

nationalgrid

06-m-0444
RECEIVED
PUBLIC SERVICE
COMMISSION
EXEC-FILES-ALBANY
Jeremy J. Euto
Associate Counsel

VIA OVERNIGHT MAIL

2006 APR 13 AM 11:37

April 12, 2006

Honorable Jaclyn A. Brillling
Secretary
State of New York
Public Service Commission
Three Empire State Plaza
Albany, NY 12223

RE: Case No. 06-M-_____

**Joint Petition of Niagara Mohawk Power Corporation and Pitney Bowes
Management Services, Inc. for Authority under Public Service Law Section
70 to Transfer Certain Equipment**

Dear Secretary Brillling:

Enclosed please find for filing an original and five (5) copies of the Joint Petition of Niagara Mohawk Power Corporation d/b/a National Grid and Pitney Bowes Management Services, Inc. ("PBMS") for authority, pursuant to Public Service Law Section 70, to transfer certain bill inserter equipment to PBMS.

Copies of a Notice of Proposed Agency Action for publication in the State Register pursuant to the State Administrative Procedure Act are enclosed with this letter. A completed "Short Environmental Assessment Form," evaluating the potential impacts of the proposed transfer is attached to the Joint Petition pursuant to the requirements of the State Environmental Quality Review Act.

Kindly acknowledge receipt of this filing by date-stamping as received the enclosed duplicate copy of this letter and returning it in the enclosed, self-addressed envelope. *50 4/13/06*

Please address any questions regarding this filing to the undersigned.

Respectfully submitted,



Jeremy J. Euto

Enclosures

cc: Steven C. Belkin, Esq. (w/encl.)
Robert Visalli (w/encl.)

**STATE OF NEW YORK
PUBLIC SERVICE COMMISSION
NOTICE OF PROPOSED RULEMAKING**

Pursuant to the provisions of the State Administrative Procedure Act, notice is hereby given of the following proposed rulemaking:

1. **Action Taken:** The Public Service Commission is considering whether to approve or reject, in whole or in part, a joint petition filed by Niagara Mohawk Power Corporation d/b/a (National Grid) and Pitney Bowes Management Services, Inc. (PBMS) for authority to transfer certain bill inserter equipment to PBMS.
2. **Statutory Authority:** Public Service Law, Section 70
3. **Subject of the Proposed Rule:** Transfer of certain bill inserter equipment by National Grid.
4. **Purpose of Proposed Rule:** To approve the transfer by National Grid of certain bill inserter equipment to PBMS.
5. **Substance of the Proposed Rule:** The Commission is considering whether to approve or reject, in whole or in part, a joint petition filed by Niagara Mohawk Power Corporation d/b/a (National Grid) and Pitney Bowes Management Services, Inc. (PBMS) seeking approval for the transfer of certain bill inserter equipment to PBMS.
6. **Text of proposed rule may be obtained from:** Central Operations, Public Service Commission, Bldg. 3, Empire State Plaza, Albany, NY 12223-1350, (518) 474-2500
7. **Data, views or arguments may be submitted to:** Jaclyn A. Brilling, Secretary, Public Service Commission, Bldg. 3, Empire State Plaza, Albany, NY 12223, (518) 474-6530.
8. **Regulatory Impact Statement, Regulatory Flexibility Analysis, Rural Area Flexibility Analysis, and Job Impact Statement:** Statements and analyses are not submitted with this notice because the rule is within the definition contained in section 102(2)(a)(ii) of the State Administrative Procedure Act.

**Jeremy J. Euto, Esq.
National Grid
300 Erie Boulevard West
Syracuse, New York 13202
(315) 428-3310**

**BEFORE THE
NEW YORK STATE
PUBLIC SERVICE COMMISSION**

**In the Matter of the Joint Petition of
NIAGARA MOHAWK POWER CORPORATION and
PITNEY BOWES MANAGEMENT SERVICES, INC.**

Case No. 06-_____

**for Authority Under Public Service Law Section 70
to Transfer Certain Equipment**

**Joint Petition of Niagara Mohawk Power Corporation and
Pitney Bowes Management Services, Inc. for Authority under Public Service Law Section
70 to Transfer Certain Equipment**

NIAGARA MOHAWK POWER CORPORATION

By: Jeremy J. Euto, Esq.
National Grid
300 Erie Blvd. West
Syracuse, NY 13202
Telephone: (315) 428-3310
Facsimile (315) 460-8031

PITNEY BOWES MANAGEMENT SERVICES, INC.

By: Steven C. Belkin, Esq.
Pitney Bowes Inc.
One Elmcroft Road, MSC 6403
Stamford, CT 06926-0700
Telephone: (203) 351-6361
Facsimile: (203) 348-4287

April 12, 2006

**BEFORE THE
NEW YORK STATE
PUBLIC SERVICE COMMISSION**

**In the Matter of the Joint Petition of
NIAGARA MOHAWK POWER CORPORATION and
PITNEY BOWES MANAGEMENT SERVICES, INC.**

Case No. 06-_____

**for Authority Under Public Service Law Section 70
to Transfer Certain Equipment**

**Joint Petition of Niagara Mohawk Power Corporation and
Pitney Bowes Management Services, Inc. for Authority under Public Service Law Section
70 to Transfer Certain Equipment**

Niagara Mohawk Power Corporation d/b/a National Grid ("National Grid" or "Company") and Pitney Bowes Management Services, Inc. ("PBMS", and collectively with National Grid, the "Petitioners") hereby petition the State of New York Public Service Commission ("Commission") for authority, pursuant to Public Service Law Section 70, to transfer certain bill inserter equipment to PBMS.

Background

1. Niagara Mohawk Power Corporation is a corporation duly organized and existing under the laws of the State of New York, having its principal office at 300 Erie Boulevard West, Syracuse, New York 13202.
2. Certified copies of the Company's certificate of incorporation, certificate of merger and consolidation, and all amendments thereto have heretofore been filed with the Commission.

3. Pitney Bowes Management Services, Inc. is a corporation duly organized and existing under the laws of the State of Delaware, having its principal place of business at One Elmcroft Road, Stamford, CT 06926.
4. National Grid owns certain bill handling equipment, including: (i) Pitney Bowes 11 series inserter (2); (ii) Typac ES101 semi auto strappers (2); (iii) Moore 3400 detacher burster; (iv) Moore 7400 hi cap stacker; and (v) Rolled System Inc. forms carts (6).
5. National Grid and PBMS entered into a "Purchase Order Change No. 2", which includes terms for the sale of the Equipment on Feb. 22, 2005 (the "Agreement"). Due to the confidential nature of parts of the Agreement, a redacted copy is annexed hereto as Exhibit "1" and an unredacted version is being filed contemporaneously with the Records Access Information Officer. Pursuant to the Agreement, PBMS will pay National Grid \$363,800.00 within thirty (30) days of transfer of title to the Equipment to PBMS.
6. The sale price for the Equipment was determined based on the mutually agreed upon value of the equipment. The Equipment has been used by National Grid in the course of its business and has a nominal salvage value. As such, Petitioners assert the sale price may appropriately be considered just and reasonable consideration for the purchase of the Equipment. Pursuant to the terms of the Agreement, the closing date for the transfer will be ten (10) days, or some other time agreed upon between the parties, following notice to PBMS that the all required approvals (e.g., including Commission approval) authorizing the transfer have been obtained.
7. The transfer of the Equipment is part of a continuing arrangement between PBMS and the National Grid, wherein PBMS will utilize the Equipment to continue to provide bill handling services to National Grid. Since National Grid is getting appropriate

consideration for the transfer, and because the Equipment will continue to be used to support National Grid in accordance with the terms of the Agreement, the Petitioners believe the transfer is in the public interest.

The Present Petition

8. The Company hereby requests that the Commission approve the proposed transfer of the Equipment to PBMS pursuant to Section 70 of the Public Service Law, Part 31 of 16 N.Y.C.R.R., and the terms and conditions of the Agreement. This Petition is being filed because the original cost of equipment being sold exceeds \$100,000.
9. The proposed transfer of rights is in the public interest, as discussed above.
10. The proposed transfer by National Grid of the Equipment will in no way inhibit or impact the conduct of the Company's business with its other customers.
11. The proposed accounting treatment and entries by National Grid for this transaction are as shown in Exhibit "2".
12. As required by 16 N.Y.C.R.R. Sections 31 (f), (g), and (k), annexed hereto as Exhibit "3" is an inventory of the Equipment being conveyed to PBMS, along with (i) the original purchase price expended by the Company for the Equipment; (ii) the classifications of the subject facilities according to the requirements of the Commission's system of accounts; and (iii) the original contributions toward construction of the subject facilities.
13. As required by 16 N.Y.C.R.R. Section 31.1 (h), (i) and (j), the exhibit annexed hereto as Exhibit "3" also contains a statement of the (i) estimated accrued depreciation of the facilities, together with a statement of the method used in arriving at such estimate; (ii)

the cost of the subject facilities as shown on the Company's balance sheets; and (iii) depreciation and amortization reserves applicable to the subject facilities.

14. In accordance with 16 N.Y.C.R.R. Section 31.1(l), annexed hereto as Exhibit "4" is a statement of operating revenues, expenses and taxes for the subject facilities for each of the three calendar years preceding the date of this Petition.
15. In accordance with Part 7 of the Commission's Rules and Regulations and the State Environmental Quality Review Act, annexed hereto as Exhibit "5" is a Short Environmental Assessment Form evaluating the potential impacts associated with the transfer to PBMS.

Supporting Schedules

16. In support of this Petition, the Company submits hereafter the following applicable schedules, in accordance with the Commission's Rules and Regulations, 16 N.Y.C.R.R. Sections 18.1 and 31.1(l):

EXHIBIT A- Statement of Financial Condition of Niagara Mohawk Power Corporation as of December 31, 2003

EXHIBIT B- Reimbursement Margin as of December 31, 2003

EXHIBIT C- Summary of Changes in Utility Plant and Depreciation Reserve Accounts for the Period December 31, 2001 through December 31, 2003

EXHIBIT D- Construction Budget for the year 2005

EXHIBIT E- Analysis of adjustments to Utility Plant for the period December 31, 2002 through December 31, 2003

EXHIBIT F- Analysis of adjustments to Depreciation Reserve for the period December 31, 2002 through December 31, 2003

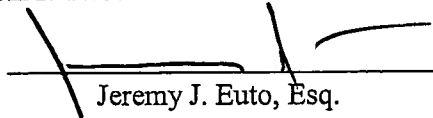
EXHIBIT G- Explanation of changes in Non-Utility Property for the period December 31, 2002 through December 31, 2003

EXHIBIT H- Statement in explanation of changes in specific accounts between
December 31, 2002 through December 31, 2003

EXHIBIT I - Balance Sheet of Niagara Mohawk Power Corporation

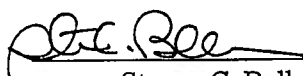
WHEREFORE, for the reasons set forth herein, the Petitioners respectfully request that the Commission issue an Order, pursuant to Public Service Law Section 70, authorizing the transfer of the Equipment to PBMS in accordance with the terms and conditions of the Agreement.

Respectfully submitted,
NIAGARA MOHAWK POWER CORPORATION

By: 
Jeremy J. Euto, Esq.

300 Erie Blvd. West
Syracuse, New York 13202
(315) 428-3310

concerning statements regarding Pitney Bowes
Management Services, Inc. only:
PITNEY BOWES MANAGEMENT SERVICES, INC.

By: 
Steven C. Belkin, Esq.

Pitney Bowes Inc.
One Elmcroft Road, MSC 6403
Stamford, CT 06926-0700
(203) 351-6361

April 12, 2006

VERIFICATION

STATE OF CONNECTICUT)

) ss:

COUNTY OF FAIRFIELD)

Peter Panzarella, being duly sworn, deposes and says: I am the Vice President and General Manager, Offsite Services of PITNEY BOWES MANAGEMENT SERVICES, INC., the Petitioner named above; I have read the foregoing Petition and, with regard to the statements regarding Pitney Bowes Management Services, Inc. only, the same is true to the best of my knowledge, information and belief.

Pt. P. R.

Sworn to before me this
5th day of April 2006

PETITA B. JIMENEZ
NOTARY PUBLIC
STATE OF CONNECTICUT
My Commission Expires Aug. 31, 2010

VERIFICATION


STATE OF NEW YORK)
) ss:
COUNTY OF ONONDAGA)

ANTHONY C. PINI, being duly sworn, deposes and says: I am the Senior Vice President
– Customer Service of NIAGARA MOHAWK POWER CORPORATION, the Petitioner named
above; I have read the foregoing Petition and know the contents thereof; and the same is true to
the best of my knowledge, information and belief.



Anthony C. Pini

Sworn to before me this
28th day of February 2006



Jeremy J. Euto
Notary Public, State of New York
Qualified in Onondaga County No. 02EU6031383
My Commission Expires 2/27/2009

EXHIBIT INDEX

| <u>EXHIBIT NO.</u> | <u>EXHIBIT SUBSTANCE</u> |
|--------------------|---|
| 1 | Redacted - Purchase Order Change No. 21 |
| 2 | Proposed Inserter Sale - Accounting Entries |
| 3 | Inserter General Equipment Assets to be conveyed to PBMS along with Accrued Depreciation, Cost of Facilities, and applicable Depreciation and Amortization Reserves |
| 4 | Operating Revenues, Expenses and Taxes |
| 5 | State Environmental Quality Review (SEQR) – Short Environmental Assessment Form |
| A-I | Niagara Mohawk Power Corporation Supporting Financial Information |

1 Redacted version of Change Order No. 2 submitted herewith. Un-Redacted version of Change Order No. 2 is being submitted to the Records Access Information Officer, contemporaneous with this filing.

Change No. 2

[REDACTED]

PURCHASE ORDER



National Grid

THE BEST IN ENERGY SERVICES

COPY NO. 2
ACKNOWLEDGEMENT

300 Erie Boulevard West – Syracuse, New York 13202

*ATTN: Mr. Dave Czarneski
Pitney Bowes Management Services
25 International Drive
Windsor, CT 06095*



National Grid

National Grid USA Service Company, Inc.

P.O. No. 0000001530

PURCHASE ORDER CHANGE NO. 2

THIS PURCHASE ORDER CHANGE NO. 2 is made and entered into effective this 22nd day of February in the year 2005 by and between **National Grid USA Service Co. Inc.**, a corporation organized under the laws of the Commonwealth of Massachusetts, having its office and principal place of business at 25 Research Drive, Westboro, MA; and **Pitney Bowes Management Services, Inc. (Supplier)**, having a place of business at 25 International Drive, Windsor, CT 06095.

WITNESSETH:

WHEREAS, the parties agree to amend the terms and conditions of the Purchase Order previously entered into by the parties on December 26, 2003, as amended pursuant to Purchase Order Change No. 1 dated October 30, 2004 (collectively, the "Purchase Order").

NOW, THEREFORE, in consideration of the terms and conditions previously agreed to and additional considerations incorporated herein, the parties agree that the Purchase Order shall be amended as follows:

1. Refer to "**ARTICLE 2 – SCOPE OF WORK/SERVICES**" and **ADD** the following:

- 1.1 Replace Section 2.1, paragraph 3 with the following:

Print to Mail Services will begin in New England on January 1, 2004 and Niagara Mohawk Power Corporation's (New York) will begin on February 25, 2005. Pricing for New York Print to Mail Services on Exhibit A-3B will be in effect until New York paper supplies have been depleted. Thereafter, New York and New England prices shall be in accordance with Exhibit A-2. After New York transitions to Supplier's print-to-mail services, Supplier will issue an RFQ for paper supplies to combine New York and New England volumes for leveraged pricing. A change order for revised pricing will be issued at that time.

- 1.2 Disaster Recovery Services noted in Exhibit B, Section II will govern all National Grid disaster recovery print to mail services. Upon the effective date of this Purchase Order Change No. 2, Purchase Order No. 0000000944 for New York Disaster Recovery Services will be cancelled.

2. Refer to "**ARTICLE 3 – NATIONAL GRID'S RESPONSIBILITIES**" and **ADD** the following as 3.4:

- 2.1 New York will provide PBMS with a daily report that breaks down the number of pages per mail piece for invoicing and quality and assurance purposes.

3. Refer to "ARTICLE 5 - DATA" and ADD the following to 5.3:
 - 3.1 New York's letter jobs, (8 1/2 X 11") Collection and Customer Communication Letters, must be printed at 240 dpi.
4. Refer to "ARTICLE 12 - PRICING" and ADD the following:
 - 4.1 New York Pricing (Without Stock) will be in accordance with Exhibit A-3, Section B, as noted in the second paragraph in the Purchase Order. Pricing for the processing of New York letters without stock is outlined in Exhibit A-3.

EXHIBIT A-3

| Section B. NY & New England | | | Estimated | | Annual |
|-----------------------------|---------------|------|------------------------|---------------|----------------|
| | | | Amount Per Day | Days Per Year | Extended Price |
| 1 page | \$ [REDACTED] | Bill | x [REDACTED] | x 251 | @ [REDACTED] |
| 2 page | \$ [REDACTED] | Bill | x [REDACTED] | x 251 | @ [REDACTED] |
| 3 page | \$ [REDACTED] | Bill | x [REDACTED] | x 251 | @ [REDACTED] |
| 4 page | \$ [REDACTED] | Bill | Quantities as required | | |
| 5 page | \$ [REDACTED] | Bill | Quantities as required | | |
| 6 page | \$ [REDACTED] | Bill | Quantities as required | | |
| 7 page | \$ [REDACTED] | Bill | Quantities as required | | |
| | | | TOTAL [REDACTED] | | |

When PBMS begins procuring stock for New York (once New York's existing stock is depleted), processing will be in accordance with a revised Exhibit A-2 (via a Change Order). Paper supplies prices will be revised as a result of Supplier issuing an RFQ for Niagara Mohawk (New York) and New England combined paper supplies volumes. PB will utilize existing Niagara Mohawk paper and envelopes for processing until RFP is issued.

Manual processing price for New York will be [REDACTED]
 The per image cost for print production is [REDACTED]

PRE-SORT:

Pre-Sort service fee will be [REDACTED], and the mail pieces will be metered at [REDACTED]

At the same time that New York transitions to PBMS, New England pricing (due to higher volume with NY business) will be in accordance with the following Exhibit A-2, "New England and New York Processing Costs"

(Pricing in Exhibit A-2 and A-3 is based on the volumes outlined therein. If the volumes materially change (+/- 20% annually), the parties agree to discuss and negotiate in good faith, as deemed necessary, a pricing adjustment.)

| New England and New York Processing Costs with Paper Supplies Reflecting Prices effective May 1, 2004 | | | | |
|--|------|-----------------------------|---------------|--------------------------|
| Bill Statements | | | | |
| Section B NY & NE | | Estimated Amount Per Day | Days Per Year | Annual Extended Price |
| Page 1 | Bill | | 250 | |
| Page 2 | Bill | | 25 | |
| Page 3 | Bill | | 25 | |
| Page 4 | Bill | Quantities as required | | |
| Page 5 | Bill | Quantities as required | | |
| TOTAL | | | | |

- 4.2 The start – up and implementation costs for New York is a one-time charge of [REDACTED]. A separate invoice for this fee should be sent to Melissa Clay, National Grid, 300 Erie Boulevard, West, Syracuse, NY 13202 with PO #1530 noted on it.
- 4.3 Increase the contract amount by an additional [REDACTED] to cover the print to mail services for New York. This amount shall be consistent with the terms and conditions of the original agreement and is neither firm nor guaranteed.
- 4.4 The total amount authorized for work pursuant to this contract is [REDACTED]. Supplier shall not exceed this amount without National Grid's prior approval.
- 4.5 Contract Summary:
 Original PO Amount [REDACTED]
 Change Order No. 1 [REDACTED]
 This Change Order No. 2 [REDACTED]
 TOTAL CONTRACT [REDACTED]

5. Refer to ARTICLE 13 – INVOICES" and ADD the following:

- 5.1 The Supplier shall submit New York invoices to:

Niagara Mohawk, A National Grid Company, Accounts Payable C-1 ATTN:
 Melissa Clay, 300 Erie Boulevard, West, Syracuse, New York 13202

With two duplicate copies, noted as such, to: duplicate Copy #1 to: Niagara Mohawk, A National Grid Company, ATTN: Melissa Clay, 300 Erie Boulevard, West, Syracuse, New York 13202

Duplicate Copy #2 Niagara Mohawk, A National Grid Company, ATTN: Jeffrey Martin, 300 Erie Boulevard, West, Syracuse, New York 13202

6. Refer to **EXHIBIT B – SCOPE OF SERVICES**, and replace with **REVISED EXHIBIT B (Attached)** to reflect the addition of New York Processing.

7. TRANSFER OF NATIONAL GRID EQUIPMENT TO SUPPLIER

- 7.1 **Description of Equipment.** By this Purchase Order Change No. 2 (the "Agreement"), National Grid agrees to sell to Supplier, and Supplier agrees to purchase from National Grid, all its right, title, and interest to the following equipment ("Equipment") located at 300 Erie Blvd W Syracuse NY 13202.

| <u>Equipment</u> | <u>Quantity</u> | <u>Extended Price</u> |
|----------------------------------|-----------------|-----------------------|
| Pitney Bowes 11 Series Inserters | (2) | \$360,000.00 |
| Typac ES101 Semi Auto Strappers | (2) | \$ 400.00 |
| Moore 3400 Detacher/Burster | (1) | \$ 500.00 |
| Moore 7400 Hi Cap Stacker | (1) | \$ 500.00 |
| Rolled Systems Inc Forms Carts | (6) | \$ 2,400.00 |
| | | <u>\$363,800.00</u> |

- 7.2 **Total Price and Taxes for the (2) Pitney Bowes 11 Series Inserters** is \$360,000. The price for all equipment includes all applicable taxes and surcharges. To the extent applicable, Supplier agrees to provide National Grid an appropriate tax exemption document that will relieve National Grid of its obligation to collect sales taxes from Supplier. Pricing for the (2) 11 Series Inserters is per Pitney Bowes Management Services letter, dated 9/8/03, which stated that the payment for the acquisition of the above equipment would be either \$360,000 or Niagara Mohawk's remaining book value, whichever was lowest. Our remaining book value on these pieces of equipment as of 12/31/04 was \$766,995.05 per Attachment #1. Attachment #2 from PB Manager, Michael Neeley, attests to the fact that the equipment is in good working order.

- 7.3 **Payment.** Payment shall be by cash, certified check, cashier's check, bank draft, or postal or express money order payable to Niagara Mohawk Power Corporation. Payment shall be made in, as defined in Section 7.4 hereafter. Payment shall be mailed or delivered to:

Niagara Mohawk Power Corporation
Attn: Melissa Clay, Aux. Ops B-B
300 Eric Blvd. West, Bldg.
Syracuse, New York 13202

- 7.4 **Title, Delivery and Risk of Loss.** National Grid shall transfer title and ownership of the Equipment to Supplier, free and clear of any liens, within ten (10) days after receipt of any and all required approvals (i.e., as defined in Section 7.9 below) authorizing such transfer. Supplier shall make payment to National Grid within thirty (30) days of title transfer. National Grid's sole delivery

obligation shall be to make the Equipment available to Supplier where the equipment is physically located at the time of the transfer. Supplier agrees to remove the Equipment from National Grid's facility on or about 2/18/05 date and ship the Equipment to Supplier's facility in Windsor CT. Title shall remain in Niagara Mohawk pending receipt of any and all required Approvals. Notwithstanding, risk of loss and/or damage to the Equipment shall pass to Supplier upon National Grid making the equipment available to Supplier for shipment to Supplier's facility in accordance with this Section 7.4. Upon taking possession of the Equipment, Supplier agrees to secure and maintain sufficient insurance to protect the Equipment from any and all loss, damage or destruction pending the transfer of title to Supplier. In the event the equipment is lost or destroyed during or after shipment, Supplier shall make Payment to National Grid in accordance with Section 7.2 within sixty (60) days of such loss or destruction.

