied to repayment of debt secured by the Third Mortgage. The 1984 Revolving Credit Agreement does not prohibit the Company from selling unsecured debt and equity securities, both of which would be subordinate to the debt secured by the Third Mortgage. Although the Company has no present commitments which would enable it to refinance any amounts to be outstanding at December 31, 1985 under the 1984 Revolving Credit Agreement nor has it now any assurance that additional financing will be available at that time, it has begun preliminary discussions with its lending banks respecting a waiver of the $100 million G & R Bonds limitation contained in the 1984 Revolving Credit Agreement which would permit the sale of up to $225 million of G & R Bonds in 1985 and extend the term of the 1984 Revolving Credit Agreement from December 31, 1985 to June 30, 1986. However, the Company cannot give any assurance as to the outcome of these discussions with its lending banks or of its ability to sell additional G & R Bonds in 1985 or to meet its operational, construction and refunding needs in later years.

As part of the 1984 Revolving Credit Agreement, the Company agreed to suspend the declaration of Preferred Stock dividends payable on and after October 1, 1984 through December 31, 1985. For purposes of calculating earnings available for owners of shares of Common Stock, the Company will continue, however, to reflect such undeclared dividends on the Statement of Income as "Preferred Stock Dividend Requirements". The Company has purchased an aggregate number of shares of its Preferred Stock, Series L, M and R, equivalent to the number of shares of such series scheduled to be redeemed by way of sinking funds for such series during the period from October 1, 1984 through December 1, 1985. The Company has also retired all of the balance of the Preferred Stock, Series Q, which was due in 1984. The Company recorded in "Premium on capital stock" a gain on reacquired capital stock of $1.4 million from the above-mentioned purchase of its Preferred Stock. The Company has announced that, depending on market conditions, it may continue its program of open market purchases of shares of its publicly held Preferred Stock, $25 par value Series O and $100 par value Series S. The aggregate number of shares previously purchased and which may be purchased in 1985 is not expected to exceed the number of shares of such series that are scheduled to be redeemed by way of sinking funds during the period ending December 31, 1985. The Company does not expect, during such period, to make cash redemption payments or otherwise to make redemptions with respect to the sinking funds for either of such series. Under its Certificate of Incorporation, the Company may not pay dividends on its Common Stock when it has failed to make payment in full of its Preferred Stock dividends. Although the Company had suspended payment of Common Stock dividends earlier in 1984, it has agreed in the 1984 Revolving Credit Agreement not to declare or pay any dividend on its Common Stock prior to termination of the 1984 Revolving Credit Agreement. The Company presently believes that the suspension of dividends on its Preferred Stock adversely affects its ability to raise funds through the sale of any equity securities.

In 1986, the Company will have total refunding requirements of $747 million, including $673 million owed by the Company's financing trusts to their lending banks. Under certain circumstances discussed in Note 4, the $500 million of Construction Trust debt currently scheduled to mature in 1986 may be converted to a term loan which would mature in 1988. In 1987, the Company's refunding obligations will be $60 million; in 1988, the amount will be $501 million, of which $400 million is owed to banks. In 1989, the amount will be $204 million. The refunding requirements for the years 1987, 1988 and 1989 include amounts which may be due Niagara Mohawk under the Grid Note or as redemptions of the Bonds issued to Niagara Mohawk. The Company's ability to meet these requirements, as well as its ability to meet its operational and construction requirements, is dependent upon, among other factors, timely and adequate rate relief in addition to the relief granted in August 1984. Such additional rate relief, in turn, is dependent in substantial part on the outcome of the many contingencies affecting Shoreham and Nine Mile Point 2.

Nuclear Fuel

At December 31, 1984, expenditures for procurement of nuclear fuel totaled $167 million, including $12 million of its share of nuclear fuel for Nine Mile Point 2 and $55 million in advances and related financing costs for the purchase of uranium concentrates from Bokum Resources Corporation. The Company also has substantial commitments for nuclear fuel.

The Company has made provision for storage on-site through the year 2003 of spent fuel removed from the Shoreham reactor. Beginning in 1998, the Federal Department of Energy (DOE) is required by statute to have permanent underground facilities available for long-term storage of such high-level radioactive wastes. DOE is presently in the process of selecting the location of such storage facility. The Company, which will be charged a user-fee for the storage services, currently one mill per kilowatt hour, payable quarterly, anticipates that it will recover its costs from ratepayers if and when Shoreham becomes operational. Storage of low-level radioactive wastes from Shoreham becomes the responsibility, under federal law, of the State of New York as of January 1, 1986. New York State, which has not yet selected a site for such low-level radioactive wastes, is permitted to enter into a multi-state compact for such storage. The Company expects that its costs, an amount not yet determinable, for use of the facility for storage of low-level radioactive wastes will also be recovered in rates if and when Shoreham becomes operational.

The Company's Financing Trusts

For information respecting the Company's financing trusts, see Note 4.

Bokum Resources Corporation

At December 31, 1984, the Company's advance payments to Bokum Resources Corporation (BRC), presently in reorganization under Chapter 11 of the Federal Bankruptcy Code, for uranium concentrates under long-term contracts and its loans to BRC to complete the development of a uranium mine and to construct an ore-processing mill, totaled approximately $85 million. This includes $20 million of advances made through July 1978 for uranium concentrates and $5 million expended since mid-1980 for preservation and maintenance of BRC's mine and mill properties pending resolution of the bankruptcy proceedings and the litigation discussed below. The Company ceased accruing interest on its loans to BRC after the filing of the bankruptcy petition. However, financing costs on the advance payments for the uranium concentrates have continued to be capitalized by the Resources Trust and totaled approximately $35 million at December 31, 1984. This amount is not included in the $85 million discussed above.

Litigation between the Company and BRC before the U.S. Bankruptcy Court for the District of New Mexico has included a contested involuntary petition seeking reorganization of BRC, adversary proceedings relative to certain counterclaims brought by BRC against the Company and adversary proceedings involving other creditors of BRC. Appeals are pending with respect to certain of these previously litigated matters. Other adversary proceedings are pending in the same court. The pending adversary proceedings between BRC and the Company include a mortgage foreclosure by the Company against BRC, a counterclaim by BRC against the Company in the mortgage foreclosure proceeding seeking recovery of approximately $45 million in compensatory damages and $20 million in punitive damages, and a breach of contract suit begun by BRC against the Company in which BRC seeks up to approximately $200 million in compensatory damages and $25 million in punitive damages, as well as other suits involving BRC and its creditors. While the Company believes that both its claims against BRC and its defenses against BRC claims are meritorious, no assurance can be given as to the outcome of the litigation between the Company and BRC.

