Pursuant to Rule 424(b)(5)
Registration No. 33-51073

PROSPECTUS SUPPLEMENT
(TO PROSPECTUS DATED FEBRUARY 24, 1994)

$210,000,000

NIAGARA MOHAWK POWER CORPORATION

FIRST MORTGAGE BONDS, 6 7/8% SERIES DUE MARCH 1, 2001

Interest on the New Bonds is payable semi-annually on March 1 and September 1, commencing September 1, 1994. The New Bonds are not redeemable prior to maturity and are not entitled to any sinking fund. The New Bonds will be issued only in the form of registered Bonds without coupons in denominations of $1,000 and multiples thereof. See "Supplemental Description of New Bonds."

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION NOR HAS THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS SUPPLEMENT OR THE PROSPECTUS TO WHICH IT RELATES. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

<TABLE>
<CAPTION>

<S>	PRICE TO PUBLIC(1) <C>	UNDERWRITING DISCOUNT(2) <C>	PROCEEDS TO COMPANY(1)(3) <C>
Per Bond......................................	99.65%	.625%	99.025%
Total...	$209,265,000	$1,312,500	$207,952,500

</TABLE>

(1) Plus accrued interest from March 1, 1994.

(2) The Company has agreed to indemnify the several Underwriters against certain liabilities, including liabilities under the Securities Act of 1933, as amended. See "Underwriting."

(3) Before deducting expenses payable by the Company, estimated at $2,520,000.

The New Bonds are offered by the several Underwriters, subject to prior sale, when, as and if issued to and accepted by them, subject to approval of certain legal matters by counsel for the Underwriters and certain other conditions. The Underwriters reserve the right to withdraw, cancel or modify such offer and to reject orders in whole or in part. It is expected that delivery of the New Bonds will be made in New York, New York on or about March 4, 1994.

MERRILL LYNCH & CO.
CITICORP SECURITIES, INC.
GOLDMAN, SACHS & CO.
J.P. MORGAN SECURITIES INC.

The date of this Prospectus Supplement is February 25, 1994.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE NEW BONDS AT LEVELS ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

CONSOLIDATED FINANCIAL INFORMATION

The following material is qualified in its entirety by the detailed information appearing in the Prospectus and by the information and financial statements (including the notes thereto) appearing in the documents incorporated by reference in the Prospectus, as supplemented hereby. The capsule financial data for the years ended December 31, 1993, 1992 and 1991 are taken from the Company's financial statements audited by Price Waterhouse, independent accountants.

<TABLE>
<CAPTION>

	Year Ended December 31,		
	1993	1992	1991
	(in thousands, except per share data)		
<S>	<C>	<C>	<C>
Operating Revenues	$ 3,933,431	$ 3,701,527	$ 3,382,518
Operating Income	$ 524,500	$ 524,326	$ 525,434
Net Income	$ 271,831	$ 256,432	$ 243,369
Earnings Available for Common Stock	$ 239,974	$ 219,920	$ 202,958
Average Number of Shares of Common Stock Outstanding	140,417	136,570	136,100
Earnings Per Average Share of Common Stock	$ 1.71	$ 1.61	$ 1.49
Cash Dividends Paid Per Share of Common Stock	$ .95	$ .76	$ .32

</TABLE>

<TABLE>
<CAPTION>

	As of December 31, 1993 (In thousands)			
	Actual		As Adjusted*	
<S>	<C>	<C>	<C>	<C>
Long-Term Debt**	$ 3,258,612	53.2%	$ 3,268,612	53.3%
Preferred Stock***	$ 413,200	6.7%	$ 413,200	6.7%
Common Stock Equity	$ 2,456,465	40.1%	$ 2,456,465	40.0%
Total Capitalization	$ 6,128,277	100.00%	$ 6,138,277	100.00%

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</TABLE>

Short-term debt aggregated $368,016,000 at December 31, 1993 (excluding $216,185,000 in long-term debt due within one year) and $397,002,000 at February 24, 1994 (excluding $214,219,000 in long-term debt due within one year).

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* Reflects the issuance of the New Bonds and the anticipated retirement during the second quarter of 1994 of $200,000,000 in long-term debt.

** Excludes $216,185,000 of long-term debt due within one year.

*** Excludes $27,200,000 of sinking fund requirements on Preferred Stock due within one year.

RECENT DEVELOPMENTS

SECURITIES RATINGS

On February 23, 1994, Standard & Poor's Corporation ("S&P") announced that it was lowering its ratings on Company securities. These revised S&P ratings are now as follows: senior secured debt (including First Mortgage Bonds) to BBB- from BBB, senior unsecured debt and preferred stock to BB+ from BBB- and commercial paper to A-3 from A-2. In addition, S&P announced that the ratings outlook for the Company would continue to be negative.