- 7.5 **Disclaimer of Warranty.** Supplier agrees to accept all Equipment "as is" and "where is". **National Grid SPECIFICALLY DISCLAIMS ANY WARRANTIES AND GUARANTEES, EXPRESS OR IMPLIED, INCLUDING ANY IMPLIED WARRANTIES OF MERCHANTABILITY AND FITNESS FOR A PARTICULAR PURPOSE.** Further, Supplier agrees to take the Equipment with knowledge that it has been used for a period of time by National Grid in its business.
- 7.6 **Indemnity.** Notwithstanding any provisions of the Purchase Order to the contrary, Supplier shall indemnify, defend and save harmless National Grid, its directors, officers, employees, and agents, from any third-party claim, loss, damage, liability, cost, suit, charge, cause of action or expense, including, but not limited to, all attorneys fees, arising out of any damage or injury to National Grid's tangible property and tangible property of third parties (including real property and personal property) or bodily injury to persons (including injuries resulting in death), to the extent directly caused by any negligent act or omission or willful misconduct of Supplier, its contractors, agents, employees, subcontractors, carriers, representatives and suppliers, in connection with the operation or use of the Equipment. The provisions of this Section shall apply notwithstanding any other provisions of this Agreement, and shall survive, termination, cancellation, or completion of this Agreement.
- 7.7 **Limitation of Liability.** National Grid's total cumulative liability to Supplier for all claims of any kind, whether based upon contract, tort (including negligence and strict liability), or otherwise, for any loss, injury, or damage connected with, or resulting from this Agreement or the items provided hereunder, shall in no case exceed the National Grid net book cost of the affected Equipment at the time of delivery, as defined in Section 7.4. In no event, whether as a result of breach of contract, warranty, tort (including negligence and strict liability), or otherwise shall National Grid be liable to Supplier or any ultimate user of the Equipment for the failure of the Equipment to work, and for any damage to the Equipment, whether occurring before or after transfer of title. Nor shall National Grid be liable to Supplier or any ultimate user of the Equipment for any and all special, indirect, incidental, penal, punitive or consequential damages of any nature,

including, without limitation, loss of use, loss or delayed receipt of anticipated profits, lost business opportunities, loss of revenue, losses and other damages by reason of facility shutdown, equipment damage, cost of replacement power or substitute or temporary facilities or services, cost of capital, loss of goodwill, claims of customers and suppliers, or similar damages. Supplier's liability shall be limited as set forth in the Purchase Order. The provisions of this Section shall apply notwithstanding any other provisions of this Agreement, and shall survive, termination, cancellation, or completion of this Agreement.

7.8 **Termination of Transfer.** The equipment transfer contemplated herein may be terminated at any time by National Grid prior to the date of the transfer of title upon ten (10) days written notice and upon the return to the Supplier of any paid sums. National Grid shall be responsible for shipping costs, should National Grid elect to terminate this Agreement and return the equipment to National Grid.

7.9 **Approvals.** It is understood that National Grid may be required to obtain corporate, regulatory, and other third-party approvals and releases in connection with the sale of the Equipment. National Grid shall use its reasonable efforts to obtain any such approvals and releases, but cannot guarantee that such approvals can be obtained at all. In the case of Equipment valued One Hundred Thousand Dollars (\$100,000) or greater, Supplier expressly acknowledges that prior approval by the State of New York Public Service Commission ("Commission") will be required before any title may pass and before any transfer of title for the Equipment may occur. National Grid shall promptly provide Supplier with written notification of approval or denial once either has been obtained. For all Equipment, in the event the Commission denies approval, or in the event National Grid is unable to obtain other required corporate, regulatory and other third-party approvals, then upon National Grid's refund of any sums paid, and Supplier's surrender of any delivered Equipment, neither party shall be liable to the other for any damages, losses or expenses, whether direct, indirect, or consequential.

8. **CHANGE ORDER PROVISIONS:**

- 8.1 The additional compensation stipulated for performance of this change represents total and complete compensation for such performance including direct and indirect costs associated with the impact, if any, on the unchanged work.
- 8.2 All other terms and conditions of the original agreement and all amendments thereto remain unchanged.
- 8.3 Supplier's express acknowledgement of this Purchase Order Change No. 2 shall constitute Supplier's acceptance of all provisions of the Purchase Order Change.

IN WITNESS WHEREOF, the parties, as evidenced below, have caused this instrument to be properly executed by their authorized representatives.

PITNEY BOWES
MANAGEMENT SERVICES, INC.

Brian R. Stevenson
Signature

Brian R. Stevenson
Name

President, Off-Site Services
Title

February 25, 2005
Date

NATIONAL GRID USA
SERVICE CO. INC.

Susan L. Sherwood
Signature *S. L. Sherwood*

Susan L. Sherwood
Name

Senior Purchasing Agent
Title

February 22, 2005
Date

REVISED EXHIBIT B -2/01/05

Scope of Services

**I. Primary Production Responsibilities for National Grid,
New England and New York**

The following Primary Production Work shall be provided by PBMS in the Windsor Service Center located at 25 International Drive, Windsor, Connecticut. PBMS will print Massachusetts Electric, Narragansett Electric, Granite State Electric, Nantucket Electric and Niagara Mohawk production and test billing statements and termination notices in the Windsor Service Center. For all the previously identified companies PBMS will insert and mail all authorized bill inserts with production bill statements and termination notices in accordance with the guidelines tested and approved by National Grid. Additionally, PBMS will process bill statements per National Grid's instructions at a rate of [REDACTED] as noted in Section 12.1. All printing and insertion activities will be conducted from the Windsor Service Center and mailed in accordance with Exhibit C pursuant to the following provisions.

- a. National Grid will provide all data in a mutually-agreed upon AFP format. New England's data will arrive between the hours of 7:00 pm and 11:00pm each night for the next day's statement production and NY's data will arrive between midnight to 3 AM for same day statement production. If National Grid is unable to provide all data in this timeframe National Grid will call Windsor to inform them of the situation and time implications.
- b. Each bill statement package might typically include a remittance envelope, if applicable, authorized bill inserts and no more than three (3) pages per package per # 7 envelope with the image and page averages as set forth in Exhibit C. The total number of images and packages processed will be subject to per image and per envelope charges as set forth in Exhibit A-2. Each New York bill statement package might typically include a remittance envelope, if applicable, authorized bill inserts and no more than seven (7) pages per package per # 7 envelope with the image and with an average of 2.4 pages per bill. The total number of images and packages processed will be subject to per image and per envelope charges as set forth in Exhibit A-3 Section B Without Paper Supplies, until Supplier issues an RFQ for New York and New England Paper Supplies volumes, leveraging higher volumes to negotiate lower prices at that time. A Change Order will be issued at that time to reflect revised pricing.
- c. All applications require multiple page matching and use OMR barcodes.
- d. PBMS will print, insert, meter and mail all billing statement packages within twenty four hours (24) of the receipt of data.
- e. PBMS understands that there may be fluctuations in the number of statements to be processed in a particular day. The volume of finished packages may range from 60,000 to 125,000 packages daily and 60,000 to 125,000 packages daily for New York. This fluctuation may occur due to meter reading cycles. PBMS will process up to 250,000 packages within the 24 hour SLA, noted in Section 7.3. If there are more than 250,000 statements in any one given day PBMS will process the balance within 36 hours of receipt of data with no penalty incurred. (An additional 12 hours)
- f. If data delivery is delayed due to National Grid regulatory requirements or is received late the calculation to measure the SLA will begin once the data is received by PBMS.
- g. PBMS will print, insert and prepare National Grid billing Statements and letters for pick up by the United States Postal Service (USPS) at mutually agreed to times.
- h. Envelopes will be metered as they pass through the inserter and metering will correspond to the postage identified in the PBMS postage report manifest so as to take advantage of the best postal discounts available which will correspond to the National Grid postage reports, i.e., NY's MailStream Plus. Changes to this procedure should they be deemed necessary by either party must be authorized by both parties before implementation.
- i. If pre-sort is required, PBMS will utilize PSI, the PBMS pre-sort provider. (Presort will be necessary for NY's and NE's residual mail and all of NY's letters as they are not in a presort sequence and do not

- have DPB's (Delivery Point Barcodes). PBMS will Manifest all Carrier Route 5 digit and 3 digit qualified mail pieces for both New England and New York statements.
- j. National Grid will deliver all necessary inserts to the Windsor Service Center. Inserts must be received by PBMS Windsor Service Center, ideally, no less than 72 hours prior to that month's scheduled cycle run. In the event that inserts are not received 72 hours prior, PBMS will utilize the escalation policy and call tree to determine when the inserts will be delivered. Inserts may be delivered as late as 24 hours prior to the cycle's run and no penalties will be applied to PBMS in the event National Grid requests that PBMS hold production of the cycle in order to wait for the delivery of the marketing inserts. Inserts must meet processing equipment manufacturer specifications, as per attached Exhibit G.
- k. Reporting will include the following:
- a. File Transfer clock times Beginning/Ending and Number of Files Transferred
 - b. Post Office Drop-off times
 - c. Postage by cycle to include:
 - C.1 Reconciliation to manifest
 - C.2 Electronic file postage costs
 - C.3 Manual Special Handling Costs
 - C.4 Daily postage account balance including Meter Balances
 - d. Damaged Documents
 - e. Spoiled Materials (only until PBMS takes over the procurement of materials)
 - f. Document Counts by company, images, bills, final notices
 - g. Insert Monitoring (by feeder and job)
 - h. Manual document handling
- l. Ability to view on line real time reporting at the job level, via PBMS' DF Works tool. (By July 1, 2005). In the meantime, having DFWorks agreed to information forwarded twice a day, once at approximately 11 AM and again at approximately 3 PM via email.
- m. All telecommunications to PBMS facility are the responsibility of National Grid.
- n. PBMS to provide both verbal & written notification and obtain National Grid verbal & written authorization of operational changes that differ from specifications i.e. insert problem management (quality issues, delivery issues, etc). (National Grid to provide a call out list).
- o. Overtime charges of \$35.00 per hour, per employee will apply for special requests outside of the normal production requirements. This will include holidays or weekends. Overtime must be approved by National Grid in writing.

II. Disaster Recovery Back Up- Business Recovery Center

PBMS will provide print and mail back up for National Grid's primary production work in the event of a declared disaster at the Windsor Service Center operation pursuant to Exhibit E and in accordance with the following provisions. It is PBMS' responsibility to return to the daily processing schedule as quickly as possible.

- a. PBMS Business Recovery Center will provide print to mail disaster recovery back up for the National Grid daily billing statements, notices and letters, per the production volume set forth in Exhibit C.
- b. Upon formal disaster declaration, PBMS will have 24 hours from disaster declaration and receipt of applicable data in AFP format to begin processing and be fully operational for production within 24 hours. National Grid shall not assess a penalty to PBMS for the first 24 hours following a disaster, nor shall PBMS impose an additional fee for the use of their back-up facility.
- c. PBMS will notify National Grid if a disaster has been declared at the Windsor Service Center.
- d. PBMS will create disaster recovery documentation for all applications.
- e. All inserts provided by National Grid must meet equipment manufacturer specifications.
- f. If multiple disasters are declared which require the use of the disaster recovery facility, it is understood that PBMS will pro rate capacity as stated in Exhibit E Section 3.2. PBMS will make all reasonable efforts to meet National Grid's SLA. PBMS may, at our discretion, transfer the data and materials to another PBMS facility for processing to provide redundant back up of National Grid Applications.

- g. National Grid will test and certify applications outlined Exhibit C for Continuity Services. National Grid and PBMS will jointly test a minimum of twice per year for the life of the agreement, including a test of the FTP process. This is to include all of the jobs for both New York and New England.
- h. During disaster production, PBMS has the ability to selectively insert a maximum of five marketing inserts and one BRE.

III. National Grid General Responsibilities

- a. If National Grid modifies the existing billing statements, letters or other applications as outlined in Exhibit C and in so doing renders them incompatible with the PBMS production facility (Windsor Service Center or Business Recovery Service Center), National Grid will immediately notify PBMS in writing of such modifications and, upon receipt of such notification, PBMS will use commercially reasonable efforts at National Grid's cost and expense to bring the PBMS production facility applications into compatibility with the newly-modified Statements. If retrofits or modifications to the existing hardware platform are required to obtain compliance, the expenses will be agreed to in advance and in writing with National Grid.
- b. All telecommunications and networking costs from Syracuse to the PBMS Windsor facility in Connecticut are the responsibility of National Grid.
- c. PBMS expects all data received to be accurate. If data is processed (printed/inserted) and National Grid determines that the data is incorrect and PBMS is required to re-process, the per image and per insert production charges will apply as detailed in Exhibit A. All such charges will be pre-approved by National Grid in writing in advance.
- d. PBMS expects all data received to be "machineable" (i.e., proper size, proper specifications, contains a bar code for multiple pages). In the event National Grid delivers data that is not machineable, PBMS will notify National Grid and the parties will determine how to process such data.
- e. In the event PBMS is delayed or unable to perform its obligations due to National Grid's failure or delay in performance of one or more of the responsibilities set forth in this section or the Amendment, PBMS will be relieved of any associated penalties or liability resulting from such failure or delay.
- f. All marketing insert ordering and delivery costs will be the responsibility of National Grid. Inserts must be received by PBMS Windsor Service Center at least 24 hours prior to cycle run.
- g. All postage will be deposited in advance, into the Pitney Bowes Postage by Phone accounts. All postage funding is the responsibility of National Grid. At no time will PBMS have insufficient postage funds to meet required daily production.

IV. PBMS General Responsibilities

- a. PBMS will provide consolidated reporting and communication to National Grid pursuant to mutually agreed to specifications.
- b. PBMS will adhere to all Quality Control Procedures as established in our production facility and detailed, as follows:
 - 1) Printing must be clear and free from smudges or the ability to smudge. Toner must adhere completely to the forms.
 - 2) The three bar-coded areas must be kept clean and legible to the scanners that pertain to them.
NEW ENGLAND: A) The Treasury Department's scan line below and to the right of the address block. B) The Delivery Point Bar Code area above the address block. C) The OMR scanning area on the upper left hand corner of each bill page.
NEW YORK: A) the Treasury Department's scan line above the address block. B) The Delivery Point Bar Code area below the address block. C) The OMR scanning area on the lower left hand corner of each bill page.
 - 3) Utilize the clear template to line up the customer bills. The Treasury Scan line must fit exactly in the designated box. New York line-up printed, dotted line must sit on or just above perforation, for remittance stub.
 - 4) While inserting please ensure that the first fold of the customer bill is right on the perforation for the tear off stub.

- 5) Periodically check to make sure that the customer address is in the window correctly and can pass the Postal Tap Test. If the address does not correctly appear in the window, National Grid will be notified, if appropriate, and/or the problem will be resolved as soon as possible at no charge.
- 7) Daily Statistics on the number of bills processed per job and overall must be kept.
- 8) Vendor is required to meet all applicable United States Postal Service (USPS) regulations as described in the Domestic Mail Manual (DMM) and/or the Canadian Postal Guide (CPG).

NOTE: IF PRINT QUALITY AFFECTS THE LEGIBILITY OF THE DELIVERY POINT BARCODE AND THE USPS MERLIN EQUIPMENT FINDS MORE THAN 10% OF THE PIECES CONTAINED IN A DAILY CYCLE ARE UNACCEPTABLE, THEN IT WILL BE THE RESPONSIBILITY OF THE PBMS TO COVER THE ADDITIONAL POSTAGE NECESSARY.

- c. PBMS will only be obligated to process the following envelope sizes: #7 and #10 envelopes.
- d. PBMS is capable of handling up to five (5) marketing pieces plus a business reply envelope (6 total). For New York processing, PBMS must be capable of handling up to eight (8) marketing pieces plus a business reply envelope (9 total), with the transferred equipment for the duration of the contract.
- e. PBMS will track postage dollars to the company (Massachusetts Electric, Narragansett Electric, Granite State Electric, Nantucket Electric and Niagara Mohawk) level.
- f. PBMS will track and manage inventory stock levels on a weekly basis (1/1/04-4/30/04) and provide inventory stock levels to National Grid, until procurement of such is PBMS' responsibility (which is scheduled for May 1, 2004). For New York, PBMS will track and manage inventory stock levels on a weekly basis (2/22/05-6/30/05) and provide inventory stock levels to National Grid, until procurement of such is PBMS' responsibility by June 30, 2005.
- g. PBMS will order paper supplies for the National Grid print to mail services and manage the inventory accordingly.
- h. PBMS escalation policy: PBMS and National Grid have agreed to a formal escalation policy and resolution policy. Please see Exhibit H. PBMS will notify National Grid in writing relating to daily production issues. Document to outline issues, remedy and expected time for cure. The issue will be emailed to designated National Grid contact, along with utilizing the call out list until PBMS can get in touch with an authorized National Grid employee. All such instances will be documented by National Grid via email noting National Grid's authorized resolution and the name of the National Grid employee authorizing the action.
- i. PBMS inserting equipment must be able to maximize utilization of space in the outside mailing envelopes by prioritizing the inserts in accordance with National Grid's directives (insert matrix). PBMS will report to National Grid any packages that were posted over one ounce.
- j. Collation ability must be up to seven (7) pages.
- k. If any packages, up to 349, are damaged or mutilated in any one day, Supplier shall notify National Grid so that the package(s) can be re-entered and re-sent to PBMS for reprinting. In the event that 350 packages or more become damaged or mutilated during the daily production cycle, PBMS will automatically re-produce the entire file at no cost to National Grid.
- l. PBMS shall pay \$360,000 or the remaining book value, whichever is lower, for National Grid's two Pitney Bowes 9 Series New York inserters if the New York volume transfers to PBMS for processing. In the event of such transfer, the New York contract shall be in effect for a three year term.
- m. PBMS will be responsible for replacing damaged stock; for example, in cases of flooding, fire or dropping of inventory skids, etc.
- n. PBMS is required to use all existing inventory before utilizing new stock (first in, first out policy), but National Grid reserves the right to have PBMS dispose of stock at their request and reimburse PBMS accordingly.

ATTACHMENT #1

Book Value Letter from James Molloy
Dated January 11, 2005

Niagara Mohawk

A National Grid Company



January 11, 2005

Jim Loughley
Vice President of Operations
Pitney Bowes Management Services
27 Waterview Drive
Shelton, CT 06484

Dear Mr. Dickson,

This letter is to acknowledge that as of December 31, 2004, the recorded net book value of the two inserters is \$766,995.05. Niagara Mohawk Power Corporation applies a "mass" accounting method on all its plant accounts. This method means that depreciation expense and accumulated depreciation is not tracked for each individual asset. We apply regulator approved depreciation rates across broad plant account categories to calculate and recognize monthly depreciation expense. The Public Service Commission of the State of New York approves all depreciation rates and plant account categories. Net book value for any specific asset requires recalculating the accumulated depreciation by multiplying the monthly depreciation rate for the specified asset's plant account to the original cost of the asset and the number of months in service for the asset.

Sincerely,

James M. Molloy
Manager, New York Accounting

ATTACHMENT #2

Letter from Michael Neeley
Dated February 22, 2005



Document Messaging Technologies



Dave Czarneski
Pitney Bowes Management Services
25 International Dr, Windsor CT 06095

2/22/2005

To Whom It May Concern:

This letter is to document that the two (2) Pitney Bowes 11 Series inserters, serial numbers R612 #2289 and R612 #2295, owned and operated by Niagara Mohawk, A National Grid company, are in good working order. They were purchased outright in 2001 and have been maintained by Pitney Bowes DMT since their installation.

Regards,

A handwritten signature in cursive script, reading "Michael K. Neeley".

Michael K. Neeley
Service Manager, Northeast Division
Pitney Bowes Document Messaging Technologies
Phone : 315-451-1601 x223
Cell : 315-491-1183
VoiceMail : 800-322-8000 x37132
Fax : 315-453-1005
E-Mail : michael.neeley@pb.com

EXHIBIT 2

National Grid Proposed Inserter Sale Accounting Entries for Section 70 Petition

1 Sale of Equipment, 50% of loss to Shareholders:

| | | |
|-----------------------------------|---------------|---------------|
| Cash (120.01) | \$ 301,954.00 | |
| Reserve for Depreciation (250.01) | 455,445.13 | |
| Common Misc. Equipment (398.00) | | 757,399.13 |
| Loss on Sale of Equipment | \$ 227,722.56 | |
| Reserve for Depreciation (250.01) | | \$ 227,722.56 |

2 50% of Future Depreciation is Credited to Customers:

| | | |
|--|--------------|--------------|
| Regulatory Debit | \$ 62,214.93 | |
| Reserve for Depreciation (250.01) | | \$ 62,214.93 |
| Monthly Amortization of Regulatory Debit | \$ 901.67 | |
| Regulatory Debit | | \$ 901.67 |

3 50% of Return on Proceeds is Credited to Customers:

| | | |
|--|--------------|--------------|
| Regulatory Debit | \$ 98,184.12 | |
| Reserve for Depreciation (250.01) | | \$ 98,184.12 |
| Monthly Amortization of Regulatory Debit | \$ 1,422.96 | |
| Regulatory Debit | | \$ 1,422.96 |

4 50% of Tax Benefits are Credited to Customers:

| | | |
|--|--------------|--------------|
| Reserve for Depreciation (250.01) | \$ 41,706.88 | |
| Regulatory Debit | | \$ 41,706.88 |
| Regulatory Debit | \$ (600.04) | |
| Monthly Amortization of Regulatory Debit | | \$ (600.04) |

EXHIBIT 3

Inserters General Equipment Assets Net Book Value 30-Nov-05

| W/O # | Description | Asset #'s | Install Acct. Mo | # Month's | Orig. Cost | Accum. Deprec. Rate | Accum. Deprec. @ Nov 05 | NBV |
|-------|---|-----------|---------------------|--------------|------------------------------------|---------------------------|-------------------------------|---------------|
| 84341 | Inserters (2) (closed to 579.40 vs 572.40) | 9073931 | Jun-99 | 78 | \$ 905,190.04 | 0.18571 | \$ 168,106.72 | \$ 737,083.32 |
| | | | Aug-99 | 76 | 6,858.90 | 0.18095 | 1,241.13 | 5,617.77 |
| | | | Sep-99 | 75 | 480.13 | 0.17857 | 85.74 | 394.39 |
| | TOTAL | | | | \$ 912,529.07 | | \$ 169,433.59 | \$ 743,095.48 |
| | | | | | Direct Use Materials \$ 852,830.90 | | | |
| | | | | | Sales Tax 59,698.17 | | | |
| | | | | | <u>\$ 912,529.07</u> | | | |

Source : T Madden

Note 1: Statement of Method: National Grid utilizes a straight-line method, which assigns the "service value" (original cost less estimated net salvage) to expense ratably over the estimated life of the assets.

Note 2: Description of Equipment per Purchase Order Change No 2.