The eventual disposition of the Company's loans and advances to BRC and the viability of BRC as a source of nuclear fuel depend on many factors, including the market price for uranium. At present, the Company believes that the cost to mine and mill uranium from BRC's properties substantially exceeds the "spot" market price of uranium.

The Company's ability to recover its loans and advances to BRC through liquidation of the BRC properties or by completing and operating the mine and mill properties is dependent upon an increase in the market price for uranium to levels substantially higher than the 1978 market price levels. The domestic uranium market has deteriorated markedly since late 1979, and has remained depressed. No assurance can be given that price levels of uranium will rise to a point where the operation of the mine and mill, either as an integrated unit or separately, will be economically viable.

To the extent that the moneys advanced or loaned to BRC or the interest capitalized on non-interest bearing advances are not applied as a credit against the purchase of other nuclear fuel, returned to the Company upon the sale or refinancing of the BRC properties, recovered through litigation, or offset by the proceeds from the settlement of litigation against Westinghouse Electric Corporation arising from its failure to deliver contracted-for uranium, the Company will apply to the PSC for appropriate rate relief. The Company believes its investments in BRC were prudent and that it is entitled to recover such investments from ratepayers. The Company has pending before the PSC two proceedings respecting approximately $14.3 million which will have been advanced by the Company between July 1980 and December 31, 1985 for the maintenance of the BRC properties and the Company's litigation expenses. The Company cannot predict the outcome of any proceedings before the PSC relating to BRC.

Two shareowners' derivative actions, now consolidated, are pending against certain of the Company's past and present directors and officers, claiming negligence and breach of fiduciary duties by these officers and directors in connection with the BRC transactions. At this time, although no assurance can be given as to the outcome of these lawsuits, the Company believes that they will not have a material adverse effect on the Company.

Due to the many contingencies upon which the outcome of the BRC transactions and the related litigation are dependent, the Company cannot accurately measure either the probability of its realizing a loss on the transactions involving BRC, or the amount of that loss if it should occur. While under the most adverse circumstances the loss could be material, the Company believes that the loss, if any, by itself will not have a material adverse impact on the financial condition of the Company.

Abandoned Generating Projects

In the 1970's, the Company and NYSEG had sought regulatory approval for the construction of two nuclear generating units at Jamesport, New York. The Company and NYSEG each subsequently abandoned the application to construct the Jamesport units. The Company's share of the Jamesport nuclear and coal-related costs, net of estimated tax effects of $18.5 million, was approximately $89 million at December 31, 1984. The Company has applied to the PSC for recovery of the costs associated with Jamesport. Hearings on this application began in November 1984. The Company is unable to predict the outcome of this prudency investigation. In connection with the cancellation of Jamesport, Westinghouse is claiming approximately $63 million in cancellation costs for the Nuclear Steam Supply Systems, in addition to payments already made, which claim the Company is disputing. If there are any cancellation costs, NYSEG and the Company would share them equally, in which event, the Company intends to seek their recovery in rates.

The PSC has issued orders authorizing the amortization and recovery over a three-year period of 80% of the Company's share of its investment at May 31, 1984 in the abandoned nuclear plants at New Haven, New York, which the Company and NYSEG had planned to own equally. The PSC has disallowed the remaining 20% of the investment in the New Haven project. The Company will not be allowed any return on the unamortized balance. The Company has petitioned the PSC for permission to defer for future amortization and recovery 80% of that portion of the New Haven investment consisting of carrying costs incurred from June 1 through August 31, 1984. The total investment at August 31, 1984, before giving effect to the disallowance, was $62.2 million. Reflecting the action taken by the PSC in 1984 with respect to the New Haven Units, the Company wrote off $11.4 million, net of a federal income tax effect of $1 million as included in the Statement of Income under "Other Income and (Deductions)". The remaining $49.8 million of the investment at May 31, 1984 is being amortized commencing in September 1984 at a rate of $1.4 million each month. At December 31, 1984, $5.6 million had been amortized. Both NYSEG and the New York State Consumer Protection Board, an intervenor in the New Haven prudency proceedings, petitioned the PSC for a rehearing. Their petitions were denied. The decision of the PSC may be reviewed by the courts. In addition, three plaintiffs, The League of Women Voters of Tompkins County (N.Y.), a customer of the Company and a customer of NYSEG, have petitioned the New York Supreme Court, Albany County, for an order annulling the PSC orders permitting recovery of any of the prudently incurred New Haven costs. Although the Company cannot predict the outcome of the appeal, the Company believes that the record in this proceeding supports the decision of the PSC and that, under New York law, it is entitled to recover the prudently incurred costs of abandoned projects.

Suffolk County Takeover

Suffolk County retained Daverman & Associates, P.C. Architects and Engineers, to study the feasibility of establishing a county-owned electric and gas utility in Suffolk County. Daverman concluded that acquisition by Suffolk County of the Company's electric distribution and transmission facilities within the County and of a pro rata portion of the Company's generating facilities (including a portion of such facilities located outside Suffolk County) presents "attractive possibilities" and recommended further investigation into such acquisition. The consulting firm also concluded that acquisition of the Company's gas facilities by Suffolk County is not economically viable.

The capital required to finance the acquisition has been estimated by Daverman to vary between $969 million and $3.5 billion, depending on, among other things, the valuation method used, estimates of consequential damages and whether the County would be liable to the Company for all or part of the cost of the Shoreham facility. The Company believes that the estimated range would constitute grossly inadequate compensation for its facilities and for the severance and consequential damages which the Company would sustain as a result of such acquisition.

Suffolk County has not indicated what action will be taken concerning the findings of the report, which was first made public in June 1983. Should the County government determine to acquire the Company's facilities, a proposition must be submitted to and approved by the County's voters in a public referendum. Ten members of the Suffolk County Legislature submitted a resolution in October 1984 to provide for such a referendum but the sponsors withdrew their support for the resolution in mid-March 1985. Should it be presented to the full Legislature and adopted, the County Executive has indicated that he would veto the legislation. Twelve votes out of eighteen votes are needed to override the County Executive's veto. If the proposition were to be submitted to the County's voters and approved, and if the County's right to condemn the Company's facilities were to be sustained by the Courts, the amount of the award to the Company for the properties acquired and severance and consequential damages would be determined in proceedings in the New York State Courts. The Company will continue to monitor closely any developments.