Pitney Bowes 11 Series Inserters (2)
Typac ES101 Semi Auto Strappers (2)
Moore 3400 Detacher/Burster
Moore 7400 Hi Cap Stacker
Rolled Systems Inc. Forms Carts (6)

jsn/ inserters NBV Ex 2/12-7-05

EXHIBIT 4

NIAGARA MOHAWK POWER CORPORATION
SALE OF PITNEY BOWES INSERTER EQUIPMENT

| | <u>2002</u> | <u>2003</u> | <u>2004</u> |
|---|---------------------|------------------|------------------|
| OPERATING REVENUE | \$ 3,886,060,710.00 | \$ 4,026,109,026 | \$ 3,938,542,171 |
| % of Plant Represented by sale (see below) | <u>0.00824%</u> | <u>0.00824%</u> | <u>0.00824%</u> |
| ALLOCATED PORTION OF OPERATING REVENUE | \$ 320,168.27 | \$ 331,706.69 | \$ 324,492.16 |
| EXPENSES | \$ 3,792,501.30 | \$ 4,978,248.10 | \$ 5,596,629.50 |
| TAXES | \$ - | \$ - | \$ - |

| | |
|-----------------------------------|-------------------|
| Plant (Inserter Acquisition Cost) | \$ 912,529 |
| Total Plant | \$ 11,075,874,000 |
| % of Plant | 0.00824% |

Appendix C

State Environmental Quality Review

SHORT ENVIRONMENTAL ASSESSMENT FORM

For UNLISTED ACTIONS Only

PART I - PROJECT INFORMATION (To be completed by Applicant or Project Sponsor)

| | |
|--|--|
| 1. APPLICANT/SPONSOR Melissa Clay - National Grid | 2. PROJECT NAME PSC Petition for Trade-In Approval |
| 3. PROJECT LOCATION: Municipality Windsor, CT County | |
| 4. PRECISE LOCATION (Street address and road intersections, prominent landmarks, etc., or provide map) Pitney Bowes Management Services 25 International Dr. Windsor, CT 06095 | |
| 5. PROPOSED ACTION IS: <input checked="" type="checkbox"/> New <input type="checkbox"/> Expansion <input type="checkbox"/> Modification/alteration | |
| 6. DESCRIBE PROJECT BRIEFLY: Pitney Bowes Management Services processes all of National Grid's bill statements' customer correspondence. In their contract with National Grid, we agreed to sell Pitney our two (2) pieces of inserting equipment for use in this application. | |
| 7. AMOUNT OF LAND AFFECTED: Initially 0 acres Ultimately _____ acres | |
| 8. WILL PROPOSED ACTION COMPLY WITH EXISTING ZONING OR OTHER EXISTING LAND USE RESTRICTIONS? <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No If No, describe briefly N/A | |
| 9. WHAT IS PRESENT LAND USE IN VICINITY OF PROJECT? <input type="checkbox"/> Residential <input type="checkbox"/> Industrial <input type="checkbox"/> Commercial <input type="checkbox"/> Agriculture <input type="checkbox"/> Park/Forest/Open Space <input type="checkbox"/> Other Describe: N/A | |
| 10. DOES ACTION INVOLVE A PERMIT APPROVAL, OR FUNDING, NOW OR ULTIMATELY FROM ANY OTHER GOVERNMENTAL AGENCY (FEDERAL, STATE OR LOCAL)? <input type="checkbox"/> Yes <input type="checkbox"/> No If Yes, list agency(s) name and permit/approvals: N/A | |
| 11. DOES ANY ASPECT OF THE ACTION HAVE A CURRENTLY VALID PERMIT OR APPROVAL? <input type="checkbox"/> Yes <input type="checkbox"/> No If Yes, list agency(s) name and permit/approvals: N/A | |
| 12. AS A RESULT OF PROPOSED ACTION WILL EXISTING PERMIT/APPROVAL REQUIRE MODIFICATION? <input type="checkbox"/> Yes <input type="checkbox"/> No N/A | |
| I CERTIFY THAT THE INFORMATION PROVIDED ABOVE IS TRUE TO THE BEST OF MY KNOWLEDGE Applicant/sponsor name: <u>Melissa A. Clay</u> Date: <u>11/28/05</u> Signature: <u>[Signature]</u> | |

If the action is in the Coastal Area, and you are a state agency, complete the Coastal Assessment Form before proceeding with this assessment

OVER



PART II - IMPACT ASSESSMENT (To be completed by Lead Agency)

| | |
|---|---|
| <p>A. DOES ACTION EXCEED ANY TYPE I THRESHOLD IN 6 NYCRR, PART 617.4? <input type="checkbox"/> Yes <input type="checkbox"/> No</p> <p>B. WILL ACTION RECEIVE COORDINATED REVIEW AS PROVIDED FOR UNLISTED ACTIONS IN 6 NYCRR, PART 617.6? <input type="checkbox"/> Yes <input type="checkbox"/> No</p> <p>C. COULD ACTION RESULT IN ANY ADVERSE EFFECTS ASSOCIATED WITH THE FOLLOWING: (Answers may be handwritten, if legible)</p> <p>C1. Existing air quality, surface or groundwater quality or quantity, noise levels, existing traffic pattern, solid waste production or disposal, potential for erosion, drainage or flooding problems? Explain briefly:</p> <p>C2. Aesthetic, agricultural, archaeological, historic, or other natural or cultural resources; or community or neighborhood character? Explain briefly:</p> <p>C3. Vegetation or fauna, fish, shellfish or wildlife species, significant habitats, or threatened or endangered species? Explain briefly:</p> <p>C4. A community's existing plans or goals as officially adopted, or a change in use or intensity of use of land or other natural resources? Explain briefly:</p> <p>C5. Growth, subsequent development, or related activities likely to be induced by the proposed action? Explain briefly:</p> <p>C6. Long term, short term, cumulative, or other effects not identified in C1-C5? Explain briefly:</p> <p>C7. Other impacts (including changes in use of either quantity or type of energy)? Explain briefly:</p> | <p>If yes, coordinate the review process and use the FULL EAF.</p> <p>If No, a negative declaration may be superseded by another involved agency.</p> |
| <p>D. WILL THE PROJECT HAVE AN IMPACT ON THE ENVIRONMENTAL CHARACTERISTICS THAT CAUSED THE ESTABLISHMENT OF A CRITICAL ENVIRONMENTAL AREA (CEA)? <input type="checkbox"/> Yes <input type="checkbox"/> No If Yes, explain briefly:</p> | |
| <p>E. IS THERE, OR IS THERE LIKELY TO BE, CONTROVERSY RELATED TO POTENTIAL ADVERSE ENVIRONMENTAL IMPACTS? <input type="checkbox"/> Yes <input type="checkbox"/> No If Yes, explain briefly:</p> | |

PART III - DETERMINATION OF SIGNIFICANCE (To be completed by Agency)

INSTRUCTIONS: For each adverse effect identified above, determine whether it is substantial, large, important or otherwise significant. Each effect should be assessed in connection with its (a) setting (i.e. urban or rural); (b) probability of occurring; (c) duration; (d) irreversibility; (e) geographic scope; and (f) magnitude. If necessary, add attachments or reference supporting materials. Ensure that explanations contain sufficient detail to show that all relevant adverse impacts have been identified and adequately addressed. If question D of Part II was checked yes, the determination of significance must evaluate the potential impact of the proposed action on the environmental characteristics of the CEA.

| | |
|---|--|
| <p><input type="checkbox"/> Check this box if you have identified one or more potentially large or significant adverse impacts which MAY occur. Then proceed directly to the FULL EAF and/or prepare a positive declaration.</p> <p><input type="checkbox"/> Check this box if you have determined, based on the information and analysis above and any supporting documentation, that the proposed action WILL NOT result in any significant adverse environmental impacts AND provide, on attachments as necessary, the reasons supporting this determination.</p> | |
| <p>_____ Name of Lead Agency</p> | <p>11/28/05 _____ Date</p> |
| <p>_____ Print or Type Name of Responsible Officer in Lead Agency</p> | <p>_____ Title of Responsible Officer</p> |
| <p>_____ Signature of Responsible Officer in Lead Agency</p> | <p>_____ Signature of Preparer (if different from responsible officer)</p> |

Reset

Preferred Stock with a par value of one hundred dollars (\$100 each), 3,400,000 shares
Preferred Stock with a par value of twenty five dollars (\$25 each), 19,600,000 shares
Preference Stock with a par value of twenty five dollars (\$25 each), 8,000,000 shares
Common Stock with \$1 par value, 250,000,000 shares

[illegible]

**FINANCIAL CONDITION OF
NIAGARA MOHAWK POWER CORPORATION
DECEMBER 31, 2003 (Continued)**

2 & 3. CAPITAL STOCK AUTHORIZED BY THE COMMISSION AND ISSUED BY THE COMPANY:

| Class | Case Number | Order Dated | Authorized Shares | \$ Par Value or Stated Value | Issued Shares | \$ Value Received | \$ Premium |
|---------|-------------|-------------|-------------------|------------------------------|-------------------|-------------------|-------------|
| Common: | | (| 9,580,989 | 10 | 9,580,989 | Note D | |
| | | (9-29-48 | 1,928,627 | No-Class A | 1,928,627 | Note E | |
| | 12733 | (amended | 7,473,172 | No | 7,473,172 | Note E | |
| | | (9-20-49 | 2,121,490 | No | 2,082,864.3 | Note F | |
| | 15593 | 12-18-51 | 1,000,000 | No | 1,000,000 | 22,643,000 | |
| | 16083 | 2-10-53 | 1,000,000 | No | 1,000,000 | 26,939,000 | |
| | 18134 | 1-07-57 | 1,454,680 | No | 1,414,368 | Note G | |
| | 18714 | 3-25-58 | 9,936 | No | 9,936 | Note H | |
| | 21886 | 10-10-61 | 700,000 | No | 700,000 | 31,343,900 | |
| | 23554 | 3-19-65 | 27,360,680 | 8 | 27,360,680 | Note I | |
| | 23754 | 10-19-65 | 41,750 | 8 | 41,750 | Note J | 751,500 |
| | 23957 | 3-29-66 | 1,400,000 | 8 | 1,400,000 | 31,722,600 | 20,522,600 |
| | 24401 | 8-02-67 | 39,372 | 8 | 39,372 | Note K | 536,444 |
| | 24984 | 1-21-69 | 14,628 | 8 | 14,628 | Note L | 285,975 |
| | 25021 | 2-18-69 | 8,250 | 8 | 8,250 | Note M | |
| | 25748 | 8-18-70 | 2,886,468 | 8 | 2,886,468 | 37,235,268 | 14,143,524 |
| | 25977 | 1-26-71 | 2,000,000 | 8 | 2,000,000 | 35,160,000 | 19,160,000 |
| | 26373 | 3-06-73 | 3,000,000 | 8 | 3,000,000 | 43,905,000 | 19,905,000 |
| | 26511 | 11-20-73 | 3,500,000 | 8 | 3,500,000 | 44,100,000 | 16,100,000 |
| | 26628 | 5-24-74 | 3,500,000 | 8 | 3,300,000 | 29,964,000 | 3,564,000 |
| | | (12-10-74 | 3,600,000 | 8 | 3,000,000 | 30,585,000 | 6,585,000 |
| | 26770 | (amended | 500,000 (a) | 1 | 500,000 | 6,258,477 | 5,758,477 |
| | | (6-11-75 | 900,000 (b) | 1 | 900,000 | 11,172,879 | 10,272,879 |
| | |) 8-07-85 | 3,000,000 | | 3,000,000 | 31,950,000 | 28,950,000 |
| | 26864 | (amended | 500,000 (c) | 1 | (275,886 (b) | 3,790,894 | 3,515,008 |
| | |)10-28-75 | | | (224,114 (a) | 3,041,167 | 2,817,053 |
| | 27011 | 8-10-76 | 750,000 (c) | 1 | (491,000 (b) | 7,357,523 | 6,866,523 |
| | | | | | (259,000 (a) | 3,763,377 | 3,504,377 |
| | 27023 | 7-07-76 | 4,000,000 | 1 | 4,000,000 | 51,580,000 | 47,580,000 |
| | 27128 | 3-15-77 | 1,500,000 (c) | 1 | (796,970 (b) | 12,159,874 | 11,362,904 |
| | | | | | (703,030 (a) | 10,815,587 | 10,112,557 |
| | 27226 | 10-13-77 | 65,000 (d) | 1 | 47,595 | 735,363 | 687,768 |
| | 27343 | 5-24-78 | 3,500,000 | 1 | 3,500,000 | 48,265,000 | 44,765,000 |
| | 27368 | 6-19-78 | 1,500,000 (c) | 1 | (784,306 (b) | 11,124,249 | 10,339,943 |
| | | | | | (715,694 (a) | 14,919,718 | 14,204,024 |
| | 27456 | 3-06-79 | 2,250,000 (c) | 1 | (1,258,454 (b) | 12,272,886 | 11,014,432 |
| | | | | |) 991,546 (a) | 11,523,270 | 10,531,724 |
| | 27569 | 8-22-79 | 3,500,000 | 1 | 3,500,000 | 44,730,000 | 41,230,000 |
| | 27649 | 6-11-80 | 4,000,000 | 1 | 4,000,000 | 54,460,000 | 50,460,000 |
| | 27661 | 3-05-80 | 4,500,000 | 1 | (2,335,340 (a) | 27,659,391 | 25,324,051 |
| | | | | | (2,164,660 (b) | 26,154,127 | 23,989,467 |
| | 27802 | 8-29-80 | 200,000 (d) | 1 | 200,000 | 2,462,618 | 2,262,618 |
| | 27924 | 6-18-81 | 5,000,000 | 1 | 5,000,000 | 57,500,000 | 52,500,000 |
| | 27999 | 7-01-81 | 3,000,000 | 1 | 3,000,000 (a) | 39,474,671 | 36,474,671 |
| | 28000 | 7-01-81 | 3,000,000 | 1 | 3,000,000 (b) | 40,899,688 | 37,899,688 |
| | 28150 | 6-23-82 | 5,000,000 | 1 | 5,000,000 | 76,000,000 | 71,000,000 |
| | 28151 | (7-14-82 | 1,000,000 | 1 | 1,000,000 | 17,122,526 | 16,122,526 |
| | | (amended | | | | | |
| | | (1-26-83 | | | | | |
| | 28262 | 8-11-82 | 1,000,000 | 1 | 1,000,000 (d) | 15,686,480 | 14,686,480 |
| | 28294 | 9-22-82 | 5,000,000 | 1 | 5,000,000 (a) | 78,152,135 | 73,152,135 |
| | 28318 | 11-04-82 | 4,000,000 | 1 | 3,616,720 (b) (1) | 55,914,099 | 52,297,379 |
| | 28449 | 5-18-83 | 2,000,000 | 1 | 2,000,000 | 33,240,000 | 31,240,000 |
| | 28460 | 5-18-83 | 2,000,000 | 1 | 2,000,000 | 35,180,000 | 33,180,000 |
| | 28461 | 8-17-83 | 1,000,000 | 1 | 1,000,000 | 14,695,294 | 13,695,294 |
| | 28462 | 11-22-83 | 1,000,000 | 1 | 1,000,000 | 13,685,000 | 12,685,000 |
| | 28652 | 3-28-84 | 2,000,000 | 1 | 2,000,000 | 25,370,000 | 23,370,000 |
| | 28653 | 10-03-84 | 2,000,000 | 1 | 2,000,000 | 32,940,008 | 30,940,008 |
| | 28737 | 5-02-84 | 4,000,000 | 1 | 4,000,000 (a) | 67,127,550 | 63,127,550 |
| | 28786 | 8-15-84 | 1,000,000 | 1 | 1,000,000 | 15,479,768 | 14,479,768 |
| | 28878 | 9-05-84 | 1,500,000 | 1 | 500,000 (d) | 8,320,255 | 8,320,255 |
| | 28787 | 10-03-84 | 1,000,000 | 1 | 1,000,000 | 18,401,846 | 17,401,846 |
| | 28943 | 1-03-85 | 5,000,000 (b) | 1 | 1,612,131 (1) | 29,913,189 | 28,301,058 |
| | 28985 | 2-20-85 | 2,000,000 | 1 | 2,000,000 | 33,350,000 | 31,350,000 |
| | 28986 | 5-29-85 | 1,000,000 | 1 | 1,000,000 | 20,288,071 | 19,288,071 |
| | 29034 | 6-13-85 | 6,000,000 | 1 | 5,920,437 (a) | 91,160,486 | 85,240,049 |
| | 29140 | 9-19-85 | 1,000,000 | 1 | 234,226 (d) (1) | 4,274,624 | 4,040,398 |
| | 29079 | 8-14-85 | 2,000,000 | 1 | 60,354 (1) | 1,433,408 | 1,373,054 |
| | 29558-29562 | 8-19-87 | 5,000,000 | 1 | (3,757,381 (b) | 50,780,176 | 47,022,795 |
| | | | | | (1,200,001 (d) | 16,327,932 | 15,127,931 |
| | 88-M-218 | 1-12-89 | 6,000,000 | 1 | 0 (1) | | |
| | 89-M-253 | 2-27-89 | 6,000,000 | 1 | 0 (1) | | |
| | 91-M-1310 | 3-11-92 | 7,000,000 | 1 | (1,238,566 (b) | 20,802,353 | 19,563,787 |
| | | | | | (2,141,802 (a) | 39,074,848 | 36,933,046 |
| | 91-M-0948 | 4-29-92 | 356,460 | 1 | 445,329 | Note N | |
| | 92-M-1089 | 2-19-93 | 4,494,000 | 1 | 4,494,000 | 99,991,500 | 95,497,500 |
| | 97-M-1962 | 5-21-98 | 46,000,000 | 1 | 20,546,264 | Note O | 281,334,555 |
| | | | | 1 | 22,399,248 | Note P | 282,511,130 |

- (a) Sold through Automatic Dividend Reinvestment Plan (DRIP)
 (b) Sold through Employee Savings Fund Plan (ESFP)
 (c) Sold through DRIP and ESFP
 (d) Sold through Employee Stock Ownership Plan
 (1) PSC Case Expired

FINANCIAL CONDITION OF
NIAGARA MOHAWK POWER CORPORATION
DECEMBER 31, 2003 (Continued).

2 & 3. CAPITAL STOCK AUTHORIZED BY THE COMMISSION AND ISSUED BY THE COMPANY: (Continued)

Notes:

- A. Shares were exchanged for like amount and series of Central New York Power Corporation stock.
- B. Shares were exchanged for like amount and series of Buffalo Niagara Electric Corporation stock.
- C. Shares were exchanged for like amount and series of New York Power and Light Corporation stock.
- D. Shares were issued to Niagara Hudson Power Corporation in exchange for the following no par common stock:
 - 1,586,358 shares of Central New York Power Corporation
 - 1,400,000 shares of New York Power and Light Corporation
 - 3,000,000 shares of Buffalo Niagara Electric Corporation
- E. Shares were issued to Niagara Hudson Power Corporation in exchange for 9,580,989 shares of Niagara Mohawk Power Corporation \$10 stated value common stock.
- F. Shares issued to meet the conversion privilege of its Class A stock.
- G. Shares issued upon conversion of \$45,066,400 principal amount of Convertible Debentures (cash amounting to \$184,403.76 paid in lieu of 5,056.94 fractional shares).
- H. Shares were exchanged for 3,312 shares of Cazenovia Electric Company common stock (subsequently merged into the Company).
- I. Shares were issued in place of 13,680,340 common shares (2 for 1 split).
- J. Shares were issued upon acquisition of 12,500 shares of capital stock of the Paul Smith's Electric Light and Power and Railroad Company (subsequently merged into the Company).
- K. Shares were issued upon acquisition of 2,316 shares of capital stock of the Adams Electric Light Company (subsequently merged into the Company).
- L. Shares were issued upon acquisition of 1,488 shares of capital stock of the Canton Electric Light and Power Company (subsequently merged into the Company).
- M. Shares were issued upon acquisition of 50 shares of capital stock of the Ellicottville Electric Light Company (subsequently merged into the Company).
- N. Shares were issued upon acquisition of 200 shares of capital stock of N.M. Suburban Gas, which in turn acquired Syracuse Suburban Gas Company, including subsequent common stock issuances in accordance with the acquisition agreement.
- O. Under the Master Restructuring Agreement, IPPs received these shares of the Company's common stock in exchange to terminate, restate or amend purchase power agreements.
- P. Under the Master Restructuring Agreement, IPPs received the cash proceeds from the public sale of the Company's common stock in exchange to terminate, restate or amend purchase power agreements.

FINANCIAL CONDITION OF
NIAGARA MOHAWK POWER CORPORATION
DECEMBER 31, 2003 (Continued).

4. TERMS OF PREFERENCE:

Preferred Stock

3.40% SERIES - \$100 par value

This series is designated as Preferred Stock, 3.40% Series, and provides for a dividend rate of 3.40% per annum. Upon voluntary dissolution, the holders are entitled to \$103.50 per share plus an amount equal to dividends accrued and unpaid on each share, whether or not earned or declared. This series is redeemable in whole or in part at the option of the Company at \$103.50 per share plus an amount equal to dividends accrued and unpaid on each share, whether or not earned or declared.

3.60% SERIES - \$100 par value

This series is designated as Preferred Stock, 3.60% Series, and provides for a dividend rate of 3.60% per annum. Upon voluntary dissolution, the holders are entitled to \$104.85 per share plus an amount equal to dividends accrued and unpaid on each share whether or not earned or declared. This series is redeemable in whole or in part at the option of the Company at \$104.85 per share plus an amount equal to dividends accrued and unpaid on each share, whether or not earned or declared.

3.90% SERIES - \$100 par value

This series is designated as Preferred Stock, 3.90% Series, and provides for a dividend rate of 3.90% per annum. Upon voluntary dissolution, the holders are entitled to \$106 per share plus an amount equal to dividends accrued and unpaid on each share, whether or not earned or declared. This series is redeemable in whole or in part at the option of the Company at \$106 per share plus an amount equal to dividends accrued and unpaid on each share, whether or not earned or declared.

4.10% SERIES - \$100 par value

This series is designated as Preferred Stock, 4.10% Series, and provides for a dividend rate of 4.10% per annum. Upon voluntary dissolution, the holders are entitled to an amount equal to \$102 per share plus accrued dividends. This series is redeemable in whole or in part at the option of the Company at \$102 per share plus accrued dividends.

4.85% SERIES - \$100 par value

This series is designated as Preferred Stock, 4.85% Series, and provides for a dividend rate of 4.85% per annum. Upon voluntary dissolution, the holders are entitled to an amount equal to \$102 per share plus accrued dividends. This series is redeemable in whole or in part at the option of the Company at \$102 per share plus accrued dividends.

5.25% SERIES - \$100 par value

This series is designated as Preferred Stock, 5.25% Series, and provides for a dividend rate of 5.25% per annum. Upon voluntary dissolution, the holders are entitled to an amount equal to \$102 per share plus accrued dividends. This series is redeemable in whole or in part at the option of the Company at \$102 per share plus accrued dividends.

6.10% SERIES - \$100 par value

This series is designated as Preferred Stock, 6.10% Series, and provides for a dividend rate of 6.10% per annum. Upon voluntary dissolution, the holders are entitled to an amount equal to \$101 per share plus accrued dividends. This series is redeemable in whole or in part at the option of the Company at \$101 per share plus accrued dividends.

7.45% SERIES - \$100 par value

This series is designated as Preferred Stock, 7.45% Series, and provides a dividend rate of 7.45% per annum. Upon voluntary dissolution, the holders are entitled to the redemption price at the time applicable, plus dividends accrued and unpaid on each share, whether or not earned or declared. This series is redeemable in whole or in part at the option of the Company at the redemption price of \$101.69 per share through June 30, 1998, at \$101.45 per share thereafter and through June 30, 1999, at \$101.21 per share thereafter and through June 30, 2000, at \$100.97 per share thereafter and through June 30, 2001, at \$100.73 per share thereafter and through June 30, 2002, at \$100.49 per share thereafter and through June 30, 2003, at \$100.25 per share thereafter and through June 30, 2004, and at \$100.00 per share thereafter, in each case plus an amount equal to dividends accrued and unpaid on each share, whether or not earned or declared. As a mandatory sinking fund the Company will call for redemption and retire on each June 30, 1977 through June 30, 2008, 18,000 shares, and on June 30, 2009 the balance of the shares outstanding, in each case at a redemption price of \$100 per share, plus an amount equal to the dividends accrued and unpaid, whether or not earned or declared.

7.72% SERIES - \$100 par value

This series is designated as Preferred Stock, 7.72% Series, and provides for a dividend rate of 7.72% per annum. Upon voluntary dissolution, the holders are entitled to an amount equal to \$102.36 per share plus accrued dividends. This series is redeemable in whole or in part at the option of the Company at \$102.36 per share plus accrued dividends.

FINANCIAL CONDITION OF
NIAGARA MOHAWK POWER CORPORATION
DECEMBER 31, 2003 (Continued).

Adjustable Rate Series A - \$25 par value

The series is designated as Preferred Stock, Series A and provides a dividend rate of not less than 6.50% per annum or greater than 13.50% per annum. The annual dividend per share was 10.00% of par value for the initial dividend period ended March 31, 1983 and is computed at 1.60% below the applicable rate in effect for each subsequent period. The applicable rate for any dividend period will be the highest of (1) the Treasury Bill Rate (2) the ten year constant maturity rate and (3) the twenty year constant maturity rate for such dividend period. The amount of dividends per share payable for each dividend period shall be computed by dividing the dividend rate for such dividend period by four and applying such rate against the par value. The dividend rate with respect to each dividend period will be calculated as promptly as practicable by the Company, confirmed in writing by independent accountants and published in a newspaper of general circulation in New York City prior to the new dividend period. Upon voluntary dissolution, the holders are entitled to receive \$25.00 per share plus accrued dividends.

Adjustable Rate Series B - \$25 par value

This series is designated as Preferred Stock, Series B and provides a dividend rate of not less than 7.50% per annum or greater than 16.50% per annum. The dividend rate for the initial dividend period ending December 31, 1984 was 13.375% per annum. For each quarterly period thereafter, dividend will be .625% above the applicable rate. The applicable rate for each dividend period, determined in advance of such period, will be the highest of the per annum three-month U.S. Treasury bill rate, the U.S. Treasury ten year constant maturity rate and the U.S. Treasury twenty year constant maturity rate. The amount of dividends per share payable for each dividend period shall be computed by dividing the dividend rate for such dividend period by four and applying such rate against the par value per share. The dividend rate with respect to each dividend period will be calculated as promptly as practical by the Company, confirmed in writing by independent accountants and published in a newspaper of general circulation in New York City prior to the new dividend period. Upon voluntary dissolution, the holders are entitled to receive \$25.00 per share plus accrued dividends. This series is redeemable in whole or in part at the option of the Company at \$25.00 per share, plus accrued dividends. As a sinking fund, the Company will call for the redemption and retire on September 30, 1993 and each September 30, thereafter to and including September 30, 2023, 50,000 shares and on August 15, 2024, 450,000 shares, in each case at \$25.00 per share plus accrued dividends.