Other

The Company has entered into substantial commitments for fossil fuel and gas supply. The costs of fuel and gas supply are normally recovered from customers through provisions in the Company's rate schedules.

There are currently pending in the federal courts and before the Federal Equal Employment Opportunity Commission and the New York State Division of Human Rights complaints by employees and former employees alleging that the Company has discriminated against them on the basis of race and of age. One of the actions in the federal courts is a class action. Some of these complaints allege that the discriminatory actions were taken by the Company when it reduced its work force in March 1984 as part of its Austerity Plan. The Company believes it has meritorious defenses to these complaints, but it cannot predict the ultimate outcome of these matters. The Company believes that the outcome, if adverse, would not materially affect the financial condition of the Company or the results of its operations.

Regor Construction Co., Inc. brought an action in 1984 against the Company and Regor's surety, New Hampshire Insurance Company, in the New York State Supreme Court, Nassau County, arising out of work performed by Regor for the Company pursuant to a written agreement on construction projects at the Company's Northport Power Station and at Shoreham. In one cause of action, Regor alleges that the Company owes it approximately $5 million for additional work performed pursuant to the agreement. In two other causes of action, one alleging conspiracy with New Hampshire, and one alleging restraint of trade, Regor seeks to recover approximately $20 million. The Company has served its answer to the complaint denying all of the allegations. The Company believes it has meritorious defenses to this action but cannot presently determine the extent, if any, of its potential liability. However the Company believes that the outcome, if adverse, would not materially affect the financial condition of the Company or the results of its operations.

Statements have recently appeared in the media alleging wrongdoing and possible faulty workmanship in connection with construction activities at Shoreham. Numerous allegations regarding the quality of the plant have been investigated in the past by the NRC and have been determined by its Staff to be without foundation. The Company is unaware of any wrongdoing involving any of its directors, officers or employees in connection with the practices alleged and would, if requested, cooperate with the authorities in any investigation prompted by these charges.

In February 1984, a New York State Supreme Court Justice dismissed a lawsuit that would have prohibited the Company from declaring or paying dividends on its Common or Preferred Stocks and would have suspended the interim electric rate increase granted by the PSC in 1983. The proceeding was brought as a class action by a business association and several commercial and residential ratepayers against the Company and the PSC. Plaintiffs filed a notice of appeal, but failed to perfect it within the time allowed by law. Accordingly, the lower court decision stands.

Note 8. 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.

(in millions of dollars)	1984 Electric	1984 Gas	1984 Total Company	1983 Electric	1983 Gas	1983 Total Company	1982 Electric	1982 Gas	1982 Total Company
Operating Information (Year ended December 31):									
Revenue	**$1,614**	**$360**	**$1,974**	$1,436	$352	$1,788	$1,321	$313	$1,634
Expenses (excluding income tax)	**1,150**	**313**	**1,463**	1,108	314	1,422	1,022	276	1,298
Operating income (before income tax)	**$ 464**	**$ 47**	**$ 511**	$ 328	$ 38	$ 366	$ 299	$ 37	$ 336
AFC and other			**235**			213			158
Interest charges			**202**			149			137
Income taxes—operating			**202**			97			89
Income taxes—nonoperating (credit)			**(86)**			(32)			(41)
Net income per accompanying Statement of Income			**$ 428**			$ 365			$ 309
Other Information (Year ended December 31):									
Depreciation, depletion and amortization	**$ 57**	**$ 8**	**$ 65**	$ 55	$ 8	$ 63	$ 54	$ 8	$ 62
Capital expenditures for construction and nuclear fuel	**909**	**12**	**921**	882	18	900	867	22	889
Investment Information (At December 31):									
Assets (a)	**$6,276**	**$317**	**$6,593**	$5,445	$308	$5,753	$4,662	$319	$4,981
Nonutility plant			**3**			3			3
Other Investments (b)	**65**	**1**	**66**	64	1	65	59	—	60
Assets utilized for overall Company operations			**438**			569			306
Total Assets			**$7,100**			$6,390			$5,350

(a) Includes net utility plant and deferred charges (excluding common), materials and supplies, accrued revenues, gas in storage and fuel.
(b) Consisting of in 1984, $57,480,000 Bokum Resources Corporation, $569,000 subsidiary companies ($59,000 electric, $510,000 gas), $7,779,000 other investments; in 1983, $56,882,000 Bokum Resources Corporation, $637,000 subsidiary companies ($112,000 electric, $525,000 gas), $7,358,000 other investments; in 1982, $56,113,000 Bokum Resources Corporation, $608,000 subsidiary companies ($111,000 electric, $497,000 gas), $3,315,000 other investments.

Note 9. Quarterly Financial Information (Unaudited)

(In millions of dollars except Earned per common share)	Operating Revenues	Operating Income	Net Income	Income for Common Stock	Earned per Common Share
First Quarter					
1984	**$547**	**$84**	**$118**	**$96**	**$0.87**
1983	481	67	91	74	0.73
1982	476	69	84	69	0.77
Second Quarter					
1984	**$438**	**$68**	**$103**	**$81**	**$0.73**
1983	383	66	87	68	0.66
1982	359	56	69	55	0.61
Third Quarter					
1984	**$514**	**$94**	**$118**	**$96**	**$0.87**
1983	479	85	111	91	0.89
1982	413	74	89	75	0.81
Fourth Quarter					
1984	**$474**	**$62**	**$ 89**	**$67**	**$0.62**
1983	445	51	76	54	0.52
1982	386	48	67	50	0.50

Note 10. Supplementary Information Concerning the Effects of Inflation (Unaudited)

For the past several decades, the utility industry has constantly pointed out to economists, regulators, and law makers that calculating depreciation on the original cost of the utility plant would not permit the recovery of the cost required to replace a piece of equipment which became obsolete or fully depreciated if any degree of inflation were experienced over the life of the property. The solution suggested by the industry was to calculate depreciation on the reproduction cost of existing facilities, or to use a depreciation rate which reflects inflation. In an attempt to have information available to inform investors of the consequence of this inflationary erosion throughout the business world, the Financial Accounting Standards Board developed certain standards for quantifying and providing this information to investors. While we believe the concept has merit if it leads to wiser governmental decisions as to taxation and utility regulation, we wish to point out to our shareowners the theoretical nature of this information, and to suggest caution in its use for the purpose of making investment decisions in the utility field and for comparing one company to another in terms of expected future performance.

The data which follows reflect a restatement of the historical cost of property, plant, and equipment (by approximate year of expenditure), the related accumulated depreciation and depreciation expense. Income tax expense has not been restated for the effects of inflation. The effect of inflation on the Company's operations is measured for that inflation which impacts the utility industry by using the latest available estimates for the Handy-Whitman index for Public Utility Construction Costs.

Under the ratemaking prescribed by the PSC, only historical cost of utility plant is recoverable in revenues as depreciation. Therefore, any excess or deficiency of the amount of utility plant stated in terms of industry inflation compared to historical cost is reflected as a reduction or write-up to recoverable amounts, respectively.

Effect of Inflation on Net Income and Common Stock Earnings per Share

(Average 1984 dollars, in thousands of dollars except Earned per Common Share)	Adjusted for Industry Inflation
1984 Net Income as shown on the Statement of Income	$427,788
Increase in depreciation expense if adjusted for inflation	105,166
1984 Net Income as adjusted	$322,622
Earned per Common Share as adjusted	$ 2.13
Net Income as adjusted	
1983	$275,145
1982	231,018
1981	187,405
1980	165,415
Earned per Common Share as adjusted	
1983	$ 1.87
1982	1.80
1981	1.69
1980	1.76

Effect of Inflation on Net Plant Investment

At December 31, 1984, the cost of property, plant and equipment, net of accumulated depreciation, restated for industry inflation since year of expenditure, was $9.9 billion while historical cost net of accumulated depreciation was $6.4 billion.

The effect of 1984 inflation which specifically affected the industry on the cost of replacing the Company's undepreciated plant investment (such investment was calculated by restating plant and related accumulated depreciation for industry inflation since year of expenditure) from the beginning to the end of the year, less the $105 million increase in depreciation expense shown above, amounted to $397 million. Further, the effect of 1984 general inflation, of about 4.0%, on the cost of replacing the Company's January 1, 1984, undepreciated plant investment amounted to $359 million. The effect of 1984 general inflation exceeded the effect of industry inflation by $38 million. In 1984, the adjustment of undepreciated plant stated in terms of industry inflation to net recoverable amount is an increase of $163 million. Similar adjustments for the years 1983, 1982, 1981 and 1980, when restated in average 1984 dollars, was an increase of $170 million in 1983, and reductions of $365 million, $228 million, and $91 million from 1982 through 1980 respectively.

Effect of Inflation on Certain Assets and Liabilities

During periods of inflation, monetary assets such as cash and receivables lose their purchasing power. Similarly, monetary liabilities such as long-term debt can be a benefit because they will be repaid in dollars having less purchasing power. The net monetary amounts owed by the Company during the years 1984, 1983, 1982, 1981 and 1980 resulted in an unrealized benefit of $142 million, $102 million, $72 million, $176 million, and $231 million, respectively. The Company's net assets (total assets less total liabilities) at year-end, when restated in average 1984 dollars, for the years 1984, 1983, 1982, 1981 and 1980 were $3.2 billion, $2.9 billion, $2.7 billion, $2.3 billion, and $2.2 billion, respectively.

Effect of Inflation on Revenues, Common Stock Dividends and Common Stock Market Price

Revenues were $2.0 billion in 1984. Revenues restated in average 1984 dollars for the years 1983 through 1980, respectively, would have been $1.9 billion, $1.8 billion, $1.9 billion, and $1.6 billion. No cash dividends were declared on common stock in 1984. Dividends declared in prior years restated in average 1984 dollars for the years 1983 through 1980, respectively would have been $2.11, $2.15, $2.19, and $2.32 per share. The market price per common share at year-end was $6.88 in 1984. The market prices per common share restated in year-end 1984 dollars for the years 1983 through 1980, respectively, would have been $10.79, $18.48, $15.84 and $17.09. The average consumer price indices for the years 1984 through 1980 were 311.1, 298.4, 289.1, 272.4, and 246.8, respectively.

Report of Independent Accountants

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

We have examined the balance sheet of Long Island Lighting Company at December 31, 1984, 1983 and 1982, and the related statements of income, shareowners' equity and changes in financial position for each of the five years in the period ended December 31, 1984, appearing on pages 8 to 27. Our examinations of these statements were made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our report dated February 10, 1984 (except as to Notes 4 and 7 which were as of March 9, 1984), our opinion on the 1983 financial statements was qualified as being subject to the Company's continued financial viability and to the effects, if any, on the 1983 financial statements of the ultimate resolution of certain other matters. Three of such matters related to uncertainties regarding (i) the effects of the Company's suspension of periodic payments for its share in the Nine Mile Point 2 nuclear project presently under construction, (ii) the possible acceleration of the Company's long-term debt in the event a default was found to have occurred and not have been cured under the loan agreements made by Tri-Counties Construction Trust and (iii) the recoverability of the Company's investment in an abandoned nuclear project in New Haven, New York. As more fully described in Notes 4 and 7 of the accompanying Notes to Financial Statements, (i) a Settlement Agreement was entered into respecting the financing of the Company's share of Nine Mile Point 2, (ii) the banks which are lenders to the Construction Trust no longer raise the issue of whether the Company may have violated the Trust Agreements and (iii) an order of the New York State Public Service Commission was issued permitting the Company to recover a substantial portion of its investment in the abandoned New Haven nuclear project. Accordingly, our opinion on the 1983 financial statements, as presented herein, is no longer qualified with respect to these matters.

As discussed in Notes 4 and 7 of Notes to Financial Statements:

(a) The Company has experienced significant delays and substantial additional costs in completing and obtaining an operating license for the Shoreham Nuclear Power Station and opposition to operation of the plant by the State of New York, the County of Suffolk, New York and others. These and other factors have significantly affected the Company's financial resources and its ability to finance its operating and capital requirements, including costs to complete and obtain an operating license for Shoreham.

(b) On March 13, 1985, two Administrative Law Judges of the New York State Public Service Commission (PSC) recommended to the PSC that $1.2 billion of Shoreham's previously submitted projected cost of $4.2 billion be excluded from rate base as having been imprudently incurred. On February 10, 1984, the Staff of the PSC and intervenors had proposed to the PSC that no more than $1.9 billion to $2.3 billion of the plant's costs be included in rate base. Through December 31, 1984, the plant's costs approximated $3.8 billion. The Company intends to file exceptions to the recommendations of the Administrative Law Judges. The Company is presently unable to determine the amount, if any, of Shoreham's costs that will ultimately be deemed to have been imprudently incurred.