Adjustable Rate Series C - \$25 par value

This series is designated as Preferred Stock, Series C and provides an annual dividend rate of 12.12% for the initial dividend period ending June 30, 1985 and at .40% above the Applicable Rate in effect for each subsequent period. The dividend rate for any dividend period shall in no event be less than 7% per annum or greater than 15.50% per annum. The applicable rate for each dividend period, determined in advance of such period, will be the highest of the arithmetic average of the two most recent weekly per annum Treasury Bill Rate, the Ten Year Constant Maturity Rate and the Twenty Year Constant Maturity Rate. The amount of dividends per share payable for each dividend period shall be computed by dividing the dividend rate for such dividend period by four and applying such rate against the par value. The dividend rate with respect to each dividend period will be calculated as promptly as practicable by the Company, confirmed in writing by independent accountants and published in a newspaper of general circulation in New York City prior to the new dividend period. Upon voluntary dissolution, the holders are entitled to receive \$25.00 per share plus accrued dividends. This series is redeemable in whole or in part at the option of the Company at \$25.00 per share, plus accrued dividends.

Fixed Adjustable Rate Series D - \$25 par value

This series is designated as Preferred Stock, Series D and provides a quarterly dividend at an annual rate of 6.905% for the initial period ending December 31, 2004. After December 31, 2004, dividends on the Series D Preferred Stock are payable quarterly, at an annual rate of 1.625%, plus the highest of the following rates which will be determined in advance of each quarter: the Treasury Bill Rate, the Ten Year Constant Maturity Rate or the Thirty Year Constant Maturity Rate. The annual dividend rate will not be less than 7.655% or greater than 13.655%. The amount of dividends per share payable for each dividend period shall be computed by dividing the dividend period by four and applying such rate against the par value. The amount of dividends paid will be adjusted if the Internal Revenue Code is amended to change the dividends received deduction. This series D Preferred Stock is redeemable all or in part at any time on or after December 31, 2004 at the option of the Company, at \$50 per share plus accrued dividends.

FINANCIAL CONDITION OF
NIAGARA MOHAWK POWER CORPORATION
DECEMBER 31, 2003 (Continued).

ALL SERIES

Accruals of dividends shall not bear interest. Not convertible or exchangeable for other securities of the corporation. Upon involuntary dissolution, the holders are entitled to the par value per share plus an amount equal to dividends accrued and unpaid on each share, whether or not earned or declared.

No voting rights except upon default in payment of dividends in an aggregate amount equivalent to four full quarterly dividends on all shares of preferred stock outstanding. Upon such a default and until all dividends on all shares of preferred stock at time of default shall have been paid or declared or set apart for payment, the holders of the preferred stock, voting separately as a class and regardless of series, shall be entitled to elect a majority of the Board of Directors.

No preemptive rights to subscribe for, purchase or receive any part of the unissued stock of the Company or any stock of the Company to be issued by reason of any increase in the authorized capital stock of the Company.

Until dividends declared or set apart for payment for all series of preferred stock, no dividend to be paid or set apart for payment on the preference and common stock.

Upon dissolution, voluntary or involuntary, holders of preferred stock of each series then outstanding entitled to receive the sums per share fixed for the respective series before any distribution to holders of the preference and common stock. If assets distributable upon dissolution, voluntary or involuntary, are insufficient to permit payment to holders of preferred stock in full, then assets to be distributed ratably among the holders of respective series of preferred stock in proportion to sums which would be payable if assets were sufficient.

Legal rights of the Company to purchase or otherwise acquire shares of preferred stock not limited.

So long as any shares of the preferred stock of any series are outstanding, the Company is not permitted to do certain things without the consent of the holders of preferred stock which are set out in subdivisions (E), (F) and (G) of paragraph (5) of part D of the Article IV of the Certificate of Consolidation and Certification of Amendment both dated and filed January 5, 1950.

In late 1997, the Company's preferred shareholders gave the Company approval to increase the amount of unsecured debt the Company may issue by \$5 billion. Previously, the Company was able to issue \$700 million under the restrictions of its amended Certificate of Incorporation.

Preference Stock

No preference stock is currently outstanding.

ALL SERIES

Accruals of dividends shall not bear interest. Not convertible or exchangeable for other securities of the Company. Upon involuntary dissolution, the holders are entitled to the par value per share plus an amount equal to dividends accrued and unpaid on each share, whether or not earned or declared.

No voting rights except upon default in payment of dividends in an aggregate amount equivalent to six full quarterly dividends on all shares of preference stock outstanding. Upon such a default and until all dividends on all shares of preference stock at time of default shall have been paid or declared or set apart for payment, the holders of the preference stock, voting separately as a class and regardless of series, shall be entitled to elect two members of the Board of Directors.

No preemptive rights to subscribe for, purchase or receive any part of the unissued stock of the Company or any stock of the Company to be issued by reason of any increase in the authorized capital stock of the Company.

Dividend payable on last day of March, June, September and December in each year. Until dividends declared or set apart for payment for all series of preference stock, no dividend to be paid or set apart for payment on the common stock.

Upon dissolution, voluntary or involuntary, holders of preference stock of each series then outstanding entitled to receive the sums per share fixed for the respective series before any distribution to holders of the common stock. If assets distributable upon dissolution, voluntary or involuntary, are insufficient to permit payments to holders of preference stock in full, then assets to be distributed ratably among the holders of respective series of preference stock in proportion to sums which would be payable if assets were sufficient.

Legal rights of Company to purchase or otherwise acquire shares of preference stock not limited.

So long as any shares of the preference stock of any series are outstanding, the Company is not permitted to do certain things without the consent of the holders of the preference stock which are set out in subdivisions (D) and (E) of paragraph (7) of Part D of the Article IV of the Certificate of Consolidation and Certification of Amendment both dated and filed January 5, 1950.

**FINANCIAL CONDITION OF
NIAGARA MOHAWK POWER CORPORATION
DECEMBER 31, 2003 (Continued).**

5. TRANSFERS FROM SURPLUS OR OTHER ACCOUNTS TO NON-PAR STOCK ACCOUNTS:

NONE

6 & 8. BONDS, ETC., AUTHORIZED BY THE COMMISSION AND ISSUED/OUTSTANDING BY THE COMPANY:

(A) First Mortgage Bonds issued by Niagara Mohawk Power Corporation and secured by mortgage referred to under 7(a) below:

| <u>Case Number</u> | <u>Date of Order</u> | <u>Face Value of Bonds Authorized and Issued</u> | <u>Amount Outstanding</u> | <u>Date of Issue</u> | <u>Interest Rate %</u> | <u>Date of Maturity</u> |
|------------------------|--------------------------|--|-------------------------------|--------------------------|----------------------------|-----------------------------|
| 14626 | 01/17/50 | \$ 40,000,000 | (1) | 01/01/50 | 2.75 | 01/01/80 |
| 15062 | 11/09/50 | 40,000,000 | (1) | 10/01/50 | 2.875 | 10/01/80 |
| 15593 | 12/19/51 | 15,000,000 | (1) | 12/01/51 | 3.375 | 12/01/81 |
| 16083 | 02/10/53 | 25,000,000 | (1) | 02/01/53 | 3.50 | 02/01/83 |
| 16459 | 10/16/53 | 40,000,000 | (1) | 10/01/53 | 3.25 | 10/01/83 |
| 16888 | 08/16/54 | 25,000,000 | (1) | 08/01/54 | 3.125 | 08/01/84 |
| 17797 | 04/24/56 | 30,000,000 | (1) | 05/01/56 | 3.625 | 05/01/86 |
| 18507 | 08/27/57 | 50,000,000 | (1) | 09/01/57 | 4.875 | 09/01/87 |
| 18984 | 05/26/58 | 50,000,000 | (1) | 06/01/58 | 3.875 | 06/01/88 |
| 21118 | 03/22/60 | 50,000,000 | (1) | 04/01/60 | 4.75 | 04/01/90 |
| 21886 | 10/10/61 | 40,000,000 | (1) | 11/01/61 | 4.50 | 11/01/91 |
| 23405 | 10/10/64 | 40,000,000 | (1) | 12/01/64 | 4.625 | 12/01/94 |
| 24135 | 10/11/66 | 45,000,000 | (1) | 11/01/66 | 5.875 | 11/01/96 |
| 24455 | 08/02/67 | 40,000,000 | (1) | 08/01/67 | 6.25 | 08/01/97 |
| 24790 | 07/16/68 | 60,000,000 | (1) | 08/01/68 | 6.50 | 08/01/98 |
| 25354 | 11/12/69 | 75,000,000 | (4) | 12/01/69 | 9.125 | 12/01/99 |
| 25977 | 01/26/71 | 65,000,000 | (4) | 02/01/71 | 7.375 | 02/01/01 |
| 26204 | 01/18/72 | 80,000,000 | (4) | 02/01/72 | 7.625 | 02/01/02 |
| 26290 | 08/01/72 | 80,000,000 | (4) | 08/01/72 | 7.75 | 08/01/02 |
| 26511 | 11/20/73 | 80,000,000 | (4) | 12/01/73 | 8.25 | 12/01/03 |
| 26726 | 09/24/74 | 125,000,000 | (1) | 10/01/74 | 12.60 | 10/01/81 |
| 26770 | 12/10/74 | 50,000,000 | (4) | 03/01/75 | 10.20 | 03/01/05 |
| 26864 | 08/07/75 | 50,000,000 | (1) | 09/01/75 | 10.625 | 09/01/85 |
| 27185 | 08/04/77 | 75,000,000 | (4) | 08/01/77 | 8.35 | 08/01/07 |
| 27267 | 12/20/77 | 50,000,000 | (4) | 12/01/77 | 8.625 | 12/01/07 |
| 27442 | 12/14/78 | 50,000,000 | (4) | 12/01/78 | 9.50 | 12/01/03 |
| 27569 | 08/22/79 | 100,000,000 | (4) | 09/01/79 | 9.95 | 09/01/04 |
| 27771 | 09/24/80 | 55,000,000 | (4) | 10/01/80 | 12.95 | 10/01/00 |
| 27772 | 02/11/81 | 50,000,000 | (4) | 03/01/81 | 15.00 | 03/01/91 |
| 27773 | 09/24/80 | 25,000,000 | (4) | 03/03/81 | 12.95 | 10/01/00 |
| 27925 | 08/07/81 | 25,000,000 | (4) | 08/11/81 | 14.875 | 08/11/88 |
| 27925 | 08/07/81 | 25,000,000 | (4) | 09/11/81 | 14.875 | 08/11/88 |
| 27926 | 10/01/81 | 50,000,000 | (4) | 03/12/82 | 15.50 | 03/01/92 |
| 27927 | 03/09/82 | 30,000,000 | (4) | 04/01/82 | 13.50 | 04/01/12 |
| 27928 | 06/09/82 | 75,000,000 | (4) | 06/17/82 | 15.75 | 06/01/92 |
| 27930 | (| | | | | |
| 27929 | 08/11/82 | 75,000,000 | (4) | 08/23/82 | 16.00 | 08/01/12 |
| 27931 |) | | | | | |
| 28255 | 10/26/82 | 100,000,000 | (4) | 11/30/82 | 12.875 | 11/01/12 |
| 28256 | (| | | | | |
| 28353 | 02/09/83 | 100,000,000 | (4) | 03/02/83 | 12.875 | 03/01/13 |
| 28354 |) | | | | | |
| 28456 | 04/06/83 | 50,000,000 | (4) | 05/09/83 | 11.00 | 05/01/93 |
| 28457 | 06/15/83 | 50,000,000 | (4) | 06/24/83 | 12.50 | 06/15/13 |
| 28463 | (| 20,000,000 | (1) | 04/09/84 | 12.00 | 03/01/89 |
| 28464 | 04/06/83 | 13,000,000 | (4) | 04/09/84 | 12.50 | 03/01/94 |
| | (| 17,000,000 | (4) | 04/09/84 | 12.625 | 03/01/99 |
| 28458 |) | | | | | |
| 28468 | 02/27/84 | 100,000,000 | (4) | 05/02/84 | 14.75 | 05/01/91 |
| 28648 |) | | | | | |
| 28788 | (| | | | | |
| 28789 | 06/13/84 | 100,000,000 | (4) | 08/08/84 | 11.25 | 07/01/14 |
| 28790 | (| | | | | |
| 28830 | 09/05/84 | 56,250,000 | (4) | 10/30/84 | 11.375 | 10/01/14 |
| 28831 | 09/05/84 | 13,000,000 | (1) | 10/30/84 | 9.125 | 10/01/89 |
| 28905 | 11/20/84 | 30,000,000 | (1) | 01/31/85 | 13.06 | 02/01/92 |
| | (| 20,000,000 | (1) | 02/28/85 | 13.06 | 02/01/92 |
| 28906 | 12/19/84 | 20,000,000 | (1) | 01/31/85 | 12.73 | 02/01/92 |
| |) | 10,000,000 | (1) | 02/20/85 | 12.73 | 02/20/92 |
| |) | 20,000,000 | (1) | 02/28/85 | 12.68 | 02/28/92 |
| 28646 | (| | | | | |
| 28833 | (| | | | | |
| 28907 | 10/30/85 | 75,000,000 | (4) | 11/20/85 | 8.875 | 11/01/25 |
| 29043 | (| | | | | |
| 29042 |) | | | | | |
| 29044 |) | | | | | |
| 29269 | 03/18/86 | 150,000,000 | (4) | 06/16/86 | 10.00 | 06/01/16 |
| 29270 |) | | | | | |

**FINANCIAL CONDITION OF
NIAGARA MOHAWK POWER CORPORATION
DECEMBER 31, 2003 (Continued).**

6 & 8. BONDS, ETC. AUTHORIZED BY THE COMMISSION AND ISSUED/OUTSTANDING BY THE COMPANY (Continued)

| <u>Case Number</u> | <u>Date of Order</u> | <u>Face Value Of Bonds Authorized and Issued</u> | <u>Amount Outstanding</u> | <u>Date of Issue</u> | <u>Interest Rate %</u> | <u>Date of Maturity</u> |
|--------------------|--|--|---------------------------|----------------------|------------------------|-------------------------|
| 29271 | (| | | | | |
| 29272 | (05/28/86 | 150,000,000 | (1) | 08/05/86 | 8.875 | 08/01/94 |
| 29308 | (| | | | | |
| 29309 | (| | | | | |
| 29310 | (| | | | | |
| 29354 | 07/23/86 | 100,000,000 | (4) | 10/07/86 | 9.125 | 10/01/96 |
| 29350 | 07/23/86 | 100,000,000 | (4) | 11/20/86 | 10.0 | 11/01/16 |
| 29476 | (04/08/87 | 100,000,000 | (4) | 07/15/87 | 9.625 | 07/01/97 |
| 29477 | (| | | | | |
| 29553 |)04/27/88 | 200,000,000 | (4) | 05/12/88 | 9.875 | 05/01/98 |
| 29557 |) | | | | | |
| 88-M-182 | (| | | | | |
| 88-M-183 | (11/16/88 | 100,000,000 | (4) | 02/21/89 | 10.25 | 02/01/99 |
| 88-M-184 | (| | | | | |
| 88-M-254 |)03/13/89 | 100,000,000 | (4) | 04/12/89 | 10.375 | 04/01/99 |
| 88-M-255 |) | | | | | |
| 88-M-072 | (04/07/89 | 100,000,000 | (1) | 10/20/89 | 9.25 | 10/01/01 |
| 88-M-073 | (| | | | | |
| 89-M-074 |) | | | | | |
| 89-M-075 |) | | | | | |
| 89-M-1107 | (05/10/90 | 150,000,000 | (1) | 06/21/90 | 9.50 | 06/01/00 |
| 89-M-1108 | (| | | | | |
| 89-M-1109 | (05/10/90 | 150,000,000 | 137,981,000 | 11/28/90 | 9.75 | 11/01/05 |
| 89-M-1110 | (| | | | | |
| 90-M-688 |) | | | | | |
| 90-M-689 | (12/14/90 | 150,000,000 | (4) | 03/07/91 | 9.50 | 03/01/21 |
| 90-M-690 |) | | | | | |
| 90-M-691 | (12/11/91 | 150,000,000 | (4) | 04/14/92 | 8.75 | 04/01/22 |
| 90-M-692 | (| | | | | |
| 90-M-693 | (| | | | | |
| 91-M-0614 | 09/26/91 | 45,600,000 | (6) | 10/29/91 | 6.625 | 10/01/13 |
| 02-M-0391 | 06/10/02 | 45,600,000 | 45,600,000 | 12/17/03 | Various | 10/01/13 |
| 91-M-0640 | 08/20/92 | 115,705,000 | 115,705,000 | 07/07/94 | 7.20 | 07/01/29 |
| 92-M-0152 | 05/14/92 | 300,000,000 | 232,425,000 | 06/10/92 | 8.00 | 06/01/04 |
| 92-M-0152 | | 165,000,000 | (4) | 07/23/92 | 8.50 | 07/01/23 |
| 92-M-0152 | | 220,000,000 | (1) | 08/26/92 | 7.375 | 08/01/03 |
| 93-M-0110 |)03/31/93 | 85,000,000 | (1) | 04/07/93 | 6.875 | 04/01/03 |
| 93-M-0110 |) | 210,000,000 | (4) | 04/07/93 | 7.875 | 04/01/24 |
| 93-M-0110 |)03/31/93 | 110,000,000 | 110,000,000 | 07/07/93 | 6.625 | 07/01/05 |
| 93-M-0246 | (08/05/93 | 230,000,000 | (1) | 09/15/93 | 5.875 | 09/01/02 |
| 93-M-0246 | (| 210,000,000 | (1) | 03/04/94 | 6.875 | 03/01/01 |
| 93-M-0981 | 05/16/94 | 275,000,000 | 275,000,000 | 05/23/95 | 7.75 | 05/15/06 |
| 98-M-1236 | 09/17/98 | 75,000,000 | 75,000,000 | 09/17/98 | 5.15 | 11/01/25 |
| (B) | First Mortgage Bonds issued by Central New York Power Corporation: | | | | | |
| 11642 | 11/15/44 | 48,000,000 | (1) | 10/01/44 | 3.0 | 10/01/74 |
| (C) | First Mortgage Bonds issued by Buffalo Niagara Electric Corporation: | | | | | |
| 11748 | 12/11/45 | 56,929,000 | (1) | 11/01/45 | 2.75 | 11/01/75 |
| (D) | First Mortgage Bonds issued by New York Power and Light Corporation: | | | | | |
| 11618 | 04/10/45 | 50,000,000 | (1) | 03/01/45 | 2.75 | 03/01/75 |
| (E) | First Mortgage Bonds issued by Paul Smith's Electric Light and Power and Railroad Company: | | | | | |
| 14515 | 03/20/50 | 1,100,000 | (1) | 04/01/50 | 3.375 | 04/01/75 |
| | (09/15/53 | | | | | |
| 16400 | 03/22/54 | 450,000 | (1) | 07/01/54 | 4.50 | 07/01/79 |
| 21302 | 09/13/60 | 450,000 | (1) | 05/01/60 | 5.50 | 05/01/85 |
| (F) | Unsecured Convertible Debentures issued by Niagara Mohawk Power Corporation: | | | | | |
| 18134 | 01/07/57 | 46,224,200 | (2) | 02/01/57 | 4.625 | 02/01/72 |
| (G) | Promissory notes issued by Niagara Mohawk Power Corporation: | | | | | |
| 26630 | 06/11/74 | 46,600,000 | (4) | 06/01/74 | 8.0 | 06/01/04 |
| 28020 | 08/19/81 | 50,000,000 | (4) | 09/23/81 | 18.0 | 09/15/89 |
| 28020 | 08/19/81 | 17,000,000 | (4) | 09/23/81 | 10.0 | 09/15/89 |
| 28981 |) | | | | | |
| 28982 |)06/26/85 | 100,000,000 | 100,000,000 | 09/05/85 | Various | 07/01/15 |
| 28983 |) | | | | | |
| 28646 | (| | | | | |
| 28833 | (10/30/85 | 75,000,000 | 75,000,000 | 12/23/85 | Various | 12/01/25 |

**FINANCIAL CONDITION OF
NIAGARA MOHAWK POWER CORPORATION
DECEMBER 31, 2003 (Continued).**

6 & 8. BONDS, ETC. AUTHORIZED BY THE COMMISSION AND ISSUED/OUTSTANDING BY THE COMPANY (Continued)

| <u>Case Number</u> | <u>Date of Order</u> | <u>Face Value of Bonds Authorized and Issued</u> | <u>Amount Outstanding</u> | <u>Date of Issue</u> | <u>Interest Rate %</u> | <u>Date of Maturity</u> |
|--|--------------------------|--|-------------------------------|--------------------------|----------------------------|-----------------------------|
| 28907 | (| | | | | |
| 29043 | (| | | | | |
| 29357 |)09/10/86 | 50,000,000 | 50,000,000 | 12/18/86 | Various | 12/01/26 |
| 29352 |) | | | | | |
| 29353 | (12/17/86 | 100,000,000 | (1) | Various | Various | Various |
| 29415 | (| | | | | |
| 29474 |) | | | | | |
| 29475 |)04/08/87 | 100,000,000 | (1) | Various | Various | Various |
| 29478 |) | | | | | |
| 88M-256 | (| | | | | |
| 88M-257 | (05/03/89 | 100,000,000 | (4) | Various | Various | Various |
| (H) New York State Energy Research And Development Authority (NYSEDA) Unsecured Promissory Note: | | | | | | |
| 28015 | 10/14/81 | 9,600,000 | (1) | Various | Various | 07/14/82 |
| (I) NYSEDA Tax Exempt Revenue Notes: | | | | | | |
| 28465 |) | | | | | |
| 28466 |)06/29/83 | 56,000,000 | (1) | Various | Various | Various |
| 28467 |) | | | | | |
| 29416 | (12/17/86 | 25,760,000 | 25,760,000 | 03/26/87 | Various | 03/01/27 |
| 29417 | (| | | | | |
| 29512 |) | | | | | |
| 29513 |)04/08/87 | 93,200,000 | 93,200,000 | 07/16/87 | Various | 07/01/27 |
| 88-M-078 | (| | | | | |
| 88-M-079 | (09/28/88 | 69,800,000 | 69,800,000 | 12/28/88 | Various | 12/01/23 |
| (J) Revolving Credit and Term Loan Agreement: (commercial paper notes) | | | | | | |
| 27753 | 07/09/80 | 50,000,000 | (1) | Various | Various | Various |
| (K) Revolving Credit Agreement - Oswego Facilities Trust: | | | | | | |
| 27493 | 09/21/83 | 100,000,000 | (4) | Various | Various | Various |
| (L) Liability for Nuclear Fuel Disposal Costs: | | | | | | |
| 28525 | 03/20/84 | 139,061,770 | (5) | 03/20/84 | Various | 2010 |
| (M) Unsecured Promissory Notes: | | | | | | |
| 28465 | 05/30/84 | 20,000,000 | (1) | 07/31/84 | 15.02% | 07/31/90 |
| 28465 | 05/30/84 | 30,000,000 | (1) | 08/27/84 | 15.02% | 08/27/90 |
| (N) Swiss Franc Bonds issued by Niagara Mohawk Power Corporation: | | | | | | |
| 28980 | 08/14/85 | 50,000,000 | (1) | 11/14/85 | 5.50% | 12/15/95 |
| (O) Obligation Under Capital Leases - Noncurrent: | | | | | | |
| - | - | - | 5,694,618 | Various | Various | Various |
| (P) Revolving Credit and Loan Agreement: | | | | | | |
| 28875 | 09/19/84 | 25,000,000 | (1) | 12/31/86 | Various | Various |
| 93-M-0981 | 05/16/96 | 200,000,000 | (1) | Various | Various | Various |
| (Q) NUG Contract Termination Liability | | | | | | |
| - | - | - | 172,585 | Various | Various | Various |
| (R) Senior Debt Facility: | | | | | | |
| 12733 | 12/13/95 | 100,000,000 | (4) | Various | Various | 05/31/05 |

FINANCIAL CONDITION OF
NIAGARA MOHAWK POWER CORPORATION
DECEMBER 31, 2003 (Continued).