(c) The Company has incurred costs of approximately $89 million net of estimated tax effects in connection with an abandoned nuclear project in Jamesport, New York and has certain related unsettled claims against it with respect thereto. Further, the Company has made advances and loans, including financing costs, of approximately $120 million to Bokum Resources Corporation for uranium concentrates and has expended approximately $112 million for procurement of nuclear fuel for Shoreham and the Nine Mile Point 2 nuclear project presently under construction. The Company is presently unable to measure either the probability of its realizing a loss on such transactions or the amount of such loss, if any.

(d) The Company is unable to predict the impact of regulatory actions by the New York State Public Service Commission with respect to the Company's investment in the Nine Mile Point 2 nuclear project ($713 million at December 31, 1984).

(e) Separate class action and shareholders' derivative action lawsuits initiated in 1984 have been consolidated into a single proceeding in U.S. District Court for the Eastern District of New York. The Company is presently unable to measure the impact, if any, that the ultimate resolution of such proceeding will have on its financial condition or results of operations.

In our opinion, subject to the Company's continued financial viability and the effects on the 1984 and 1983 financial statements of such adjustments, if any, as might have been required had the outcome of the uncertainties referred to in items (a), (b) and (c) of the preceding paragraph been known and on the 1984 financial statements of such adjustments, if any, as might have been required had the outcome of the additional uncertainties discussed in items (d) and (e) of the preceding paragraph been known, the financial statements referred to above present fairly the financial position of Long Island Lighting Company at December 31, 1984, 1983 and 1982, and the results of its operations and the changes in its financial position for each of the five years in the period ended December 31, 1984, in conformity with generally accepted accounting principles consistently applied.

Jericho, New York
March 25, 1985

Price Waterhouse

Selected Financial Data

Summary of Operations*

Table 1

	1984	1983	1982	1981	1980	1979	1974
Total revenues ($000)	**$1,973,550**	$1,787,851	$1,633,517	$1,664,832	$1,276,938	$1,045,498	$586,503
Total operating income ($000)							
Before federal income taxes	**$ 510,994**	$ 366,078	$ 335,743	$ 313,916	$ 205,918	$ 188,466	$ 96,933
After federal income taxes	**$ 308,421**	$ 268,989	$ 246,693	$ 225,888	$ 194,623	$ 170,984	$ 92,601
Income for common stock ($000)	**$ 340,264**	$ 287,163	$ 249,405	$ 198,902	$ 164,915	$ 128,812	$ 47,721
Average common shares outstanding (000)	**110,120**	102,484	92,475	77,988	65,138	53,366	23,565
Earned per common share	**$ 3.09**	$ 2.80	$ 2.70	$ 2.55	$ 2.53	$ 2.41	$ 2.03
Dividends paid per share	**$ 0.505**	$ 2.02	$ 1.98	$ 1.90	$ 1.82	$ 1.74	$ 1.46
Book value per share at year end	**$22.24**	$19.29	$18.65	$18.78	$18.94	$18.88	$17.81
Common shareowners at year end	**163,354**	180,291	181,127	169,124	159,678	151,752	102,251
Ratio of earnings to fixed charges	**2.49**	2.46	2.42	2.37	2.14	2.20	2.28
Ratio of earnings to fixed charges and preferred dividends	**1.91**	1.88	1.90	1.87	1.74	1.77	1.77
Ratio of earnings to fixed charges (excluding AFC)	**1.40**	1.28	1.34	1.40	1.25	1.42	1.91

*See Table 10 of Selected Financial Data for Assets and Capitalization. See also Note 7 to Notes to Financial Statements.

Electric Operating Income (In thousands of dollars)

Table 2

	1984	1983	1982	1981	1980	1979	1974
Revenues							
Residential	**$ 752,123**	$ 674,190	$ 608,384	$ 634,378	$ 478,618	$ 400,936	$232,431
Commercial and industrial	**796,543**	694,038	639,360	666,078	479,486	393,040	223,204
Street and highway lighting	**19,004**	17,320	16,779	17,697	13,594	12,209	10,869
Other public authorities	**23,986**	21,138	19,385	27,746	21,685	15,240	10,680
Other utilities	**408**	1,066	717	822	196	564	731
Other	**(2,446)**	3,276	5,898	6,416	7,094	5,949	709
System revenue	**1,589,618**	1,411,028	1,290,523	1,353,137	1,000,673	827,938	478,624
Power pools	**23,779**	24,919	29,992	49,582	38,993	32,860	7,710
Total Operating Revenue	**1,613,397**	1,435,947	1,320,515	1,402,719	1,039,666	860,798	486,334
Expenses							
Operations — fuel and purchased power	**692,515**	645,211	608,101	719,845	521,062	389,622	219,406
Operations — other	**136,411**	146,350	127,202	118,870	98,017	89,071	52,841
Maintenance	**50,038**	58,865	58,525	57,746	47,587	43,587	24,803
Depreciation	**57,198**	55,649	54,203	53,108	50,235	47,872	32,604
Operating taxes	**213,691**	201,842	173,808	167,535	143,589	128,496	79,925
Federal income tax — current	**9,710**	(16,774)	(3,770)	(1,843)	(9,862)	(7,816)	(3,098)
Federal income tax — deferred and other	**177,567**	104,765	82,816	83,621	15,128	18,933	5,195
Total Expenses	**1,337,130**	1,195,908	1,100,885	1,198,882	865,756	709,765	411,676
Electric Operating Income	**$ 276,267**	$ 240,039	$ 219,630	$ 203,837	$ 173,910	$ 151,033	$ 74,658

Gas Operating Income (In thousands of dollars)

Table 3

	1984	1983	1982	1981	1980	1979	1974
Revenues							
Residential — space heating*	**$ 195,035**	$ 186,753	$ 161,794	$ 134,407	$ 117,228	$ 93,077	$ 52,273
— other	**35,916**	36,144	31,794	28,028	26,556	23,861	14,985
Non-residential, firm — space heating*	**63,442**	61,927	55,486	45,500	37,729	31,145	17,040
— other	**31,526**	32,134	26,684	21,318	18,483	15,005	8,055
Total firm sales revenue	**325,919**	316,958	275,758	229,253	199,996	163,088	92,353
Interruptible	**32,149**	32,768	35,161	30,757	35,395	19,810	5,663
Total system sales revenue	**358,068**	349,726	310,919	260,010	235,391	182,898	98,016
Other utilities	**—**	—	—	—	—	—	673
Total sales revenue	**358,068**	349,726	310,919	260,010	235,391	182,898	98,689
Other revenue	**2,085**	2,178	2,083	2,103	1,881	1,802	1,480
Total Operating Revenue	**360,153**	351,904	313,002	262,113	237,272	184,700	100,169
Expenses							
Operations — fuel	**192,581**	209,626	180,925	145,507	130,664	88,794	31,310
Operations — other	**59,417**	46,085	43,253	39,397	34,190	29,573	18,984
Maintenance	**10,530**	11,022	10,218	10,507	9,916	8,619	6,346
Depreciation, depletion and amortization	**8,011**	7,761	7,395	6,957	6,433	6,188	5,368
Operating taxes	**42,164**	39,362	34,144	31,444	29,327	25,210	17,983
Federal income tax — current	**4,386**	12,646	3,108	835	6,947	5,549	2,386
Federal income tax — deferred and other	**10,910**	(3,548)	6,896	5,415	(923)	816	(151)
Total Expenses	**327,999**	322,954	285,939	240,062	216,554	164,749	82,226
Gas Operating Income	**$ 32,154**	$ 28,950	$ 27,063	$ 22,051	$ 20,718	$ 19,951	$ 17,943