6&8. BONDS, ETC. AUTHORIZED BY THE COMMISSION AND ISSUED/OUTSTANDING BY THE COMPANY (Cont'd)

| | <u>Case Number</u> | <u>Date of Order</u> | <u>Face Value Of Bonds Authorized and Issued</u> | <u>Amount Outstanding</u> | <u>Date of Issue</u> | <u>Interest Rate %</u> | <u>Date of Maturity</u> |
|-----|--|--------------------------|--|-------------------------------|--------------------------|----------------------------|-----------------------------|
| (S) | Senior Notes & Discount Notes: | | | | | | |
| | 97-M-1962 | 05/20/98 | 300,000,000 | (1) | 6/30/98 | 6.50% | 07/01/1999 |
| | 97-M-1962 | 05/20/98 | 450,000,000 | (4) | 06/30/98 | 7.00% | 10/01/2000 |
| | 97-M-1962 | 05/20/98 | 400,000,000 | (4) | 06/30/98 | 7.125% | 07/01/2001 |
| | 97-M-1962 | 05/20/98 | 400,000,000 | (4) | 06/30/98 | 7.25% | 10/01/2002 |
| | 97-M-1962 | 05/20/98 | 400,000,000 | (4),(1) | 06/30/98 | 7.375% | 07/01/2003 |
| | 97-M-1962 | 05/20/98 | 400,000,000 | 302,439,000 (4) | 06/30/98 | 7.625% | 10/01/2005 |
| | 97-M-1962 | 05/20/98 | 600,000,000 | 600,000,000 | 06/30/98 | 7.75% | 10/01/2008 |
| | 97-M-1962 | 05/20/98 | 500,000,000 | (4) | 06/30/98 | 8.50% | 07/01/2010 |
| | 99-M-0089 | 05/01/00 | 200,000,000 | 200,000,000 | 05/12/00 | 8.875% | 05/01/2007 |
| | 01-M-0876 | 08/29/01 | 300,000,000 | 300,000,000 | 09/25/01 | 5.375% | 10/01/2004 |
| (T) | Transmission Asset Purchase Agreements | | | | | | |
| | 01-E-001 | 10/26/01 | - | (4) | 11/07/01 | 9.50% | 11/07/2006 |
| (U) | National Grid Money Pool | | | | | | |
| | 01-M-0075 | 12/03/01 | 840,000,000 | 681,500,000 | 01/16/02 | Various | Various |
| (V) | Niagara Mohawk Holdings, Inc. | | | | | | |
| | 02-M-0341 | 06/10/02 | 500,000,000 | 500,000,000 | 11/08/02 | 5.80% | 11/08/12 |
| | 02-M-0341 | 06/10/02 | 350,000,000 | 350,000,000 | 06/27/03 | 3.83% | 06/30/10 |
| | 02-M-0341 | 06/10/02 | 350,000,000 | 350,000,000 | 07/11/03 | 3.72% | 07/31/09 |
| | 02-M-0341 | 11/03/03 | 20,100,000 | 20,100,000 | Various | Various | Various |

(1) Repaid on date of maturity

(2) Converted into 1,414,368 shares of common stock at \$31.75 per share (cash paid in lieu of 5,056.94 fractional shares) \$45,066,400
Redeemed for cash on 10/01/59 - 616,100 shares
Redeemed for cash on 09/19/60 - 541,700 shares
Conversion privilege - 02/01/57 - 09/19/60

(3) Partially redeemed through sinking fund requirements and/or other options under the mortgage agreements Partial or full repayment prior to maturity

(4) Partial or full repayment prior to maturity.

(5) Reclassed to Deferred Credits

(6) Amended, restated and refinanced

**FINANCIAL CONDITION OF
NIAGARA MOHAWK POWER CORPORATION
DECEMBER 31, 2003 (Continued).**

DESCRIPTION OF MORTGAGES:

- (A) The original Mortgage Trust Indenture of Central New York Power Corporation (name changed to Niagara Mohawk Power Corporation) dated October 1, 1937, and supplemental indentures dated as of the following dates: December 1, 1938, April 15, 1939, July 1, 1940, January 1, 1942, October 1, 1944, June 1, 1945, August 17, 1948, December 31, 1949, January 1, 1950, October 1, 1950, October 19, 1950, December 1, 1951, February 1, 1953, February 20, 1953, October 1, 1953, August 1, 1954, April 25, 1956, May 1, 1956, September 1, 1957, June 1, 1958, March 15, 1960, April 1, 1960, November 1, 1961, December 1, 1964, October 1, 1966, July 15, 1967, August 1, 1967, August 1, 1968, December 1, 1969, February 1, 1971, February 1, 1972, August 1, 1972, December 1, 1973, October 1, 1974, March 1, 1975, August 1, 1975, March 15, 1977, August 1, 1977, December 1, 1977, March 1, 1978, December 1, 1978, September 1, 1979, October 1, 1979, June 15, 1980, September 1, 1980, March 1, 1981, August 1, 1981, March 1, 1982, April 1, 1982, June 1, 1982, August 1, 1982, November 1, 1982, March 1, 1983, May 1, 1983, June 15, 1983, March 1, 1984, May 1, 1984, July 1, 1984, October 1, 1984, January 31, 1985, February 1, 1985, February 15, 1985, November 1, 1985, June 1, 1986, August 1, 1986, October 1, 1986, November 1, 1986, July 1, 1987, May 1, 1988, February 1, 1989, April 1, 1989, October 1, 1989, June 1, 1990, November 1, 1990, March 1, 1991 and October 1, 1991, April 1, 1992, June 1, 1992, July 1, 1992, August 1, 1992, April 1, 1993, July 1, 1993, September 1, 1993, March 1, 1994, July 1, 1994, May 1, 1995, March 20, 1996 and November 1, 1998 were given by Niagara Mohawk Power Corporation (Central New York Power Corporation prior to January 5, 1950) to the Marine Midland Trust Company of New York (Now HSBC Bank USA) as Trustee. The amount of the indebtedness authorized to be secured thereby is unlimited. The amount of indebtedness actually incurred by Niagara Mohawk Power Corporation was \$6,415,555,000 (for Niagara Mohawk Power Corporation and its prior companies, the amount of indebtedness actually incurred was \$6,570,484,000) and the amount presently outstanding is \$991,711,000. This mortgage covers all major properties of Niagara Mohawk Power Corporation.

FINANCIAL CONDITION OF
NIAGARA MOHAWK POWER CORPORATION
DECEMBER 31, 2003 (Continued).

9. AFFILIATED INTEREST:
None

10. OTHER INDEBTEDNESS:

Other current and accrued liabilities \$721,433,009

11. INTEREST ACCRUED FROM DECEMBER 31, 2002 TO DECEMBER 31, 2003:

| | | | |
|---|---|---------|----------------------|
| Interest on Mortgage Bonds | @ | 5.15% | \$ 3,862,500 |
| Interest on Mortgage Bonds | @ | 6-5/8% | 7,287,500 |
| Interest on Mortgage Bonds | @ | Various | 151,215 |
| Interest on Mortgage Bonds | @ | 6-7/8% | 1,460,938 |
| Interest on Mortgage Bonds | @ | 6-5/8% | 2,769,250 |
| Interest on Mortgage Bonds | @ | 7-7/8% | 4,469,246 |
| Interest on Mortgage Bonds | @ | 9-3/4% | 13,453,148 |
| Interest on Mortgage Bonds | @ | 8.00% | 18,594,000 |
| Interest on Mortgage Bonds | @ | 7-3/8% | 9,464,583 |
| Interest on Mortgage Bonds | @ | 7.20% | 8,330,760 |
| Interest on Mortgage Bonds | @ | 7-3/4% | 21,312,500 |
| Interest on NYSERDA Notes | @ | Various | 4,247,343 |
| Interest on Promissory Notes | @ | 9-1/2% | 340,256 |
| Interest on Unregulated Generator Buyouts | @ | Various | 803,796 |
| Interest on Senior Notes | @ | 5-3/8% | 16,125,000 |
| Interest on Senior Notes | @ | 7-3/8% | 11,152,438 |
| Interest on Senior Notes | @ | 7-5/8% | 23,060,974 |
| Interest on Senior Notes | @ | 7-3/4% | 46,500,000 |
| Interest on Senior Notes | @ | 8-7/8% | 17,750,000 |
| Interest on Senior Discount Notes | @ | 8-1/2% | <u>20,518,684</u> |
| Total Interest on long-term debt | | | <u>\$231,654,131</u> |

FINANCIAL CONDITION OF
NIAGARA MOHAWK POWER CORPORATION
DECEMBER 31, 2003 (Continued).

11. INTEREST ACCRUED FROM DECEMBER 31, 2002 TO DECEMBER 31, 2003:

| | | | |
|--|---|-------|---------------------|
| Associated Companies-National Grid USA Service Company | | | \$5,303,320 |
| Associated Companies-Niagara Mohawk Holdings, Inc. | | | 29,625 |
| National Grid USA (1) | @ | 5.8% | 24,166,667 |
| National Grid USA (1) | @ | 3.83% | 4,617,278 |
| National Grid USA (1) | @ | 3.72% | 3,978,333 |
| Niagara Mohawk Holdings, Inc. (1) | @ | 5.8% | 5,161,496 |
| Niagara Mohawk Holdings, Inc. (1) | @ | 3.83% | 2,234,167 |
| Niagara Mohawk Holdings, Inc. (1) | @ | 3.72% | 2,170,000 |
| Total Interest on Debt to Associated Companies | | | <u>\$47,660,886</u> |

(1) On 10/27/03 refinanced National Grid USA notes into debt payable to Niagara Mohawk Holdings, Inc.

12. INTEREST ACCRUED FROM DECEMBER 31, 2002 TO DECEMBER 31, 2003:

| | | |
|--|--|---------------------|
| Accounts Receivable Program Sales Fees | | \$4,385,266 |
| Interest on Nuclear Fuel Disposal Costs | | 1,485,429 |
| Interest on NYPA ISO MOU | | 1,615,200 |
| Interest on Customer Deposits | | 1,065,644 |
| Miscellaneous Items | | 11,516,878 |
| Interest on GRT Customer Refund | | 1,868,600 |
| Interest on MRA Interest Rate Savings Passback | | 4,390,707 |
| Interest on Gas Contingency Reserve Adjustment | | <u>6,070,816</u> |
| Total Other Interest Expense | | <u>\$32,398,540</u> |

FINANCIAL CONDITION OF
NIAGARA MOHAWK POWER CORPORATION
DECEMBER 31, 2003 (Continued).

DIVIDENDS DECLARED AND PAID FROM JANUARY 1, 1998 TO DECEMBER 31, 1998

| | | |
|-------------------------------------|------------|---------------------|
| Preferred Stock | | |
| 3.40% Series (\$3.40 per share) | \$ 680,000 | |
| 3.60% Series (\$3.60 per share) | 1,260,000 | |
| 3.90% Series (\$3.90 per share) | 936,004 | |
| 4.10% Series (\$4.10 per share) | 861,001 | |
| 4.85% Series (\$4.85 per share) | 1,212,502 | |
| 5.25% Series (\$5.25 per share) | 1,050,002 | |
| 6.10% Series (\$6.10 per share) | 1,525,001 | |
| 7.45% Series (\$7.45 per share) | 1,586,850 | |
| 7.72% Series (\$7.72 per share) | 3,088,000 | |
| 7.85% Series (\$7.85 per share) | 1,345,301 | |
| 8.375 Series (\$8.375 per share) | 52,344 | |
| 9.50% Series (\$9.50 per share) | 14,250,008 | |
| Adjustable Rate Series A | 1,950,000 | |
| Adjustable Rate Series B | 3,257,812 | |
| Adjustable Rate Series C | 3,500,000 | |
| | | \$36,554,825 |
| Common Stock (no dividend declared) | | -- |
| | | <u>\$36,554,825</u> |

DIVIDENDS DECLARED AND PAID FROM JANUARY 1, 1999 TO DECEMBER 31, 1999

| | | |
|-------------------------------------|------------|---------------------|
| Preferred Stock | | |
| 3.40% Series (\$3.40 per share) | \$ 680,000 | |
| 3.60% Series (\$3.60 per share) | 1,260,000 | |
| 3.90% Series (\$3.90 per share) | 936,003 | |
| 4.10% Series (\$4.10 per share) | 861,001 | |
| 4.85% Series (\$4.85 per share) | 1,212,502 | |
| 5.25% Series (\$5.25 per share) | 1,050,001 | |
| 6.10% Series (\$6.10 per share) | 1,525,001 | |
| 7.45% Series (\$7.45 per share) | 1,452,750 | |
| 7.72% Series (\$7.72 per share) | 3,088,000 | |
| 7.85% Series (\$7.85 per share) | 986,554 | |
| 9.50% Series (\$9.50 per share) | 14,250,007 | |
| Adjustable Rate Series A | 1,950,000 | |
| Adjustable Rate Series B | 3,164,063 | |
| Adjustable Rate Series C | 3,500,000 | |
| Adjustable Rate Series D | 891,896 | |
| | | \$36,807,778 |
| Common Stock (no dividend declared) | | -- |
| | | <u>\$36,807,778</u> |

DIVIDENDS DECLARED AND PAID FROM JANUARY 1, 2000 TO DECEMBER 31, 2000

| | | |
|--|-------------------|---------------------|
| Preferred Stock | | |
| 3.40% Series (\$3.40 per share) | \$ 680,000 | |
| 3.60% Series (\$3.60 per share) | 1,260,000 | |
| 3.90% Series (\$3.90 per share) | 936,003 | |
| 4.10% Series (\$4.10 per share) | 861,000 | |
| 4.85% Series (\$4.85 per share) | 1,212,502 | |
| 5.25% Series (\$5.25 per share) | 1,050,001 | |
| 6.10% Series (\$6.10 per share) | 1,525,001 | |
| 7.45% Series (\$7.45 per share) | 1,318,650 | |
| 7.72% Series (\$7.72 per share) | 3,088,000 | |
| 7.85% Series (\$7.85 per share) | 627,807 | |
| Adjustable Rate Series A | 1,950,000 | |
| Adjustable Rate Series B | 3,070,313 | |
| Adjustable Rate Series C | 3,500,000 | |
| Adjustable Rate Series D | <u>10,357,500</u> | |
| | | \$31,436,777 |
| Common Stock (dividends paid to Niagara Mohawk Holdings, Inc.) | | 46,132,160 |
| | | <u>\$77,568,937</u> |

**FINANCIAL CONDITION OF
NIAGARA MOHAWK POWER CORPORATION
DECEMBER 31, 2003 (Continued).**

DIVIDENDS DECLARED AND PAID FROM JANUARY 1, 2001 TO DECEMBER 31, 2001

| | |
|---------------------------------|-------------------|
| Preferred Stock | |
| 3.40% Series (\$3.40 per share) | \$ 680,000 |
| 3.60% Series (\$3.60 per share) | 1,260,000 |
| 3.90% Series (\$3.90 per share) | 936,003 |
| 4.10% Series (\$4.10 per share) | 861,000 |
| 4.85% Series (\$4.85 per share) | 1,212,501 |
| 5.25% Series (\$5.25 per share) | 1,050,001 |
| 6.10% Series (\$6.10 per share) | 1,525,000 |
| 7.45% Series (\$7.45 per share) | 1,184,550 |
| 7.72% Series (\$7.72 per share) | 3,088,000 |
| 7.85% Series (\$7.85 per share) | 269,060 |
| Adjustable Rate Series A | 1,950,000 |
| Adjustable Rate Series B | 2,976,563 |
| Adjustable Rate Series C | 3,500,000 |
| Adjustable Rate Series D | <u>10,357,500</u> |

\$30,850,178

Common Stock (dividends paid to Niagara Mohawk Holdings, Inc.)

37,160,000
\$68,010,178

DIVIDENDS DECLARED AND PAID FROM JANUARY 1, 2002 TO DECEMBER 31, 2002

| | |
|---------------------------------|------------------|
| Preferred Stock: | |
| 3.40% Series (\$3.40 per share) | \$ 330,994 |
| 3.60% Series (\$3.60 per share) | 694,890 |
| 3.90% Series (\$3.90 per share) | 529,661 |
| 4.10% Series (\$4.10 per share) | 393,638 |
| 4.85% Series (\$4.85 per share) | 445,274 |
| 5.25% Series (\$5.25 per share) | 405,756 |
| 6.10% Series (\$6.10 per share) | 381,250 |
| 7.45% Series (\$7.45 per share) | 279,375 |
| 7.72% Series (\$7.72 per share) | 772,000 |
| Adjustable Rate Series A | 487,500 |
| Adjustable Rate Series B | 726,563 |
| Adjustable Rate Series C | 875,000 |
| Adjustable Rate Series D | <u>5,471,608</u> |

\$11,793,509

Common Stock (dividends paid to Niagara Mohawk Holdings, Inc.)

63,913,966
\$75,707,475

DIVIDENDS DECLARED AND PAID FROM JANUARY 1, 2003 TO DECEMBER 31, 2003

| | |
|---------------------------------|------------------|
| Preferred Stock: | |
| 3.40% Series (\$3.40 per share) | \$ 201,175 |
| 3.60% Series (\$3.60 per share) | 496,184 |
| 3.90% Series (\$3.90 per share) | 380,591 |
| 4.10% Series (\$4.10 per share) | 220,678 |
| 4.85% Series (\$4.85 per share) | 175,373 |
| 5.25% Series (\$5.25 per share) | 184,921 |
| Adjustable Rate Series D | <u>3,316,472</u> |

\$ 4,974,394

Common Stock (dividends paid to Niagara Mohawk Holdings, Inc.)

0
\$ 4,974,394

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Commodity Reconciliations: As part of the Company's ongoing reconciliation of commodity costs and revenues, the Company has identified several adjustments and included them in filings with the PSC. Specifically, the Company has requested recovery of \$36 million of commodity costs associated with the under-reconciliation of New York Power Authority (NYPA) hydropower revenues in its commodity adjustment clause, and is proposing to refund \$24 million associated with other revenues that were not included in the commodity adjustment reconciliation. This filing is pending before the PSC, and the Company cannot predict the outcome of this filing.

Long-Term Contracts for the Purchase of Electric Power: The Company has several types of long-term contracts for the purchase of electric power. The Company's commitments under these long-term contracts, as of March 31, 2004 are summarized in the table below. The Company did not enter into any new agreements in fiscal 2004 or 2003. For a detailed discussion of the financial swap agreements that the Company has entered into to hedge the costs of purchased electricity (which are not included in the table below), see Note L. Derivatives and Hedging Activities.

(In thousands of dollars)

| Fiscal Year Ended March 31, | Estimated Payments |
|-----------------------------------|-----------------------|
| 2005 | \$ 498,366 |
| 2006 | 410,613 |
| 2007 | 408,266 |
| 2008 | 381,254 |
| 2009 | 385,523 |
| Thereafter | 2,666,623 |

In addition to the contractual commitments described above, the Company entered into a four-year contract, which expired in June 2003, that gave it the option to buy additional power at market prices from the Huntley coal-fired generation plant. If the Company needs any additional energy to meet its load it can purchase the electricity from other IPPs, other utilities, other energy merchants or through the NYISO at market prices.

Gas Supply, Storage and Pipeline Commitments: In connection with its regulated gas business, the Company has long-term commitments with a variety of suppliers and pipelines to purchase gas commodity, provide gas storage capability and transport gas commodity on interstate gas pipelines.

The table below sets forth the Company's estimated commitments at March 31, 2004, for the next five years, and thereafter.

(In thousands of dollars)

| Fiscal Year Ended March 31, | Gas Supply | Gas Storage/ Pipeline |
|-----------------------------------|------------|--------------------------|
| 2005 | \$ 145,288 | \$ 61,454 |
| 2006 | 76,999 | 55,689 |
| 2007 | 42,249 | 52,300 |
| 2008 | - | 52,215 |
| 2009 | - | 5,310 |
| Thereafter | - | 14,943 |

With respect to firm gas supply commitments, the amounts are based upon volumes specified in the contracts giving consideration for the minimum take provisions. Commodity prices are based on New York Mercantile Exchange quotes and reservation charges, when applicable. Storage and pipeline capacity commitments' amounts are based upon volumes specified in the contracts, and represent demand charges priced at current filed tariffs. At March 31, 2004, the Company's firm gas supply commitments have varying expiration dates, the latest of which is October 2006. The gas storage and transportation commitments have varying expiration dates with the latest being October 2012.

Environmental Contingencies: The public utility industry typically utilizes and/or generates in its operations a broad range of hazardous and potentially hazardous wastes and by-products. The Company believes it is handling identified wastes and by-products in a manner consistent with federal, state, and local requirements and has implemented an environmental audit program to identify any potential areas of concern and aid in compliance with such requirements. The Company is also currently conducting a program to investigate and remediate, as necessary, to meet current environmental standards, certain properties associated with former gas manufacturing and other properties which the Company has learned may be contaminated with industrial waste, as well as investigating identified industrial waste sites as to which it may be determined that the Company has contributed. The Company has also been advised that various federal, state, or local agencies believe certain properties require investigation.

The Company is currently aware of 103 sites with which it may be associated, including 56 which are Company-owned. With respect to non-owned sites, the Company may be required to contribute some proportionate share of remedial costs. Although one party can, as a matter of law, be held liable for all of the remedial costs at a site, regardless of fault, in practice, costs are usually allocated among Potentially Responsible Parties (PRP). The Company has denied any responsibility at certain of these PRP sites and is contesting liability accordingly. At non-owned manufactured gas plant sites, the Company may bear full or partial responsibility for remedial costs.

Investigations at each of the Company-owned sites are designed to: (1) determine if environmental contamination problems exist; (2) if necessary, determine the appropriate remedial actions; and (3) where appropriate, identify other parties who should bear some or all of the cost of remediation. Legal action against such other

**FINANCIAL CONDITION OF
NIAGARA MOHAWK POWER CORPORATION
DECEMBER 31, 2003 (Continued).**

parties will be initiated where appropriate. As site investigations are completed, the Company expects to determine site-specific remedial actions and to estimate the attendant costs for restoration. However, since investigations and regulatory reviews are ongoing for most sites, the estimated cost of remedial action is subject to change.

The Company determines site liabilities through feasibility studies or engineering estimates, the Company's estimated share of a PRP allocation, or, where no better estimate is available, the low end of a range of possible outcomes is used. Estimates of the cost of remediation and post-remedial monitoring are based upon a variety of factors, including identified or potential contaminants, location, size and use of the site, proximity to sensitive resources, status of regulatory investigation, and knowledge of activities at similarly situated sites. Actual expenditures are dependent upon the total cost of investigation and remediation and the ultimate determination of the Company's share of responsibility for such costs, as well as the financial viability of other identified responsible parties since clean-up obligations are joint and several. It is more difficult to estimate the costs to remediate certain non-owned sites, because they have not undergone site investigations.

As a consequence of site characterizations and assessments completed to date and negotiations with other PRPs or with the appropriate environmental regulatory agency, the Company has accrued a liability in the amounts of \$309 million and \$301 million which is reflected in the Company's Consolidated Balance Sheets at March 31, 2004 and 2003, respectively. The potential high end of the range is presently estimated at approximately \$532 million. The reserve has been increased by \$8 million since March 31, 2003 primarily due to the accrual of an additional \$26 million associated with its Harbor Point site and other accruals, offset by anticipated site related expenditures. The Company had previously filed an Article 78 petition to contest the New York Department of Environmental Conservation's more costly remediation plan of the site. During fiscal 2004, the petition was denied by the court and the additional estimated costs to remediate Harbor Point were accrued. This additional accrual has been offset by reductions in expected values on sites resulting from regular spending as well as a decrease of \$13 million as the expected value on the Company's Hudson (Water Street) site was adjusted to reflect costs as based on an actual bid, including long-term monitoring.

The Merger Rate Plan provides for the continued application of deferral accounting for variations in spending from amounts provided in rates. The Company has recorded a regulatory asset representing the investigation, remediation, and monitoring obligations to be recovered from ratepayers. As a result, the Company does not believe that site investigation and remediation costs will have a material adverse effect on its results of operations, financial condition or cash flows.

Nuclear Contingencies: As of March 31, 2004 and 2003, the Company has a liability of \$143 million and \$142 million, respectively, in other non-current liabilities for the disposal of nuclear fuel irradiated prior to 1983. In January 1983, the Nuclear Waste Policy Act of 1982 (the Nuclear Waste Act) established a cost of \$.001 per KWh of net generation for current disposal of nuclear fuel and provides for a determination of the Company's liability to the U.S. Department of Energy (DOE) for the disposal of nuclear fuel irradiated prior to 1983. The Nuclear Waste Act also provides three payment options for liquidating such liability and the Company has elected to delay payment, with interest, until the year in which Constellation, who purchased the Company's nuclear assets, initially plans to ship irradiated fuel to an approved DOE disposal facility. Progress in developing the DOE facility has been slow and it is anticipated that the DOE facility will not be ready to accept deliveries until at least 2010.