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

Electric Operations

Table 4

	1984	1983	1982	1981	1980	1979	1974
Energy — millions of kWh							
Net generation	**12,159**	11,703	11,516	11,720	11,295	11,085	12,795
Power purchased and (sold) — net	**2,689**	2,754	2,197	2,091	2,719	2,636	(89)
Total system requirements	**14,848**	14,457	13,713	13,811	14,014	13,721	12,706
Company use and unaccounted for	**(1,271)**	(1,308)	(1,194)	(1,196)	(1,331)	(1,254)	(1,285)
System sales	**13,577**	13,149	12,519	12,615	12,683	12,467	11,421
Power pool sales	**418**	494	552	772	882	852	314
Total Sales	**13,995**	13,643	13,071	13,387	13,565	13,319	11,735
Peak Demand — net mW							
Station coincident demand	**2,528**	2,553	2,757	2,730	2,994	2,718	2,553
Purchased or (sold)	**568**	555	288	402	149	201	246
System Peak Demand	**3,096**	3,108	3,045	3,132	3,143	2,919	2,799
Capability at Time of Peak — net mW							
LILCO stations	**3,721**	3,721	3,721	3,721	3,721	3,842	3,457
Firm purchase or (sale)	**57**	47	46	56	62	108	—
Total capability	**3,778**	3,768	3,767	3,777	3,783	3,950	3,457
Fuel Consumed for Electric Operations							
Oil — thousands of barrels	**15,531**	15,707	15,360	15,665	15,428	16,671	20,773
Gas — thousands of dth	**29,149**	22,747	21,727	23,374	20,426	10,909	3,444
Total — billions of Btu	**127,468**	122,019	119,341	122,577	117,965	115,376	131,414
Dollars per million Btu	**$ 4.47**	$ 4.23	$ 4.18	$ 4.58	$ 3.41	$ 2.56	$ 1.71
Cents per kWh of net generation	**4.68¢**	4.41¢	4.33¢	4.79¢	3.57¢	2.67¢	1.75¢
Heat rate — Btu per net kWh	**10,483**	10,425	10,363	10,459	10,456	10,480	10,271

Gas Operations

Table 5

	1984	1983	1982	1981	1980	1979	1974
Energy — thousands of dth							
Natural gas	**52,558**	50,706	51,135	50,224	50,489	46,799	47,176
Manufactured gas and change in storage	**(15)**	100	69	(62)	124	(4)	—
Total natural and manufactured gas	**52,543**	50,806	51,204	50,162	50,613	46,795	47,176
Sales to other utilities	**—**	—	—	—	—	—	(349)
Total system requirements	**52,543**	50,806	51,204	50,162	50,613	46,795	46,827
Company use and unaccounted for	**(1,632)**	(3,240)	(1,628)	(1,800)	(3,419)	(3,170)	(2,270)
System sales	**50,911**	47,566	49,576	48,362	47,194	43,625	44,557
Sales to other utilities	**—**	—	—	—	—	—	349
Total Sales	**50,911**	47,566	49,576	48,362	47,194	43,625	44,906
Maximum Day Sendout — dth	**359,527**	381,624	402,536	371,845	358,638	336,996	301,500
Capability at Time of Peak — dth per day							
Natural gas	**315,400**	315,400	310,100	308,800	308,800	307,200	314,700
LNG, manufactured or LP gas	**145,600**	146,900	155,200	142,300	142,300	142,300	153,300
Total Capability	**461,000**	462,300	465,300	451,100	451,100	449,500	468,000
Natural Gas Consumed							
Electric Operations — thousands of dth	**29,020**	22,630	18,307	15,294	12,221	2,726	3,444
Gas operations — thousands of dth	**52,646**	51,771	49,947	49,026	50,402	46,103	46,817
Total Natural Gas Consumed	**81,666**	74,401	68,254	64,320	62,623	48,829	50,261
Calendar Degree Days (58-year average 5,102)	**4,739**	4,781	4,754	4,851	5,151	4,622	4,921

Electric Sales and Customers

Table 6

	1984	1983	1982	1981	1980	1979	1974
Sales — millions of kWh							
Residential	**6,000**	5,900	5,557	5,581	5,655	5,599	5,185
Commercial and industrial	**7,129**	6,797	6,524	6,494	6,431	6,291	5,621
Street and highway lighting	**182**	181	182	180	188	188	187
Other public authorities	**259**	252	242	345	404	370	394
Other utilities	**7**	19	14	15	5	19	34
System sales	**13,577**	13,149	12,519	12,615	12,683	12,467	11,421
Power pool sales	**418**	494	552	772	882	852	314
Total Sales	**13,995**	13,643	13,071	13,387	13,565	13,319	11,735
Customers — monthly average							
Residential	**840,843**	833,163	825,740	818,879	812,898	806,325	766,612
Commercial and industrial	**88,459**	86,687	85,016	83,899	82,918	81,955	76,108
Others	**4,339**	4,269	4,368	4,683	4,185	4,137	2,790
Customers — total monthly average	**933,641**	924,119	915,124	907,461	900,001	892,417	845,510
Customers — total at year end	**935,964**	926,335	915,672	908,303	900,419	892,772	848,236
Residential							
kWh per customer	**7,136**	7,081	6,730	6,815	6,957	6,944	6,763
Revenue cents per kWh	**12.53¢**	11.43¢	10.95¢	11.37¢	8.46¢	7.16¢	4.48¢
Commercial and Industrial							
kWh per customer	**80,591**	78,409	76,738	77,403	77,559	76,762	73,849
Revenue per kWh	**11.17¢**	10.21¢	9.80¢	10.26¢	7.46¢	6.25¢	3.97¢
System — Total revenue per kWh sold	**11.71¢**	10.73¢	10.31¢	10.73¢	7.89¢	6.64¢	4.19¢