Legal Matters:

Alliance for Municipal Power v. New York State Public Service Commission: On February 17, 2003, the Alliance for Municipal Power (AMP) filed with the New York State Supreme Court (Albany County) a petition for review of decisions by the PSC that maintain the PSC's established policy of using average distribution rates when calculating the exit fees that may be charged to municipalities that seek to leave the company's system and establish their own municipal light departments. Changes in the methodology for the calculation of the exit fee are not likely to have a material effect on the Company's financial position or results of operations. However, AMP's petition for review also challenges the lawfulness of the Company's collection of exit fees from departing municipalities, regardless of the methodology used to calculate those fees. On October 27, 2003, the court dismissed AMP's petition. AMP made a timely filing to appeal the court's decision but has not perfected its appeal.

Niagara Mohawk Power Corp. v. Huntley Power L.L.C., Dunkirk Power L.L.C. and Oswego Harbor, L.L.C. The Company previously owned three power plants (the Plants), which it sold to three affiliates of NRG Energy, Inc. in 1999: Huntley Power L.L.C., Dunkirk Power L.L.C. and Oswego Harbor, L.L.C. (collectively, the NRG Affiliates). The Company is involved in three proceedings with the NRG affiliates to recover bills for station service rendered to the Plants; a collections action filed by the Company against the NRG affiliates in New York State Supreme Court in October 2000; a petition filed by the Company at the FERC in November 2002, and an Article 78 Petition filed by the NRG Affiliates in New York Supreme Court in March 2004, challenging the state retail standby distribution tariff. The main issue in all three proceedings is whether the NRG Affiliates will be permitted to bypass the Company's state-jurisdictional retail charges for station service. The State Supreme Court lawsuit filed by the Company has been stayed by agreement, the parties are awaiting a decision from FERC on the Company's petition, and the parties have agreed to stay the NRG Affiliates' Article 78 petition pending appeal of a FERC decision on May 10, 2004 in another proceeding. The May 10, 2004 Order denied rehearing of objections to FERC's approval of the NYISO wholesale station service tariff, on which the NRG Affiliates are relying in part to avoid payment of the state retail distribution tariff for station service. FERC's May 10, 2004 Order is discussed below under Retail Bypass. As of March 31, 2004, the NRG Affiliates owed the Company approximately \$39 million for station service. In the event it is determined that the Company may not bill the NRG Affiliates for station service under its state tariff, the Company would seek recovery under its rate plans.

New York State v. Niagara Mohawk Power Corp. et al.: On January 10, 2002, the New York State Attorney General filed a civil action against the Company, NRG Energy, Inc. and certain of its affiliates in U.S. District Court for the Western District of New York for alleged violations of the federal Clean Air Act, related state environmental statutes, and the common law, at the Huntley and Dunkirk power plants. The State alleged that between 1982 and 1999, the Company modified the two plants 55 times without obtaining proper preconstruction permits and implementing proper pollution equipment controls.

On March 27, 2003, the court issued an order granting in part the Company's motion to dismiss, which had been filed in 2002. Based on applicable statutes of limitations, the court reduced the number of projects allegedly requiring preconstruction permits under the Clean Air Act from 55 to nine.

On December 31, 2003, the court granted the State's motion to amend the complaint, allowing it to assert operating permit violations against the Company and NRG. In so ruling, the court stated that monetary penalties for actions outside the statute of limitations period would still be barred. The Company answered the amended complaint on March 2, 2004, and filed a counterclaim against the State of New York in response to its common law public nuisance claim, seeking contribution for the Company's portion of any alleged harm caused by emissions from facilities that the State owns or to which it has given permits. The State has moved to dismiss the counterclaim. Trial is scheduled for March 2006.

Niagara Mohawk Power Corporation v. NRG Energy, Inc., Huntley Power L.L.C. and Dunkirk Power L.L.C. With respect to the claims asserted in the Clean Air Act lawsuit discussed above, NRG and its Affiliates have taken the position that the Company is responsible at least in part for the costs of pollution control equipment and related fines and penalties, notwithstanding contrary language in the agreement governing the sale of the Plants to the NRG Affiliates. As a result, on July 13, 2001, the Company sued NRG and the NRG Affiliates in New York State Supreme Court (Onondaga County), seeking a declaratory ruling that under the agreement, NRG is responsible for the costs of any pollution control upgrades and mitigation, as well as post-sale fines and penalties, that may result from the Clean Air

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Act suit. In response, NRG filed a counterclaim and filed a motion for partial summary on its counterclaim. Hearing on NRG's motion is scheduled for July 28, 2004.

Retail Bypass: In approving Power Choice, the rate plan in effect prior to the Merger Rate Plan, the PSC authorized changes to the Company's retail tariff providing for the recovery of an exit fee for customers that leave the Company's system. The retail tariff governs the application and calculation of the exit fee. The exit fee also applies to municipalities seeking to serve customers in the Company's service area.

On September 22, 2002, a different type of retail bypass issue was presented in a filing with FERC by the NYISO seeking to implement a new station service rate which also provided that generators could net their station service electricity over a 30-day period. On November 22, 2002, FERC issued an order accepting the NYISO's new rate, over the Company's protest (the FERC NYISO Order). The FERC NYISO Order has allowed generators to argue that they should be able to avoid paying state-approved charges for retail deliveries when they take service under the NYISO tariff. On July 10, 2003, the Company filed modifications to its standby service rates with the PSC, which the PSC approved on November 25, 2003. The tariff modifications unbundle the transmission service component provided under the NYISO's new rate but continue the Company's own retail distribution charges to these customers.

A number of generators have complained or withheld payments associated with the Company's delivery of station service to their generation facilities, including NRG Energy, Inc. On December 23, 2003, FERC issued two orders on complaints filed by AES Somerset, L.L.C. (AES) and Nine Mile Point Nuclear Station, L.L.C. (Nine Mile) (together, the AES and Nine Mile FERC Orders), both of which are station service customers of the Company. The two orders allow these generators to net their station service electricity over a 30-day period and to avoid state-authorized charges for deliveries made over distribution facilities. While it is not entirely clear from reading the AES and Nine Mile FERC Orders, it is possible to construe them to have retroactive effect back to the date the plant was sold to AES by a third party. The net effect of these FERC decisions is that the two generators will no longer have to pay the Company for station service charges for electricity. The AES and Nine Mile FERC Orders are in direct conflict with the state-approved tariffs and the orders of the PSC on station service rates. The FERC orders, if upheld, will permit these generators to completely bypass the Company's state-jurisdictional retail charges, including those set forth in the filing that was approved by the PSC on November 25, 2003. On February 23, 2004, the Company received orders granting rehearing for further consideration from the FERC in both the AES and Nine Mile Point proceedings. No further action on the rehearing requests has occurred to date.

On February 10, 2004, FERC issued an order denying motions for clarification filed by the Company and other parties with respect to the FERC NYISO Order, and reaffirmed its reasoning of the AES and Nine Mile FERC Orders. In so ruling, FERC indicated that the NYISO station service would be limited to merchant generators self-supplying their own power, and should not be interpreted to apply to self-supplying retail industrial and commercial customers. The Company intends to appeal.

The AES and Nine Mile FERC Orders and FERC NYISO Orders have increased the risk that generators will be able to bypass local distribution company charges (including stranded cost recovery charges) when receiving service through the NYISO. To the extent that the Company experiences any lost revenue attributable to retail bypass, it is permitted to recover these lost revenues under its rate plans.

**FINANCIAL CONDITION OF
NIAGARA MOHAWK POWER CORPORATION
DECEMBER 31, 2003 (Continued).**

14. ANALYSIS OF MISCELLANEOUS PAID-IN CAPITAL CREDITS:

Contribution by Niagara Hudson Power Corporation on January 5, 1950 of:

| | | |
|--|---------------|--------------|
| Capital stocks of certain subsidiaries at aggregate stated values | \$7,356,600 | |
| Other investments | <u>52,277</u> | \$ 7,408,877 |

| | |
|---|---------|
| Amount of cash received upon liquidation of Niagara Hudson Power Corporation in excess of the estimated liabilities | 500,000 |
|---|---------|

| | |
|---|--------|
| Contributions in aid of construction acquired upon merger of Old Forge Electric Corporation credited to unearned surplus pursuant to the commission's order dated March 18, 1952 - Case 13343 | 28,773 |
|---|--------|

| | |
|--|---------|
| Unearned surplus of the Oswego Canal Company acquired upon merger as of March 31, 1952, less write-down of its utility plant by \$67,212.60 | 209,084 |
|--|---------|

| | |
|---|------------|
| Transfer of the excess amounts reflected in the depreciation reserve balances at December 31, 1951 pursuant to the Commission's order dated July 8, 1953 in Case 14808 | 18,258,503 |
|---|------------|

| | |
|--|-------|
| Excess of book value over purchase price of Capital stock of the Woodville Electric Light and Power Company - Case 17894 | 5,164 |
|--|-------|

| | |
|--|---------|
| Refund of deposits for script certificates of Niagara Hudson Power Corporation which expired January 5, 1958 | 124,121 |
|--|---------|

| | |
|---|---------|
| Proceeds per Court Order dated January 23, 1961 covering sale of unexchanged shares of Niagara Mohawk Power Corporation common stock (5,173 shares) | 204,267 |
|---|---------|

| | |
|--|---------|
| Excess at January 17, 1966 of the book value of Paul Smith's Electric Light and Power and Railroad Company (\$1,848,871) over 41,750 shares of the Company's common stock at market of \$26 per share (\$1,085,500) given therefore - Case 23754 by order dated October 15, 1965 | 763,371 |
|--|---------|

| | |
|--|---------------|
| Merger purchase accounting adjustments on January 31, 2002. Niagara Mohawk Holdings, Inc., parent of Niagara Mohawk Power Corporation became a wholly owned subsidiary of National Grid USA. | 2,534,731,271 |
|--|---------------|

| | |
|---|-------------|
| Return of capital dividend on common stock paid to Niagara Mohawk Holdings, Inc. (7/02) | 86,086,034 |
| Equity contribution made by parent company, Niagara Mohawk Holdings, Inc. (9/03) | 309,000,000 |

To record subsidiaries on the "Equity" basis:

| | |
|--|-----------|
| Excess book value over the cost of investments at the date of acquisition of Canadian Niagara Power Co., Ltd. (\$3,547,284) and St. Lawrence Power Co. (\$903,145) as previously recorded on Company's books. Ownership of these companies was transferred to Opinac Energy Corporation (formerly Opinac Investments, Limited) during 1982. | 4,360,429 |
|--|-----------|

| | |
|--|----------------|
| Excess of book value over the cost of investment carried on the Company's books at date of acquisition of Moreau Manufacturing Corporation | <u>477,984</u> |
|--|----------------|

| | |
|---------------|------------------------|
| Total Credits | <u>\$2,962,157,878</u> |
|---------------|------------------------|

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NIAGARA MOHAWK POWER CORPORATION
DECEMBER 31, 2003 (Continued).**

14. ANALYSIS OF MISCELLANEOUS PAID-IN CAPITAL DEBITS:

| | |
|---|-------------------------|
| Transfer to Common Capital Stock as authorized by the Commission in Case 16389 by order dated August 18, 1953 | \$18,258,503 |
| Excess of carrying value of lands, etc. relating to the St. Lawrence project over the consideration received pursuant to the Commission's order dated January 26, 1959 - Case 15212 | 5,271,767 |
| Subsequent merger purchase accounting adjustments related to the merger of Niagara Mohawk Holdings, Inc. (parent) with National Grid USA | 19,411,540 |
| Transferred to Accumulated Provision for Depreciation of Electric Plant in Service an amount previously credited to Miscellaneous Paid-in Capital, representing the excess of the book value of Paul Smith's Electric Light and Power and Railroad Company, \$1,848,872 over 41,750 shares of \$8 per common stock of Company, \$1,085,500 as authorized by PSC - Case 23754 | 763,371 |
| Excess of the cost of investment carried on the Company's books over the book value at date of acquisition of Beebe Island Corporation to record subsidiary on the "Equity" basis. | <u>62,872</u> |
| Total Debits | <u>43,768,053</u> |
| Balance December 31, 2002 | <u>\$ 2,918,389,825</u> |

15. AMORTIZATION OF DEFERRED DEBITS AND DEFERRED CREDITS OR OTHER BALANCE SHEET ACCOUNTS:

Capital Stock Expense:

Miscellaneous Amortization:

Capital stock expense is being amortized by debiting account 425 -
Miscellaneous Amortization as any series of stock is redeemed and retired in accordance with sinking fund provisions.

Amortization of Debt Discount and Expense:

Original amounts of debt discount and expense applicable to bonds outstanding are being amortized in equal annual installments over the lives of the
issues, by debiting account 428 - Amortization of Debt Discount and Expense. Also included in the debt expense being amortized are
refunding premiums, commission and expenses relating to long-term debt reacquired prior to maturity.

Amortization of Premium on Debt:

Original amounts of premium applicable to bonds outstanding are being amortized in equal annual installments over the lives of the lives of the
issues, by crediting account 429 - Amortization of Premium on Debt - Credit.

16. INCOME STATEMENTS AND BALANCE SHEETS:

Detailed income statement for the 12 months ending December 31, 2002 and December 31, 2001 and balance sheets at December 31, 2002 and
December 31, 2001 are attached.

NIAGARA MOHAWK POWER CORPORATION
STATEMENT OF INCOME

| | Twelve Months Ended December 31, 2002 | Twelve Months Ended December 31, 2003 |
|--|--|--|
| Utility Operating Income: | | |
| 400 Operating Revenues..... | 3,886,035,310 | 4,026,108,876 |
| 401 Operating Expenses..... | 2,581,067,263 | 2,702,870,553 |
| 402 Maintenance Expenses..... | 166,754,726 | 165,499,457 |
| 403 Depreciation Expense..... | 190,528,503 | 193,453,866 |
| 404 Amortization of Limited-Term Electric Plant..... | | |
| 405 Amortization of Other Utility Plant..... | 7,048,977 | 7,040,963 |
| 406 Amortization of Utility Plant Acquisition Adjustments..... | 36,913 | 36,913 |
| 407 Amortization of Property Losses..... | - | - |
| 407.3 Amortization of Regulatory Debits..... | 133,799,998 | 176,752,579 |
| 408.1 Taxes Other Than Income..... | 253,040,992 | 229,968,495 |
| 409.1 Income Taxes..... | 26,754,186 | (23,616,741) |
| 410.1 Provision for Deferred Income Taxes..... | 2,432,441,000 | 118,291,044 |
| 411.1 Provision for Deferred Income Taxes - Credit..... | (2,370,704,000) | 13,492,000 |
| 411.4 Investment Tax Credit Adjustment..... | - | - |
| Total Operating Expenses..... | 3,420,768,558 | 3,583,789,129 |
| Net Operating Revenues..... | 465,266,752 | 442,319,747 |
| 4 Revenues from Utility Plant Leased to Others..... | 25,400 | 150 |
| 413 Expenses of Utility Plant Leased to Others..... | 279,820 | 352,548 |
| Total Utility Operating Income..... | 465,012,332 | 441,967,349 |
| Other Income: | | |
| 417 Expenses of Nonutility Operations..... | (8,412,693) | (2,079,261) |
| 418 Non-Operating Rental Income..... | 136,620 | (371,368) |
| 418.1 Equity in Earnings of Subsidiary Companies..... | 3,850,711 | (693,153) |
| 419 Interest and Dividend Income..... | 17,810,297 | 2,326,185 |
| 419.1 Allowance for Funds Used During Construction..... | 785,891 | (228,837) |
| 421 Miscellaneous Non-Operating Income..... | (3,978,808) | 1,968,629 |
| 421.1 Gain on Disposition of Property..... | 12,543 | 53,448 |
| Total Other Income..... | 10,204,561 | 975,643 |
| Other Income Deductions: | | |
| 421.2 Loss on Disposition of Property..... | 374,530 | 79,863 |
| 425 Miscellaneous Amortization..... | 113,617 | - |
| 426 Miscellaneous Income Deductions..... | 16,487,087 | 3,745,459 |
| Total Other Income Deductions..... | 16,975,234 | 3,825,322 |
| Taxes-Other Income and Deductions: | | |
| 408.2 Taxes Other Than Income Taxes..... | 518,847 | 650,297 |
| 409.2 Miscellaneous Income Tax Adjustments..... | - | - |
| 4 Provisions for Deferred Income Taxes..... | - | - |
| 411.1 Provisions for Deferred Income Taxes - Credit..... | - | - |
| 420 Investment Tax Credit..... | (2,782,000) | (2,614,000) |
| Total Taxes - Other Income and Deductions..... | (2,263,153) | (1,963,703) |
| Net Other Income and Deductions..... | (4,507,520) | (885,976) |
| Interest Charges: | | |
| 427 Interest on Long-Term Debt..... | 316,966,282 | 231,654,131 |
| 428 Amortization of Debt Discount and Expense..... | 16,266,612 | 14,757,363 |
| 429 Amortization of Premium on Debt - Credit..... | (150,383) | (113,499) |
| 430 Interest on Debt to Assoc. Companies..... | 8,588,839 | 47,660,886 |
| 431 Other Interest Expense..... | 21,726,892 | 32,398,540 |
| 432 Allow for Borrowed Funds Used During Construction-CR..... | (818,186) | (494,278) |
| Total Interest Charges..... | 362,580,056 | 325,863,143 |
| Extraordinary Items: | | |
| 435 Extraordinary Deductions..... | - | - |
| 409.3 Income Taxes, Extraordinary Items..... | - | - |
| Total Extraordinary Items..... | - | - |
| Net Income..... | \$ 97,924,756 | \$ 115,218,230 |

NIAGARA MOHAWK POWER CORPORATION
STATEMENT OF INCOME

| | | Twelve Months Ended December 31, 2001 | Twelve Months Ended December 31, 2002 |
|---|--|--|--|
| <u>Utility Operating Income:</u> | | | |
| 400 | Operating Revenues..... | \$4,114,642,500 | 3,886,035,310 |
| 401 | Operating Expenses..... | 2,901,446,644 | 2,581,067,263 |
| 402 | Maintenance Expenses..... | 186,042,039 | 166,754,726 |
| 403 | Depreciation Expense..... | 290,080,290 | 190,528,503 |
| 404 | Amortization of Limited-Term Electric Plant..... | | |
| 405 | Amortization of Other Utility Plant..... | 7,056,856 | 7,048,977 |
| 406 | Amortization of Utility Plant Acquisition Adjustments..... | 33,837 | 36,913 |
| 407 | Amortization of Property Losses..... | 955,865 | - |
| 407.3 | Amortization of Regulatory Debits..... | | 133,799,998 |
| 408.1 | Taxes Other Than Income..... | 227,620,759 | 253,040,992 |
| 409.1 | Income Taxes..... | 4,279,000 | 26,754,186 |
| 410.1 | Provision for Deferred Income Taxes..... | 440,134,000 | 2,432,441,000 |
| 411.1 | Provision for Deferred Income Taxes - Credit..... | (431,414,000) | (2,370,704,000) |
| 411.4 | Investment Tax Credit Adjustment..... | - | - |
| | Total Operating Expenses..... | 3,626,235,290 | 3,420,768,558 |
| | Net Operating Revenues..... | 488,407,210 | 465,266,752 |
| 412 | Revenues from Utility Plant Leased to Others..... | 262,463 | 25,400 |
| 413 | Expenses of Utility Plant Leased to Others..... | 127,180 | 279,820 |
| | Total Utility Operating Income..... | 488,542,493 | 465,012,332 |
| <u>Other Income:</u> | | | |
| 417 | Expenses of Nonutility Operations..... | | (8,412,693) |
| 418 | Non-Operating Rental Income..... | (561,245) | 136,620 |
| 418.1 | Equity in Earnings of Subsidiary Companies..... | 8,067,926 | 3,850,711 |
| 419 | Interest and Dividend Income..... | 15,321,276 | 17,810,297 |
| 419.1 | Allowance for Funds Used During Construction..... | 2,296,216 | 785,891 |
| 421 | Miscellaneous Non-Operating Income..... | (1,755,029) | (3,978,808) |
| 421.1 | Gain on Disposition of Property..... | (1,819) | 12,543 |
| | Total Other Income..... | 23,367,325 | 10,204,561 |
| <u>Other Income Deductions:</u> | | | |
| 421.2 | Loss on Disposition of Property..... | 123,213,079 | 374,530 |
| 425 | Miscellaneous Amortization..... | 1,564,753 | 113,617 |
| 426 | Miscellaneous Income Deductions..... | 28,230,758 | 16,487,087 |
| | Total Other Income Deductions..... | 153,008,590 | 16,975,234 |
| <u>Taxes-Other Income and Deductions:</u> | | | |
| 408.2 | Taxes Other Than Income Taxes..... | 395,689 | 518,847 |
| 409.2 | Miscellaneous Income Tax Adjustments..... | - | - |
| 411.2 | Provisions for Deferred Income Taxes..... | - | - |
| 411.2 | Provisions for Deferred Income Taxes - Credit..... | - | - |
| 420 | Investment Tax Credit..... | (86,034,000) | (2,782,000) |
| | Total Taxes - Other Income and Deductions..... | (85,638,311) | (2,263,153) |
| | Net Other Income and Deductions..... | (44,002,954) | (4,507,520) |
| <u>Interest Charges:</u> | | | |
| 427 | Interest on Long-Term Debt..... | 367,290,569 | 316,966,282 |
| 428 | Amortization of Debt Discount and Expense..... | 18,262,870 | 16,266,612 |
| 429 | Amortization of Premium on Debt - Credit..... | (211,601) | (150,383) |
| 430 | Interest on Debt to Assoc. Companies..... | | 8,588,839 |
| 431 | Other Interest Expense..... | 42,567,504 | 21,726,892 |
| 432 | Allow for Borrowed Funds Used During Construction-CR..... | (2,727,600) | (818,186) |
| | Total Interest Charges..... | 425,181,742 | 362,580,056 |
| <u>Extraordinary Items:</u> | | | |
| 435 | Extraordinary Deductions..... | - | - |
| 409.3 | Income Taxes, Extraordinary Items..... | - | - |
| | Total Extraordinary Items..... | - | - |
| | Net Income..... | \$ 19,357,797 | \$ 97,924,756 |

NIAGARA MOHAWK POWER CORPORATION
REIMBURSEMENT MARGIN
December 31, 2003

Exhibit B

| | Balance December 31, 2003 |
|---|------------------------------|
| Net Utility Plant..... | \$ 5,962,142,533 |
| Deferrals: | |
| Add: Deferred Debits: | |
| Unamortized Debt Expense..... | 37,810,773 |
| Miscellaneous Deferred Debits..... | 5,319,926,093 |
| Accumulated Deferred Income Taxes..... | 1,394,478,000 |
| Net Deferred Debits..... | 6,752,214,866 |
| Less: Deferred Credits: | |
| Other Deferred Credits..... | 4,042,935,095 |
| Accumulated Deferred Investment Tax Credits..... | 44,494,000 |
| Accumulated Def. Income Taxes - Liberalized Depreciation..... | 882,442,000 |
| Net Deferred Credits..... | 4,969,871,095 |
| Net Deferral..... | 1,782,343,771 |
| Working Capital Allowance (Note 1)..... | 135,627,000 |
| Reimbursable Plant and Working Capital..... | 7,880,113,304 |
| Long-Term Securities Issued to Date: | |
| Long-Term Debt: | |
| Bonds..... | 991,711,000 |
| Other Long-Term Debt..... | 3,016,371,585 |
| Unamortized Premium on Long-Term Debt..... | - |
| Unamortized Discount on Long-Term Debt..... | (2,193,117) |
| Total Long-Term Debt..... | 4,005,889,468 |
| Preferred Stock: | |
| Preferred Stock Issued..... | 66,325,500 |
| Common Stock: | |
| Common Stock Issued..... | 187,364,863 |
| Premium on Capital Stock..... | - |
| Reduction in Par or Stated Value of Capital Stock..... | - |
| Gain on Resale or Cancellation of Reacquired Stock..... | 11,110,675 |
| Miscellaneous Paid-In Capital..... | 2,918,389,825 |
| Reacquired Capital Stock..... | - |
| Capital Stock Expense..... | - |
| Net Common Stock..... | 3,116,865,363 |
| Total Long-Term Securities..... | 7,189,080,331 |
| Reimbursement Margin Before New Encumbrances..... | 691,032,973 |
| Pro forma (2004 - 2007) Adjustments | |
| Maturing Securities..... | 1,557,845,000 |
| | - |
| Total Pro forma Adjustments..... | 1,557,845,000 |
| Reimbursement Margin Before New Encumbrances..... | 2,248,877,973 |
| Encumbrances: | |
| Case 02-M-0341 Issuance of Long-term debt..... | - |
| Case 02-M-0778 Refinancing of NYSERDA debt..... | - |
| Reimbursement Margin (Encumbered Reserve) at 12/31/07 (Note 3)..... | \$ 2,248,877,973 |

(Note 1) Per Commission in Merger Rate Plan rate determination.

(Note 3) Reimbursement Margin before pending petitions.

NIAGARA MOHAWK POWER CORPORATION
SUMMARY OF CHANGES IN UTILITY PLANT AND DEPRECIATION RESERVE ACCOUNTS
FOR THE PERIOD DECEMBER 31, 2002 THROUGH DECEMBER 31, 2003

Utility Plant

| | Balance December 31, 2002 | Debits | Credits | Balance December 31, 2003 |
|--|------------------------------|----------------|----------------|------------------------------|
| Utility Plant (Beginning Balance)..... | \$ 8,186,210,918 | | | |
| Plant in Service: | | | | |
| Additions..... | | \$ 315,589,656 | | |
| Retirements..... | | | \$ 128,762,393 | |
| Adjustments..... | | 857,391 | | |
| Construction Work in Progress: | | | | |
| Net Change..... | | | 42,532,258 | |
| Acquisition Adjustment (Goodwill) | | | 10,597,623 | \$ 10,597,623 |
| Utility Plant (Ending Balance)..... | | | | 8,320,765,691 |
| Total..... | \$ 8,186,210,918 | \$ 316,447,047 | \$ 181,892,274 | \$ 8,320,765,691 |

Depreciation Reserve

| | Balance December 31, 2002 | Credits | Debits | Balance December 31, 2003 |
|---|------------------------------|----------------|----------------|------------------------------|
| Depreciation Reserve (Beginning Balance)..... | \$ 2,304,744,389 | | | |
| Plant in Service: | | | | |
| Accruals..... | | \$ 201,444,397 | | |
| Gross Salvage..... | | 1,756,983 | | |
| Retirements..... | | | 129,486,249 | |
| Cost of Removal..... | | | 20,797,701 | |
| Adjustments..... | | 1,139,096 | | |
| Retirement Work in Progress: | | | | |
| Net Change - | | | | |
| Retirement of Property..... | | | | |
| Removal Costs..... | | 781,759 | 453,495 | |
| Gross Salvage..... | | | 506,020 | |
| Depreciation Reserve (Ending Balance)..... | | | | \$ 2,358,623,159 |
| Total..... | \$ 2,304,744,389 | \$ 205,122,235 | \$ 151,243,465 | \$ 2,358,623,159 |

NIAGARA MOHAWK POWER CORPORATION
CAPITAL BUDGET SUMMARY (\$000)
Fiscal Year Ending 3/31/05

| | <u>FYE 2005</u> |
|---|-----------------------|
| Electric Distribution..... | \$ 126,548 |
| Electric Transmission..... | 40,788 |
| Gas Distribution..... | 46,522 |
| Gas Transmission..... | - |
| Common Communication..... | - |
| Facility Energy Delivery..... | 3,028 |
| General Equipment Energy Delivery..... | 2,073 |
| Data Procession Equipment..... | 4,725 |
| General Equipment..... | 1,150 |
| AMR..... | <u>18,667</u> |
| Total Niagara Mohawk Power Corp..... | <u>\$ 243,500</u> |
| Capital Expenditures Forecast FYE 2006..... | <u>\$ 233,088</u> |
| Capital Expenditures Forecast FYE 2007..... | <u>\$ 230,231</u> |
| Capital Expenditures Forecast FYE 2008..... | <u>\$ 227,881</u> |

NIAGARA MOHAWK POWER CORPORATION
ANALYSIS OF ADJUSTMENTS TO UTILITY PLANT
FOR THE PERIOD DECEMBER 31, 2002 THROUGH DECEMBER 31, 2003

| <u>Contra Accounts</u> | | | |
|------------------------|--|--|------------------|
| <u>Number</u> | <u>Title</u> | <u>Reason for Adjustments</u> | <u>Amount</u> |
| 119 | Accumulated Depreciation Other Utility Plant | Reinstatement of Assets Previously Retired | \$842,096 |
| 108E | Accumulated Depreciation Electric Plant In Service | Reinstatement of Assets Previously Retired | 15,295 |
| | | | <u>\$857,391</u> |

NIAGARA MOHAWK POWER CORPORATION
ANALYSIS OF ADJUSTMENTS TO DEPRECIATION RESERVE
FOR THE PERIOD DECEMBER 31, 2002 THROUGH DECEMBER 31, 2003

| <u>Contra Accounts</u> | | | |
|------------------------|------------------------------------|--|----------------------------|
| <u>Number</u> | <u>Title</u> | <u>Reason for Adjustments</u> | <u>Amount DR/(CR)</u> |
| 123.1 | Investment in Subsidiary Companies | Sale of land and buildings | (281,705) |
| 118 | Common Plant in Service | Reinstatement of Assets Previously Retired | (842,096) |
| 101 | Electric Utility Plant in Service | Reinstatement of Assets Previously Retired | (15,295) |
| TOTAL..... | | | <u>(S1,139,096)</u> |

NIAGARA MOHAWK POWER CORPORATION
EXPLANATION OF CHANGES IN NON-UTILITY PROPERTY
FOR THE PERIOD DECEMBER 31, 2002 THROUGH DECEMBER 31, 2003

Non-Utility Plant (net of reserve)

| | | |
|--|-------------|-------------------------|
| Balance December 31, 2002..... | \$3,740,617 | |
| Less: Reserve Balance December 31, 2002..... | <u>0</u> | \$3,740,617 |
| Balance December 31, 2003..... | 3,740,617 | |
| Less: Reserve Balance December 31, 2003..... | <u>0</u> | <u>4,591,559</u> |
| Net Change..... | | <u><u>\$850,942</u></u> |

Purchases of Other Physical Property

| | |
|--|---------|
| Saratoga Springs Former Manufactured Gas Plant Property..... | 938,000 |
| Miscellaneous CWIP | 26,892 |

Transfers of Other Physical Property

| | |
|------------------------------|---|
| Miscellaneous Transfers..... | 0 |
|------------------------------|---|

Sale of Other Physical Property

| | |
|---------------------------|------------------|
| Miscellaneous Sales | <u>(113,950)</u> |
|---------------------------|------------------|

| | |
|-----------------|-------------------------|
| Net Change..... | <u><u>\$850,942</u></u> |
|-----------------|-------------------------|

NIAGARA MOHAWK POWER CORPORATION
EXPLANATION OF CHANGES IN THE FOLLOWING ACCOUNTS
AT DECEMBER 31, 2002 IN COMPARISON WITH DECEMBER 31, 2003

Other Special Funds

| | |
|--|-----------------------|
| Balance on December 31, 2002..... | \$64,740,251 |
| Balance on December 31, 2003..... | \$2,496,285 |
| | <u>(\$12,243,966)</u> |
| Increase in SERP Trust Fund..... | \$447,123 |
| Increase in Workers' Compensation Fund..... | 213,038 |
| Increase in Executive Deferred Compensation..... | 1,116,642 |
| Decrease in NYSERDA Interest Collateral on Deposit with Citibank (Senior Credit Facility)..... | (13,968,634) |
| Decrease in Special Severance & Retirement Allowance Plan Trust..... | <u>(52,135)</u> |
| | <u>(\$12,243,966)</u> |

Other Special Deposits

| | |
|---|---------------------|
| Balance on December 31, 2002..... | \$9,378,163 |
| Balance on December 31, 2003..... | 31,522,662 |
| | <u>\$22,144,499</u> |
| Increase in Health Care Claim Deposits..... | \$14,664,228 |
| Increase in NYMEX Gas Contracts (IPP) - ABN AMRO..... | 4,046,652 |
| Increase in REFCO hedging accounts..... | 3,103,815 |
| Increase in NYMEX Gas Contracts - Salomon Smith Barney Brokers..... | 2,265,762 |
| Increase in NYMEX Gas Contracts - ABN AMRO..... | 1,413,309 |
| Increase in Marine Midland Trust..... | 394,275 |
| Increase in Miscellaneous Special Deposits..... | 37,225 |
| Decrease in Genesis (Premium Deposit)..... | (964,321) |
| Decrease in NYMEX Gas Contracts (IPP) - Salomon Smith Barney Brokers..... | <u>(2,816,446)</u> |
| | <u>\$22,144,499</u> |

Customer Accounts Receivable

| | |
|---|---------------------|
| Balance on December 31, 2002..... | \$402,779,981 |
| Balance on December 31, 2003..... | 466,013,297 |
| | <u>\$63,233,316</u> |
| Increase in Customer Receivables..... | \$40,356,169 |
| Increase in Dishonored Check Chargeback..... | 9,830,690 |
| Increase in NYPA Residential Hydropower Benefit Reconciliation Mechanism..... | 5,615,309 |
| Increase in Gas Net Revenue Sharing Surcharge..... | 3,814,158 |
| Increase in Customers' Cash Over & (Short)..... | 3,355,581 |
| Increase in Customers' Other Sales..... | 2,328,139 |
| Increase in Reserve for Accounts Receivable Reconciliation..... | 18,825 |
| Decrease in Gas Capacity Incentive Program..... | <u>(2,085,555)</u> |
| | <u>\$63,233,316</u> |

NIAGARA MOHAWK POWER CORPORATION
EXPLANATION OF CHANGES IN THE FOLLOWING ACCOUNTS
AT DECEMBER 31, 2002 IN COMPARISON WITH DECEMBER 31, 2003

Other Accounts Receivable

| | |
|--|--------------------|
| Balance on December 31, 2002..... | \$43,516,185 |
| Balance on December 31, 2003..... | 50,280,352 |
| | <u>\$6,764,167</u> |
| Lower Miscellaneous Accounts Receivable..... | (18,437,622) |
| Offset by Establishment of Accounts Receivable-Gas Sale for Resale | 1,576,354 |
| Offset by Establishment of Accounts Receivable-Wholesale Transmission..... | 24,608,030 |
| Lower Net Miscellaneous Receivables..... | (252,165) |
| Lower Property Damage Claims..... | (13,921) |
| Increase in NYS Relocation Projects..... | 507,596 |
| Decrease in Reserve for Doubtful Accounts..... | (1,189,202) |
| Higher Other Work In Progress | 2,960,226 |
| Lower Co-Tenants Receivable - Nine Mile 2..... | (2,995,129) |
| | <u>\$6,764,167</u> |

Accumulated Provision for Uncollectible Accounts

| | |
|------------------------------------|-----------------------|
| Balance on December 31, 2002 | (\$87,594,900) |
| Balance on December 31, 2003..... | (122,497,000) |
| | <u>(\$34,902,100)</u> |

Increase in Accumulated Provision for Uncollectible Accounts..... (\$34,902,100)

Gas Underground

| | |
|-----------------------------------|---------------------|
| Balance on December 31, 2002..... | \$48,040,461 |
| Balance on December 31, 2003..... | 79,015,723 |
| | <u>\$30,975,262</u> |

Lower Unit Price (-5.9M) and lower inventory levels (-2.2M)..... \$30,975,262

Prepayments

| | |
|---|---------------------|
| Balance on December 31, 2002..... | \$34,253,318 |
| Balance on December 31, 2003..... | 52,654,811 |
| | <u>\$18,401,493</u> |
| Decrease in Prepaid Insurance..... | (\$2,565,866) |
| Decrease in Stillwater and Sacandaga Reservoir Prepayments-Oper. & Maint..... | (\$2,368) |
| Decrease in Prepaid Transmission Congestion Contract Auction Costs..... | (\$5,861,416) |
| Increase in Prepaid Taxes..... | \$18,013,924 |
| Establishment of Prepaid Transmission Rents..... | \$4,746,787 |
| Establishment of Prepaid Call Center Technology..... | 550,885 |
| Establishment of Prepaid PSC Assessment..... | 3,519,547 |
| | <u>\$18,401,493</u> |

Accrued Utility Revenues

| | |
|-----------------------------------|-----------------------|
| Balance on December 31, 2002..... | \$147,019,000 |
| Balance on December 31, 2003..... | 136,548,950 |
| | <u>(\$10,470,050)</u> |

Decrease in Accrued Utility Revenues..... (\$10,470,050)

Miscellaneous Current and Accrued Assets

| | |
|--|----------------------|
| Balance on December 31, 2002..... | \$17,793,735 |
| Balance on December 31, 2003..... | 12,085,280 |
| | <u>(\$5,708,455)</u> |
| Increase in Premium Deposit-Liability and Property Damage..... | \$18,101 |
| Decrease in Unrealized Gain on Call Options..... | (4,855,616) |
| Decrease in Unrealized Gain on Gas Futures..... | (870,940) |
| | <u>(\$5,708,455)</u> |

NIAGARA MOHAWK POWER CORPORATION
EXPLANATION OF CHANGES IN THE FOLLOWING ACCOUNTS
AT DECEMBER 31, 2002 IN COMPARISON WITH DECEMBER 31, 2003

Other Regulatory Assets

| | |
|---|-----------------------|
| Balance on December 31, 2002..... | \$5,244,510,533 |
| Balance on December 31, 2003..... | 5,230,034,139 |
| | <u>(\$14,476,396)</u> |
| Increase in Asset for Derivatives..... | \$67,424,000 |
| Increase in Generation Stranded Costs..... | 36,791,222 |
| Decrease in Other Postretirement Benefits..... | (3,094,333) |
| Increase in AML Pension Asset..... | 139,013,256 |
| Higher Deferred Environmental Restoration Costs..... | 22,000,000 |
| Increase in Customer Service Backout Credit..... | 13,379,945 |
| Increase in Storm Restoration Costs Deferred..... | 13,051,740 |
| Decrease in OPEB Asset-merger fair value adjustment..... | (33,955,431) |
| Decrease in Pension Asset-merger fair value adjustment..... | (10,403,282) |
| Decrease in Pension and OPEB Settlement..... | (83,500,000) |
| Increase in Pension Expense Deferred..... | 22,218,931 |
| Decrease in OPEB Expense Deferred..... | (4,107,873) |
| Increase in NYPA ISO Memorandum of Understanding..... | 8,277,521 |
| Increase in Incentive Return on Retirement Funding..... | 5,134,383 |
| Increase in SIR Expenditures Deferred-Electric..... | 4,274,182 |
| Increase in Deferred Gas Pension and OPEB Expense..... | 2,741,952 |
| Increase in SC7 Standby Service Lost Revenue..... | 1,735,732 |
| Increase in Electronic Data Interchange Costs..... | 979,448 |
| Higher Deferred GAC Surcharge/Refund Adjustment..... | 592,358 |
| Increase in Deferred Loss on Option Contract Premiums..... | 466,070 |
| Increase in Religious Rate Revenue Deferred..... | 246,673 |
| Increase in City of Buffalo Settlement..... | 171,080 |
| Increase in Enhanced Severance..... | 85,167 |
| Increase in Customer Outreach and Education..... | 47,188 |
| Amortization of Excess AFUDC - Electric Plant in Service..... | (36,914) |
| Decrease in West Seneca Mall Costs..... | (165,585) |
| Decrease in SBC Program Costs Deferred..... | (1,909,298) |
| Decrease in Decontamination and Fund Costs Deferred..... | (2,102,090) |
| Decrease in NYISO Tariff Schedule 1 and 2 Costs..... | (2,840,517) |
| Decrease in VERO Asset..... | (8,043,363) |
| SFAS 109 (Regulatory Tax Asset) Adjustment..... | (196,000) |
| Decrease in Fuel Costs Deferred..... | (28,683,000) |
| Decrease in Merger Rate Plan Stranded Costs..... | <u>(174,069,558)</u> |
| | <u>(\$14,476,396)</u> |

Miscellaneous Deferred Debits

| | |
|--|---------------------|
| Balance on December 31, 2002..... | \$184,872 |
| Balance on December 31, 2003..... | 11,424,343 |
| | <u>\$11,239,471</u> |
| Increase in Pension Intangible Asset..... | \$11,279,656 |
| Decrease in Misc Deferred Debits - OWIP..... | (33,372) |
| Decrease in Miscellaneous Deferred Debits..... | <u>(6,813)</u> |
| | <u>\$11,239,471</u> |

Unamortized Loss on Required Debt

| | |
|---|---------------------|
| Balance on December 31, 2002..... | \$49,084,776 |
| Balance on December 31, 2003..... | 76,965,242 |
| | <u>\$27,880,466</u> |
| Increase in Unamortized Loss on First Mortgage Bonds..... | \$8,512,925 |
| Decrease in Unamortized Loss on NYSERDA Notes..... | (3,667,542) |
| Increase in Unamortized Loss on Senior Notes..... | 24,469,517 |
| Increase in Volney Marcy Deferred Loss..... | 2,393,636 |
| Amortization of Unamortized Loss on Previously Required Debt..... | <u>(3,828,070)</u> |
| | <u>\$27,880,466</u> |

NIAGARA MOHAWK POWER CORPORATION
EXPLANATION OF CHANGES IN THE FOLLOWING ACCOUNTS
AT DECEMBER 31, 2002 IN COMPARISON WITH DECEMBER 31, 2003

Accumulated Deferred Income Taxes

| | |
|---|-----------------------|
| Balance on December 31, 2002..... | \$1,493,787,000 |
| Balance on December 31, 2003..... | 1,394,478,000 |
| | <u>(\$99,309,000)</u> |
| Decrease in Statutory Rate Deferred Taxes..... | (\$103,490,000) |
| Increase in Previously Flowed Through Deferred Taxes..... | 4,181,000 |
| | <u>(\$99,309,000)</u> |

Preferred Stock Issued

| | |
|---|-----------------------|
| Balance on December 31, 2002..... | \$98,821,900 |
| Balance on December 31, 2003..... | 66,325,500 |
| | <u>(\$32,496,400)</u> |
| Redeemed Cumulative Preferred Stock 3.40% Series | (\$467,400) |
| Redeemed Cumulative Preferred Stock 3.60% Series | (250,100) |
| Redeemed Cumulative Preferred Stock 3.90% Series | (566,000) |
| Redeemed Cumulative Preferred Stock 4.10% Series | (292,500) |
| Redeemed Cumulative Preferred Stock 5.25% Series | (179,734) |
| Redeemed Cumulative Preferred Stock 4.85% Series | (240,666) |
| Redeemed Fixed Adjustable Rate Preferred Stock Series D | (30,500,000) |
| | <u>(\$32,496,400)</u> |

Miscellaneous Paid-In Capital

| | |
|---|----------------------|
| Balance on December 31, 2002..... | \$2,628,801,365 |
| Balance on December 31, 2003..... | 2,918,389,825 |
| | <u>\$289,588,460</u> |
| Capital Contribution by Niagara Mohawk Holdings, Inc..... | \$309,000,000 |
| Adjustments to Goodwill due to Tax Adjustments..... | (19,729,564) |
| Other Adjustments to Paid-In Capital..... | 318,024 |
| | <u>\$289,588,460</u> |

Unappropriated Retained Earnings

| | |
|--|----------------------|
| Balance on December 31, 2002..... | \$48,890,196 |
| Balance on December 31, 2003..... | 159,151,852 |
| | <u>\$110,261,656</u> |
| Increase due to Net Income (excluding Subsidiary Earnings)..... | \$115,911,383 |
| Transfers from Unappropriated Undistributed Subsidiary Earnings..... | (675,333) |
| Preferred Dividends..... | (4,974,394) |
| | <u>\$110,261,656</u> |

Retained Capital Stock

| | |
|---|-----------------|
| Balance on December 31, 2000..... | (\$407,192,671) |
| Balance on December 31, 2002..... | (407,192,671) |
| | <u>\$0</u> |
| Repurchase of Holdings' Common Stock at Cost..... | |

Bonds

| | |
|--|------------------------|
| Balance on December 31, 2002..... | \$1,466,968,000 |
| Balance on December 31, 2003..... | 991,711,000 |
| | <u>(\$475,257,000)</u> |
| Redemption of NMPC 6-7/8% Series Due 4/1/03..... | (\$85,000,000) |
| Redemption of NMPC 7-3/8% Series Due 8/1/03..... | (220,000,000) |
| Redemption of NMPC 7-7/8% Series Due 4/1/24..... | (170,257,000) |
| | <u>(\$475,257,000)</u> |

NIAGARA MOHAWK POWER CORPORATION
EXPLANATION OF CHANGES IN THE FOLLOWING ACCOUNTS
AT DECEMBER 31, 2002 IN COMPARISON WITH DECEMBER 31, 2003

Advances from Associated Companies

| | |
|-----------------------------------|----------------------|
| Balance on December 31, 2002..... | \$500,000,000 |
| Balance on December 31, 2003..... | 1,200,000,000 |
| | <u>\$700,000,000</u> |

| | |
|---|----------------------|
| Refinanced National Grid USA Note due 11/08/12..... | (\$500,000,000) |
| Niagara Mohawk Holdings Note due 11/08/12..... | 500,000,000 |
| Niagara Mohawk Holdings Note due 06/30/10..... | 350,000,000 |
| Niagara Mohawk Holdings Note due 07/31/09..... | 350,000,000 |
| | <u>\$700,000,000</u> |

Other Long-Term Debt

| | |
|-----------------------------------|------------------------|
| Balance on December 31, 2002..... | \$2,595,389,298 |
| Balance on December 31, 2003..... | 1,816,371,585 |
| | <u>(\$779,017,713)</u> |

| | |
|---|------------------------|
| Redemption of Senior Notes 7-3/8% Series E Due 2003..... | (\$302,439,000) |
| Redemption of Senior Discount Notes 8-1/2% Due 2010..... | (467,601,919) |
| Repayment of Notes Payable-LIPA & Central Hudson 9 1/2% Due 2006..... | (4,093,304) |
| Decrease in Other IPP Buyouts..... | (4,883,490) |
| | <u>(\$779,017,713)</u> |

Unamortized Discount on Long-Term Debt (Debit Balance)

| | |
|-----------------------------------|--------------------|
| Balance on December 31, 2002..... | (\$6,352,864) |
| Balance on December 31, 2003..... | (2,193,117) |
| | <u>\$4,159,747</u> |

| | |
|---|--------------------|
| Reclassification to Loss on Required Debt for Debt retired prior to maturity..... | \$3,190,350 |
| Amortization of Discount on Long-Term Debt..... | 969,397 |
| | <u>\$4,159,747</u> |

Accumulated Provision for Injuries and Damages

| | |
|-----------------------------------|--------------------|
| Balance on December 31, 2002..... | \$4,127,500 |
| Balance on December 31, 2003..... | 7,147,500 |
| | <u>\$3,020,000</u> |

| | |
|---|--------------------|
| Increase in Provision for Injuries and Damages..... | <u>\$3,020,000</u> |
|---|--------------------|

Accounts Payable

| | |
|-----------------------------------|--------------------|
| Balance on December 31, 2002..... | \$253,353,418 |
| Balance on December 31, 2003..... | 261,842,950 |
| | <u>\$8,489,532</u> |

| | |
|---|--------------------|
| Decrease in Accounts Payable Vouchers..... | (\$413,840) |
| Decrease in Purchase Power/Gas Invoice Accrual..... | (96,408) |
| Decrease in Accounts Payable Executive Incentive Compensation..... | (498,917) |
| Increase in Accounts Payable Outstanding Checks..... | 807,933 |
| Increase in Accounts Payable Payroll..... | 86,815 |
| Increase in Accounts Payable for ESCOS..... | 2,365,165 |
| Increase in Accounts Payable-Emergency Demand Response Program-Retail Customer Share..... | 1,208,587 |
| Increase in Other Accounts Payable..... | 5,030,197 |
| | <u>\$8,489,532</u> |

NIAGARA MOHAWK POWER CORPORATION
EXPLANATION OF CHANGES IN THE FOLLOWING ACCOUNTS
AT DECEMBER 31, 2002 IN COMPARISON WITH DECEMBER 31, 2003

Notes Payable to Associated Companies

| | |
|---|----------------------|
| Balance on December 31, 2002..... | \$291,000,000 |
| Balance on December 31, 2003..... | 701,600,000 |
| | <u>\$410,600,000</u> |
| Increase in amount due to National Grid Money Pool..... | \$390,500,000 |
| Increase in amount due Niagara Mohawk Holdings, Inc. | 20,100,000 |
| | <u>\$410,600,000</u> |