Gas Sales and Customers

Table 7

	1984	1983	1982	1981	1980	1979	1974
Sales — thousands of dth							
Residential — space heating*	**27,528**	25,387	26,110	25,753	24,187	22,873	23,023
— other	**3,702**	3,601	3,677	3,566	3,654	3,496	3,359
Non-residential — firm — space heating*	**9,357**	8,760	9,282	9,042	8,269	8,228	8,780
— other	**4,638**	4,518	4,433	4,021	3,833	3,603	4,721
Total firm sales	**45,225**	42,266	43,502	42,382	39,943	38,200	39,883
Interruptible	**5,686**	5,300	6,074	5,980	7,251	5,425	5,023
Total system sales	**50,911**	47,566	49,576	48,362	47,194	43,625	44,906
Customers — monthly average							
Residential — space heating*	**179,030**	176,250	171,760	165,093	153,440	139,672	136,110
— other	**190,507**	191,967	194,142	198,336	206,331	217,172	222,413
Non-residential — firm — space heating*	**20,173**	19,959	19,756	19,282	18,229	17,452	17,763
— other	**11,973**	11,959	11,963	12,160	12,441	12,658	13,635
Total firm customers	**401,683**	400,135	397,621	394,871	390,441	386,954	389,921
Interruptible	**306**	308	309	323	339	347	404
Customers — total monthly average	**401,989**	400,443	397,930	395,194	390,780	387,301	390,325
Customers — total at year end	**402,430**	400,815	398,572	396,094	392,723	387,310	389,260
Degree days — billed	**4,921**	4,596	4,816	4,975	4,910	4,612	4,911
Residential							
dth per customer	**84.5**	79.3	81.4	80.7	77.4	73.9	73.6
Revenue per dth	**$ 7.40**	$ 7.63	$ 6.50	$ 5.54	$ 5.16	$ 4.43	$ 2.55
Non-residential — firm							
dth per customer	**435.4**	418.6	432.4	415.5	394.6	392.9	430.0
Revenue per dth	**$ 6.79**	$ 7.04	$ 5.99	$ 5.12	$ 4.64	$ 3.90	$ 1.86
System — total revenue per firm dth sold	**$ 7.21**	$ 7.50	$ 6.34	$ 5.41	$ 5.01	$ 4.27	$ 2.32

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

Operations and Maintenance Expense Details (in thousands of dollars) — Table 8

	1984	1983	1982	1981	1980	1979	1974
Total payroll and employee benefits	**$ 215,373**	$ 227,014	$ 207,511	$ 185,265	$ 168,137	$ 150,479	$ 100,008
Less — Charged to construction and other	**66,331**	75,962	65,181	55,272	53,649	49,065	31,335
Charged to operations	**149,042**	151,052	142,330	129,993	114,488	101,414	68,673
Fuels — electric operations	**569,528**	516,097	498,744	560,856	402,696	295,428	224,105
Fuels — gas operations	**192,581**	209,626	180,925	145,507	130,664	88,794	31,310
Purchased power costs	**123,963**	128,217	106,128	123,958	134,876	108,772	5,664
Electric fuel cost adjustment deferred	**(976)**	897	3,229	35,031	(16,510)	(14,578)	(10,363)
Total Fuel and Purchased Power	**885,096**	854,837	789,026	865,352	651,726	478,416	250,716
All other	**107,355**	111,270	96,868	96,527	75,222	69,436	34,301
Total Operations and Maintenance	**$1,141,493**	$1,117,159	$1,028,224	$1,091,872	$ 841,436	$ 649,266	$ 353,690
Employees at December 31	**5,202**	5,947	6,012	5,777	5,669	5,563	5,426

Construction Expenditures (in thousands of dollars) — Table 9

	1984	1983	1982	1981	1980	1979	1974
Electric							
Production (includes construction trust)	**$ 852,774**	$ 804,538	$ 777,033	$ 517,971	$ 399,219	$ 362,689	$ 169,043
Transmission	**3,541**	9,920	11,627	8,987	14,529	25,991	29,234
Distribution	**31,778**	40,617	37,742	33,951	32,835	28,867	34,907
General	**1,294**	1,190	5,190	3,872	3,265	1,617	1,810
Electric Total	**889,387**	856,265	831,592	564,781	449,848	419,164	234,994
Gas Total	**12,354**	17,458	20,728	22,536	21,114	13,345	7,014
Common Total	**4,622**	9,432	8,845	7,237	4,822	7,037	2,167
Total Construction Expenditures	**$ 906,363**	$ 883,155	$ 861,165	$ 594,554	$ 475,784	$ 439,546	$ 244,175
Nuclear Fuel (includes Trusts)	**$ 14,771**	$ 16,636	$ 27,396	$ (4,744)	$ 23,149	$ 25,539	$ —

Balance Sheet (in thousands of dollars) — Table 10

	1984	1983	1982	1981	1980	1979	1974
Assets							
Utility Plant	**$7,272,544**	$6,422,520	$5,536,742	$4,662,402	$4,095,896	$3,611,962	$1,825,666
Less — Accumulated depreciation, depletion and amortization	**788,565**	727,298	672,518	620,616	573,765	526,992	349,935
Total Utility Plant	**6,483,979**	5,695,222	4,864,224	4,041,786	3,522,131	3,084,970	1,475,731
Other Property and Investments	**68,639**	67,693	62,919	62,183	56,962	76,985	1,193
Current Assets	**424,640**	587,002	361,219	361,859	273,378	246,708	140,285
Deferred Charges:							
Electric fuel cost adjustment deferred	**1,038**	62	959	4,188	39,219	22,709	14,732
Unamortized cost of abandoned New Haven generating project	**44,108**	—	—	—	—	—	—
Other	**77,769**	39,604	60,404	38,136	26,056	28,210	7,548
Total Assets	**$7,100,173**	$6,389,583	$5,349,725	$4,508,152	$3,917,746	$3,459,582	$1,639,489
Capitalization and Liabilities							
Capitalization:							
Long-term debt	**$2,316,175**	$2,180,721	$1,602,777	$1,492,629	$1,264,677	$1,274,722	$ 735,000
Unamortized premium and (discount) on debt	**(9,658)**	(8,198)	(5,605)	(2,349)	(39)	24	2,614
Preferred stock — redemption required	**529,375**	540,013	478,050	414,650	361,250	294,100	110,000
Preferred stock — no redemption required	**221,056**	221,119	157,070	158,083	158,968	160,090	147,006
Treasury stock, at cost	**(505)**	(1,772)	—	(569)	(186)	—	—
Common stock and premium	**1,551,057**	1,485,162	1,424,148	1,131,094	969,240	821,440	268,540
Capital stock expense	**(56,103)**	(56,278)	(50,335)	(42,107)	(35,140)	(30,138)	(9,919)
Retained earnings	**956,356**	580,115	501,806	439,285	391,113	346,001	187,537
Total Capitalization	**5,507,753**	4,940,882	4,107,911	3,590,716	3,109,883	2,866,239	1,440,778
Trust Obligations	**685,621**	713,484	598,335	439,425	348,935	287,308	—
Current Liabilities	**494,545**	481,074	466,769	361,193	407,903	242,715	174,343
Deferred Credits:							
Accumulated deferred income tax reductions	**338,607**	222,502	156,385	106,795	43,821	55,698	19,891
Other	**54,649**	25,055	14,476	6,091	2,239	1,661	799
Total Deferred Credits	**393,256**	247,557	170,861	112,886	46,060	57,359	20,690
Reserves for Claims, Damages and Pensions	**18,998**	6,586	5,849	3,932	4,965	5,961	3,678
Total Capitalization and Liabilities	**$7,100,173**	$6,389,583	$5,349,725	$4,508,152	$3,917,746	$3,459,582	$1,639,489

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,U,V,W, and X of the Company, are traded on the New York Stock Exchange. The table below indicates the high and low sale prices on the New York Stock Exchange listing of composite transactions for the years 1983 and 1984.

Common Stock			Preferred Stock											
			Series B 5%		Series E 4.35%		Series I 5¾%		Series J 8.12%		Series K 8.30%		Series O $2.47	
Quarter	High	Low	High	Low	High	Low	High	Low	High	Low	High	Low	High	Low
1983														
First	17⅜	15⅝	39½	36	34½	31¼	96	92	64½	59	65⅛	61	21½	19⅝
Second	17½	15¾	40	37	36	32⅛	94	88	66½	59	66½	60	21¼	18⅞
Third	16⅞	14½	38	34¼	34	30	94½	79	60	56½	61½	57¼	19⅞	18⅛
Fourth	16½	9⅞	37½	28	31¾	24⅝	84½	60¾	58⅜	47	61	49	18⅞	14¾
1984														
First	11½	6⅝	33	28½	30	23	65	51	53½	45½	55½	45½	18	14½
Second	7½	5	29	23¾	24	19	57	53⅛	45	37¼	45⅝	36⅝	15⅞	11⅝
Third	6¾	3¾	25½	16	23	14½	48⅜	35	40	21½	43⅜	23¾	13¾	7
Fourth	8¾	5½	26½	20	23	17½	56¾	45¾	41¼	34½	42½	34⅛	15⅜	12

	Preferred Stock													
	Series P $2.43		Series S 9.80%		Series T $3.31		Series U $4.25		Series V $3.50		Series W $3.52		Series X $3.50	
Quarter	High	Low	High	Low	High	Low	High	Low	High	Low	High	Low	High	Low
1983														
First	20½	17½	82⅛	78	26¾	24	33	29	28¾	25⅜	-	-	-	
Second	20	17⅞	84	80	26¾	24⅜	33	29¾	28⅝	24¾	28½	24½	-	
Third	18⅞	10¾	81	70	25½	22⅞	31⅝	29⅜	26¼	24½	26⅛	23⅞		
Fourth	18½	13⅝	73	60	24¾	19	31	23½	26⅛	19¾	26⅛	19	25¼	19¼
1984														
First	17⅛	12¾	65	55	23	17¾	28	22½	23½	18⅝	23¾	18¼	23¼	19½
Second	14½	11	54	45⅛	18⅜	13¾	22⅝	14¼	19⅝	14⅝	19	14 1/8	20¾	14
Third	13¾	6	46½	27¼	16¾	8⅞	20	11¼	16⅞	9½	16⅜	9	16⅞	8½
Fourth	13⅞	10½	52½	41	18⅜	13¼	22	17	18¾	14¼	18⅜	14	18⅜	14⅜

The Series D-4.25% Stock is traded in the over-the-counter market. We have been advised of scattered trading at prices ranging between $10 and $28½ per share during 1984. The Series F, H, L, M and R Preferred Stock are held privately.

Directors

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

Winfield E. Fromm
Retired Vice President
Eaton Corporation
Electronics

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

Frank C. Mackay
Retired Senior Vice President
Long Island Lighting Company

Basil A. Paterson
Partner
Suozzi, English &
Cianciulli, PC
Law

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

John H. Talmage
Farm Manager
H.R. Talmage & Son

Phyllis S. Vineyard
Past Chairperson
N.Y. Statewide
Health Coordinating
Council

Officers

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

James W. Dye, Jr.
Executive Vice President

Joseph G. Acker
Vice President
Transmission/Distribution and
Service Operations

Matthew C. Cordaro
Vice President
Engineering

Ira L. Freilicher
Vice President
Public Affairs

Jay R. Kessler
Vice President
Gas Operations

John D. Leonard, Jr.
Vice President
Nuclear Operations

Adam M. Madsen
Vice President
Corporate Planning

Millard S. Pollock
Vice President
Fossil Production

Matthew S. Procelli
Vice President
Employee Relations

John J. Russell
Vice President
Customer Relations

George J. Sideris
Vice President
Finance

Michael Czumak
Controller

Edward W. Eacker
Treasurer

John J. Kearney, Jr.
Secretary

Kathleen M. Brown
Assistant Secretary

Edward M. Barrett
General Counsel

Francis M. Walsh
General Claims Attorney

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

LILCO
LONG ISLAND LIGHTING

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 - NUCLEAR OPERATIONS

May 8, 1985 SNRC-1166

Mr. Harold Denton
Office of Nuclear Reactor Regulation
U.S. Nuclear Regulatory Commission
Washington, D.C. 20555

1984 Annual Report
Shoreham Nuclear Power Station - Unit 1
Docket No. 50-322

Dear Mr. Denton,

Enclosed, please find ten (10) copies of the Long Island Lighting Company's 1984 Annual Report which is being submitted in accordance with 10 CFR 50.71(b).

J. D. Leonard, Jr.

J. D. Leonard, Jr.
Vice President-Nuclear Operations

DRH/klk

cc: P. Eselgroth

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