Accounts Payable to Associated Companies

| | |
|-----------------------------------|---------------------|
| Balance on December 31, 2002..... | \$224,766,510 |
| Balance on December 31, 2003..... | 260,873,593 |
| | <u>\$36,107,083</u> |

Customer Deposits

| | |
|---|---------------------|
| Balance on December 31, 2000..... | \$15,254,570 |
| Balance on December 31, 2002..... | 18,806,848 |
| | <u>\$3,552,278</u> |
| Increase in Customer Deposits..... | \$3,139,386 |
| Increase in Customer Deposits-Electric URD..... | 412,892 |
| | <u>\$3,552,278</u> |
| Decrease in Accounts Payable-NM Receivable, LLC..... | (\$4,777,953) |
| Increase in Accounts Payable-Opinac North America, Inc..... | 15,375,043 |
| Increase in Accounts Payable-Massachusetts Electric Company..... | 2,863,497 |
| Increase in Accounts Payable-NM Properties..... | 1,755,389 |
| Increase in Accounts Payable-Narrangansett Electric Co..... | 1,148,881 |
| Increase in Accounts Payable-New England Electric System Trust..... | 1,371,718 |
| Increase in Accounts Payable-NEPSCO..... | 17,427,392 |
| Increase in Accounts Payable-Various Associated Companies..... | 943,116 |
| | <u>\$36,107,083</u> |

Taxes Accrued

| | |
|---|-----------------------|
| Balance on December 31, 2002..... | \$30,804,217 |
| Balance on December 31, 2003..... | 5,241,897 |
| | <u>(\$25,562,320)</u> |
| Decrease in Accrued Federal Income Tax..... | (\$26,746,105) |
| Increase in Accrued Payroll Taxes..... | 1,094,983 |
| Increase in Accrued Municipal Gross Income Tax..... | 140,387 |
| Decrease in Accrued Real Estate Taxes..... | (162,355) |
| Increase in Accrued Sales and Use Tax..... | 110,770 |
| | <u>(\$25,562,320)</u> |

Interest Accrued

| | |
|--|-----------------------|
| Balance on December 31, 2002..... | \$69,466,777 |
| Balance on December 31, 2003..... | 54,131,507 |
| | <u>(\$15,335,270)</u> |
| Decrease in Niagara Mohawk Issues..... | (\$23,455,638) |
| Decrease in NYSEERDA Promissory Issues..... | (426,226) |
| Increase in Accrued Interest-Affiliated Companies..... | 8,498,709 |
| Increase in Other Accrued Interest..... | 47,885 |
| | <u>(\$15,335,270)</u> |

NIAGARA MOHAWK POWER CORPORATION
EXPLANATION OF CHANGES IN THE FOLLOWING ACCOUNTS
AT DECEMBER 31, 2002 IN COMPARISON WITH DECEMBER 31, 2003

Miscellaneous Current and Accrued Liabilities

| | |
|---|--------------------|
| Balance on December 31, 2002..... | \$103,496,950 |
| Balance on December 31, 2003..... | 113,113,594 |
| | <u>\$9,616,644</u> |
| Decrease in Accrued Vacation Pay at End of Year..... | (\$2,456,046) |
| Increase in Accrued Liabilities Other..... | 1,710,320 |
| Increase in Other Payroll Deductions..... | 598,533 |
| Decrease in Accrued Goals Liability..... | (1,629,912) |
| Decrease in Accrued Annual Recognition Bonus..... | (1,116,264) |
| Decrease in Liability for Separation Allowance Costs..... | (512,365) |
| Increase in NRG Reserve..... | 11,418,775 |
| Decrease in Liability for Stock Appreciation Rights..... | (7,438,132) |
| Decrease in Miscellaneous Accrued Liabilities..... | (187,851) |
| Decrease in Transmission Revenue Refund Liability..... | (424,108) |
| Decrease in Unrealized Derivative Losses..... | (304,030) |
| Decrease in Natural Gas Refunds..... | (1,546,361) |
| Increase in MCG-Tariff Customer Refund..... | 11,507,084 |
| | <u>\$9,619,644</u> |

Other Deferred Credits

| | |
|---|------------------------|
| Balance on December 31, 2002..... | \$2,171,686,767 |
| Balance on December 31, 2003..... | 1,958,555,548 |
| | <u>(\$213,131,219)</u> |
| Increase in Energy Service Company Deposits..... | 299,621 |
| Decrease in Decontamination and Decommissioning Fund Liability..... | (2,514,877) |
| Increase in Unregulated Generator Capital Work Reimbursement..... | 193,147 |
| Increase in Accrued Pensions..... | 79,640,635 |
| Decrease in ESCO Uncollectible Reserve Fee..... | 146,870 |
| Decrease in PSEG Transmission Improvement Funds..... | (2,000,000) |
| Decrease in Transmission Improvement Funds..... | (8,698,499) |
| Increase in Contract Auction Revenues..... | 2,880,162 |
| Increase in Nuclear Employee Settlement Liability..... | 779,565 |
| Decrease in Accrued Pension Funding..... | (219,133,880) |
| Increase in all Other Reserves..... | 15,945,443 |
| Decrease in Demutualization - UMICO holdings..... | (1,371,580) |
| Decrease in Other Postemployment Benefit Liability..... | (170,037,010) |
| Decrease in Non-Qualified Pension Enhancement..... | (32,406) |
| Increase in Liability for Environmental Restoration Costs..... | 22,000,000 |
| Decrease in Executive Def. Compensation Liability..... | (751,629) |
| Increase in Supplemental Executive Retirement Plan Liability..... | 613,790 |
| Increase in Indexed Swap Contracts..... | 67,424,000 |
| Increase in Liability for Nuclear Fuel Disposal Costs..... | 1,485,429 |
| | <u>(\$213,131,219)</u> |

NIAGARA MOHAWK POWER CORPORATION
EXPLANATION OF CHANGES IN THE FOLLOWING ACCOUNTS
AT DECEMBER 31, 2002 IN COMPARISON WITH DECEMBER 31, 2003

Other Regulatory Liabilities

| | |
|--|-----------------------|
| Balance on December 31, 2002..... | \$493,972,714 |
| Balance on December 31, 2003..... | 446,362,084 |
| | <u>(\$47,610,630)</u> |
| Increase in Proceeds from EPA Sales of Emissions/Emission Reduction Credits..... | 64,300 |
| Increase in Tax Regulatory Liability (SFAS 109)..... | 4,696,135 |
| Decrease in Gain on Redemption of Bonds..... | (86,244) |
| Decrease in Gain on Sale of Volney-Marcy..... | (4,638,597) |
| Decrease in Accrued Unbilled Gas Revenue Deferred..... | (2,000,000) |
| Increase in Gas Net Revenue Sharing Mechanism..... | 506,425 |
| Increase in Memorandum of Agreement - March 31, 2003..... | 8,941,273 |
| Increase in NYPA Resident Hydropower Benefit Rec..... | 15,921,768 |
| Increase in Gas Millennium Fund Deferral..... | 381,288 |
| Decrease in Meter Read Connect / Disconnect Service Charge..... | (14,129,184) |
| Decrease in Generation Stranded Cost Adjustment..... | (77,067) |
| Decrease in Incident Service Revenues Deferred..... | (1,296,217) |
| Decrease in Gas Non-Core Revenue Sharing..... | (584,812) |
| Increase in Carrying Charges in Case 96-M-0858..... | 990,000 |
| Decrease in Gas Contingency Reserve..... | (191,467) |
| Decrease in Environmental Insurance Recoveries..... | (2,550,000) |
| Increase in Interest on GRT Audit Refund..... | 391,000 |
| Decrease in SC-12 Optional Discount Reconciliation..... | (539,000) |
| Increase in MRA Interest Rate Savings..... | 6,027,171 |
| Decrease in Exit Fee Deferral..... | (70,366) |
| Increase in Low Income Allowance Discount Program..... | 1,375,484 |
| Increase in NYPA Memorandum of Understanding..... | 18,137,045 |
| Decrease in Oswego 6 Transmission Service..... | (4,308,480) |
| Decrease in Pension/OPEB Curtailment Gains..... | (43,509,000) |
| Decrease in Transmission Revenue Adjustment Clause..... | (941,613) |
| Decrease in Commodity Adjustment Clause..... | (21,399,813) |
| Increase in I & R Deferred Expenditure - Gas..... | 357,738 |
| Increase in New York State Sales Tax Refund..... | (3,212,635) |
| Increase in Economic Development Fund..... | 11,615,665 |
| Increase in GRT Customer Refund..... | (3,357,407) |
| Decrease in Deferred Derivative Gains/Losses..... | (5,182,317) |
| Decrease in Pension/OPEB Settlement Liability..... | (8,941,273) |
| Decrease in All Other Regulatory Liabilities..... | (430) |
| | <u>(\$47,610,630)</u> |

Accumulated Deferred Investment Tax Credits

| | |
|-----------------------------------|-----------------------|
| Balance on December 31, 2000..... | \$135,924,418 |
| Balance on December 31, 2002..... | 49,890,418 |
| | <u>(\$86,034,000)</u> |

Decrease in Accumulated Deferred Investment Tax Credits.....

Accumulated Deferred Income Taxes - Liberalized Depreciation

| | |
|-----------------------------------|---------------------|
| Balance on December 31, 2002..... | \$829,165,000 |
| Balance on December 31, 2003..... | 882,442,000 |
| | <u>\$53,277,000</u> |

Increase in Statutory Rate Deferred Taxes.....

| | |
|--|---------------------|
| Decrease in Previously Flowed Through..... | \$76,430,000 |
| | <u>(23,153,000)</u> |
| | <u>\$53,277,000</u> |

Accumulated Deferred Income Taxes - Other

| | |
|-----------------------------------|---------------------|
| Balance on December 31, 2002..... | \$1,610,228,646 |
| Balance on December 31, 2003..... | 1,635,740,793 |
| | <u>\$25,512,147</u> |

Increase in Statutory Rate Deferred Taxes.....

| | |
|--|---------------------|
| Decrease in Previously Flowed Through..... | \$32,099,793 |
| | <u>(6,587,647)</u> |
| | <u>\$25,512,146</u> |

**NIAGARA MOHAWK POWER CORPORATION
BALANCE SHEET**

Assets and Other Debits

| | December 31, 2002 | December 31, 2003 |
|--|-------------------------|-------------------------|
| 101 Electric Plant in Service..... | 4,991,410,430 | 5,115,178,440 |
| 101 Gas Plant in Service..... | 1,376,344,989 | 1,439,650,105 |
| 104 Electric Plant Leased to Others..... | 3,403,815 | 3,403,815 |
| 105 Electric Plant Held for Future Use..... | 2,596,713 | 2,596,713 |
| 106 Completed Construction Not Classified - Electric..... | 37,654,023 | 28,351,611 |
| 106 Completed Construction Not Classified - Gas..... | 3,441,195 | 26,793,427 |
| 107 Construction Work in Progress..... | 185,736,313 | 143,204,054 |
| 108 Accumulated Provision for Depreciation of Electric Plant in Service..... | (1,732,890,699) | (1,760,329,005) |
| 108 Accumulated Provision for Depreciation of Gas Plant in Service..... | (445,600,104) | (467,463,065) |
| 109 Accumulated Provision for Depreciation of Electric Plant Leased to Others..... | (307,875) | (505,760) |
| 111 Accumulated Provision for Amortization and Depletion Electric Plant in Service..... | (29,246,252) | (36,341,745) |
| 111 Accumulated Provision for Amortization and Depletion of Gas Plant in Service..... | (3,533,095) | (4,446,029) |
| 112 Accumulated Provision for Amortization of Electric Plant Leased to Others..... | | |
| 114 Electric Plant Acquisition Adjustments..... | 1,019,980,561 | 1,011,154,522 |
| 114 Gas Plant Acquisition Adjustments..... | 216,359,514 | 214,587,929 |
| 118.1 Common Utility Plant..... | 349,283,366 | 335,845,075 |
| 119.1 Accumulated Provision for Depreciation and Amortization of Common Utility Plant..... | (93,166,364) | (89,537,555) |
| 120 Nuclear Fuel Assemblies..... | - | - |
| 120 Accumulated Provision for Amortization of Nuclear Fuel Assemblies..... | - | - |
| Net Utility Plant..... | 5,881,466,530 | 5,962,142,532 |
| 121 Non-Utility Property (net of reserve)..... | 3,740,616 | 4,591,559 |
| 122 Accumulated Provision for Depreciation and Amortization of Non-Utility Property..... | (922,519) | (955,298) |
| 123.1 Investment in Companies..... | 240,080,520 | 238,310,409 |
| 124 Other Investments..... | 8,651,911 | 7,849,351 |
| 128 Other Special Funds..... | 64,740,251 | 52,496,285 |
| Total Other Property and Investments..... | 316,290,779 | 302,292,306 |
| 131 Cash..... | 37,574,227 | 7,424,069 |
| 133 Dividend Special Deposits..... | 0 | 0 |
| 134 Other Special Deposits..... | 9,378,163 | 31,522,662 |
| 135 Working Funds..... | | 1,148,515 |
| 136 Temporary Cash Investments..... | 342,695 | 343,115 |
| 141 Notes Receivable..... | 72,976 | 72,976 |
| 142 Customer Accounts Receivable..... | 402,779,981 | 466,013,298 |
| 143 Other Accounts Receivable..... | 43,516,185 | 50,280,352 |
| 144 Accumulated Provision for Uncollectible Accounts - Credit..... | (87,594,900) | (122,497,000) |
| 145 Notes Receivable from Associated Companies..... | 0 | 0 |
| 146 Accounts Receivable from Associated Companies..... | 1,833,929 | 413,108 |
| 146 Materials and Supplies..... | 17,814,482 | 16,803,898 |
| 146 Gas Stored Underground..... | 48,040,461 | 79,015,723 |
| 165 Prepayments..... | 34,253,318 | 52,654,811 |
| 171 Interest and Dividends Receivable..... | 17,113 | 36,724 |
| 172 Rents Receivable..... | 3,955,359 | 4,303,334 |
| 173 Accrued Utility Revenue..... | 147,019,000 | 136,548,950 |
| 174 Miscellaneous Current and Accrued Assets..... | 17,793,735 | 12,085,280 |
| Total Current and Accrued Assets..... | 676,796,724 | 736,169,815 |
| 181 Unamortized Debt Expense..... | 37,037,696 | 37,810,773 |
| 182.3 Other Regulatory Assets..... | 5,244,510,535 | 5,230,034,139 |
| 183 Preliminary Survey and Investigation Charges..... | 772,314 | 1,379,668 |
| 184 Clearing Accounts..... | 1 | 154,234 |
| 185 Temporary Facilities..... | 26,664 | (31,533) |
| 186 Miscellaneous Deferred Debits..... | 184,872 | 11,424,343 |
| 187 Deferred Losses from Disposal of Utility Plant..... | - | - |
| 188 Investment in Research and Development..... | (277,917) | 0 |
| 189 Unamortized Loss on Reacquired Debt..... | 49,084,776 | 76,965,242 |
| 190 Accumulated Deferred Income Taxes..... | 1,493,787,000 | 1,394,478,000 |
| Total Deferred Debits..... | 6,825,125,941 | 6,752,214,866 |
| Total Assets and Other Debits..... | \$13,699,679,974 | \$13,752,819,519 |

NIAGARA MOHAWK POWER CORPORATION
BALANCE SHEET

Assets and Other Debits

| | December 31, 2002 | December 31, 2003 |
|--|-------------------------|-------------------------|
| 101 Electric Plant in Service..... | 4,991,410,430 | 5,115,178,440 |
| 101 Gas Plant in Service..... | 1,376,344,989 | 1,439,650,105 |
| 104 Electric Plant Leased to Others..... | 3,403,815 | 3,403,815 |
| 105 Electric Plant Held for Future Use..... | 2,596,713 | 2,596,713 |
| 106 Completed Construction Not Classified - Electric..... | 37,654,023 | 28,351,611 |
| 106 Completed Construction Not Classified - Gas..... | 3,441,195 | 26,793,427 |
| 107 Construction Work in Progress..... | 185,736,313 | 143,204,054 |
| 108 Accumulated Provision for Depreciation of Electric Plant in Service..... | (1,732,890,699) | (1,760,329,005) |
| 108 Accumulated Provision for Depreciation of Gas Plant in Service..... | (445,600,104) | (467,463,065) |
| 109 Accumulated Provision for Depreciation of Electric Plant Leased to Others..... | (307,875) | (505,760) |
| 111 Accumulated Provision for Amortization and Depletion Electric Plant in Service..... | (29,246,252) | (36,341,745) |
| 111 Accumulated Provision for Amortization and Depletion of Gas Plant in Service..... | (3,533,095) | (4,446,029) |
| 112 Accumulated Provision for Amortization of Electric Plant Leased to Others..... | | |
| 114 Electric Plant Acquisition Adjustments..... | 1,019,980,561 | 1,011,154,522 |
| 114 Gas Plant Acquisition Adjustments..... | 216,359,514 | 214,587,929 |
| 118.1 Common Utility Plant..... | 349,283,366 | 335,845,075 |
| 119.1 Accumulated Provision for Depreciation and Amortization of Common Utility Plant..... | (93,166,364) | (89,537,555) |
| 120 Nuclear Fuel Assemblies..... | - | - |
| 120 Accumulated Provision for Amortization of Nuclear Fuel Assemblies..... | - | - |
| Net Utility Plant..... | 5,881,466,530 | 5,962,142,532 |
| 121 Non-Utility Property (net of reserve)..... | 3,740,616 | 4,591,559 |
| 122 Accumulated Provision for Depreciation and Amortization of Non-Utility Property..... | (922,519) | (955,298) |
| 123.1 Investment in Companies..... | 240,080,520 | 238,310,409 |
| 124 Other Investments..... | 8,651,911 | 7,849,351 |
| 128 Other Special Funds..... | 64,740,251 | 52,496,285 |
| Total Other Property and Investments..... | 316,290,779 | 302,292,306 |
| 131 Cash..... | 37,574,227 | 7,424,069 |
| 133 Dividend Special Deposits..... | 0 | 0 |
| 134 Other Special Deposits..... | 9,378,163 | 31,522,662 |
| 135 Working Funds..... | | 1,148,515 |
| 136 Temporary Cash Investments..... | 342,695 | 343,115 |
| 141 Notes Receivable..... | 72,976 | 72,976 |
| 142 Customer Accounts Receivable..... | 402,779,981 | 466,013,298 |
| 143 Other Accounts Receivable..... | 43,516,185 | 50,280,352 |
| 144 Accumulated Provision for Uncollectible Accounts - Credit..... | (87,594,900) | (122,497,000) |
| 145 Notes Receivable from Associated Companies..... | 0 | 0 |
| 146 Accounts Receivable from Associated Companies..... | 1,833,929 | 413,108 |
| 146 Materials and Supplies..... | 17,814,482 | 16,803,898 |
| 146 Gas Stored Underground..... | 48,040,461 | 79,015,723 |
| 165 Prepayments..... | 34,253,318 | 52,654,811 |
| 171 Interest and Dividends Receivable..... | 17,113 | 36,724 |
| 172 Rents Receivable..... | 3,955,359 | 4,303,334 |
| 173 Accrued Utility Revenue..... | 147,019,000 | 136,548,950 |
| 174 Miscellaneous Current and Accrued Assets..... | 17,793,735 | 12,085,280 |
| Total Current and Accrued Assets..... | 676,796,724 | 736,169,815 |
| 181 Unamortized Debt Expense..... | 37,037,696 | 37,810,773 |
| 182.3 Other Regulatory Assets..... | 5,244,510,535 | 5,230,034,139 |
| 183 Preliminary Survey and Investigation Charges..... | 772,314 | 1,379,668 |
| 184 Clearing Accounts..... | 1 | 154,234 |
| 185 Temporary Facilities..... | 26,664 | (31,533) |
| 186 Miscellaneous Deferred Debits..... | 184,872 | 11,424,343 |
| 187 Deferred Losses from Disposal of Utility Plant..... | - | - |
| 188 Investment in Research and Development..... | (277,917) | 0 |
| 189 Unamortized Loss on Reacquired Debt..... | 49,084,776 | 76,965,242 |
| 190 Accumulated Deferred Income Taxes..... | 1,493,787,000 | 1,394,478,000 |
| Total Deferred Debits..... | 6,825,125,941 | 6,752,214,866 |
| Total Assets and Other Debits..... | \$13,699,679,974 | \$13,752,819,519 |

NIAGARA MOHAWK POWER CORPORATION
BALANCE SHEET

| <u>Liabilities and Other Credits</u> | | December 31, 2002 | December 31, 2003 |
|---|---|-----------------------|-----------------------|
| 201 | Common Stock Issued..... | 187,364,863 | 187,364,863 |
| 204 | Preferred Stock Issued..... | 98,821,900 | 66,325,500 |
| 207 | Premium on Capital Stock..... | 0 | 0 |
| 209 | Reduction in Par or Stated Value of Capital Stock..... | 0 | 0 |
| 210 | Gain on Resale or Cancellation of Reacquired Stock..... | 11,883,298 | 11,110,675 |
| 211 | Miscellaneous Paid-In Capital..... | 2,628,801,365 | 2,918,389,825 |
| 214 | Capital Stock Expense..... | 0 | 0 |
| 215 | Appropriated Retained Earnings..... | 935,256 | 1,328,226 |
| 216 | Unappropriated Retained Earnings..... | 48,890,196 | 159,151,852 |
| 216.1 | Unappropriated Undistributed Subsidiary Earnings..... | 550,708 | 532,888 |
| 217 | Reacquired Capital Stock..... | - | - |
| Total Proprietary Capital..... | | 2,977,247,586 | 3,344,203,829 |
| 221 | Bonds..... | 1,466,968,000 | 991,711,000 |
| 222 | Reacquired Bonds..... | - | - |
| 223 | Advances from Associated Companies..... | 500,000,000 | 1,200,000,000 |
| 224 | Other Long-Term Debt..... | 2,595,389,298 | 1,816,371,585 |
| 225 | Unamortized Premium on Long-Term Debt..... | 27,256 | 0 |
| 226 | Unamortized Discount on Long-Term Debt - Debit..... | (6,352,864) | (2,193,117) |
| Total Long-Term Debt..... | | 4,556,031,690 | 4,005,889,468 |
| 227 | Obligations Under Capital Leases - Noncurrent..... | 6,627,358 | 5,694,618 |
| 228.2 | Accumulated Provision for Injuries and Damages..... | 7,147,500 | 4,127,500 |
| Total Noncurrent Liabilities..... | | 13,774,858 | 9,822,118 |
| 231 | Notes Payable..... | - | - |
| 232 | Accounts Payable..... | 253,353,418 | 261,842,950 |
| 233 | Notes Payable to Associated Companies..... | 291,000,000 | 701,600,000 |
| 234 | Accounts Payable to Associated Companies..... | 224,766,510 | 260,873,593 |
| 235 | Customer Deposits..... | 23,456,585 | 25,665,285 |
| 236 | Taxes Accrued..... | 30,804,217 | 5,241,897 |
| 237 | Interest Accrued..... | 69,466,777 | 54,131,507 |
| 238 | Dividends Declared..... | - | - |
| 239 | Matured Long-Term Debt..... | - | - |
| 241 | Tax Collections Payable..... | 1,277,149 | (374,559) |
| 242 | Miscellaneous Current and Accrued Liabilities..... | 103,496,950 | 113,119,594 |
| 243 | Obligations under Capital Leases-Current..... | 932,743 | 932,742 |
| Total Current and Accrued Liabilities..... | | 998,554,349 | 1,423,033,009 |
| 252 | Customer Advances for Construction..... | 1,909,946 | 2,276,670 |
| 253 | Other Deferred Credits..... | 2,171,686,767 | 1,958,555,548 |
| 254 | Other Regulatory Liabilities..... | 493,972,714 | 446,362,084 |
| 255 | Accumulated Deferred Investment Tax Credits..... | 47,108,418 | 44,494,000 |
| 281 | Accumulated Deferred Income Taxes - Accelerated Amortization..... | - | - |
| 282 | Accumulated Deferred Income Taxes - Liberalized Depreciation..... | 829,165,000 | 882,442,000 |
| 283 | Accumulated Deferred Income Taxes - Other..... | 1,610,228,646 | 1,635,740,793 |
| Total Deferred Credits..... | | 5,154,071,491 | 4,969,871,095 |
| Total Liabilities and Other Credits..... | | 13,699,679,974 | 13,752,819,519 |