A number of factors reflecting "prospects for insufficient financial improvement" were considered in S&P's decision to downgrade, including large and increasing purchased power costs required to be paid to unregulated generators, weak sales growth because of the sluggish economy in the Company's service territory and the potential for modest revenue losses resulting from discounted rates to larger customers who may otherwise bypass the Company's electric system for other suppliers.

S&P noted that the Company has taken steps to control operating expenses and limit exposure to unregulated generator costs and to otherwise improve revenues. S&P expressed concern, however, as to whether the Company could, among other things, continue to contain costs and sustain its strong nuclear performance level achieved in 1993.

Moody's Investors Service has indicated that it will be maintaining its current ratings on all existing Company debt and will extend such rating to the New Bonds.

SITHE PROCEEDING

On January 12, 1994, the New York Public Service Commission ("PSC") took favorable action on the Company's petition protesting the retail sale of electricity by the Sithe Independence Plant ("Sithe") in Scriba, New York. Sithe proposes to sell electricity to Alcan Rolled Products, one of the Company's largest customers, and to Beloit Industries, a planned paper recycling mill.

The PSC agreed with the Company's contention that such a sale would make Sithe an electric corporation, subject to the PSC's jurisdiction under the New York Public Service Law. Upon rendering the decision, the PSC called for a comment period to consider how to regulate electric-producing plants like Sithe that are not traditional public utilities. The Company is unable to predict the outcome of this proceeding.

NINE MILE ONE PERFORMANCE

On February 10, 1994, Nine Mile Point Nuclear Station Unit No. 1 ("Nine Mile One") marked its 300th day of continuous service. The current run is the second longest in the plant's 24-year history.

The plant has operated without interruption since the completion of a refueling and maintenance outage on April 15, 1993. In that time the plant has generated nearly 4.1 million megawatt-hours of electricity.

CONSTRUCTION AND FINANCING PROGRAM

The following table sets forth certain data, as of February 1, 1994, concerning the Company's estimated sources and uses of capital for 1994:

<TABLE>
<CAPTION>

<S>	1994 (In Thousands) <C>
Uses of Capital:	
Construction	$ 461,000
Nuclear Fuel	33,000
Allowance for Funds Used During Construction ("AFC")	16,000
Total	510,000
Retirements of Securities, Sinking Fund Obligations and Other Requirements	545,000
Total	$1,055,000
Sources of Capital:	
Long-Term Financing	$ 825,000
Changes in Other Credit Facilities	(75,000)
Internal Sources	305,000
Total	$1,055,000

</TABLE>

External financing of approximately $750 million is expected for 1994, of which $545 million is to be used in connection with scheduled and optional refundings. This external financing is projected to consist of approximately $425 million in long-term debt, $200 million from sales of Common Stock, $200 million of preferred stock and a $75 million decrease in short-term debt.

The amount indicated in the above table for "Retirements of Securities, Sinking Fund Obligations and Other Requirements" for 1994 and the $425 million in long-term debt referred to in the preceding paragraph includes $115.7 million for forward refundings committed to by the Company in 1992. The amounts indicated in the above table for "Nuclear Fuel" include estimated costs of acquisition, conversion, enrichment and fabrication, but exclude financing costs.

Consistent with the Company's approach to its 1994 financing plan, external financing plans for 1995 through 1998 are subject to periodic revision as underlying assumptions are changed to reflect new developments; however, the Company currently anticipates that external financing over this period will decrease to approximately $420 million. Substantially all of this financing is expected to be used for refunding, as cash provided by operations is generally expected to provide sufficient funds for the Company's anticipated construction program. The aggregate level of financing during this four year period will reflect, among other things, the nature, timeliness and adequacy of rate relief, uncertain energy demand due to economic conditions, and capital expenditures relating to distribution and transmission load reliability projects, as well as expansion of the gas business. Costs associated with compliance with federal and state environmental quality standards, including the Clean Air Act Amendments of 1990 (the "Clean Air Act"), the effects of rate regulation and various regulatory initiatives, the level of internally generated funds and dividend payments, the availability and cost of capital and the ability of the Company to meet its interest and preferred stock dividend coverage requirements, to satisfy legal requirements and restrictions in governing instruments and to maintain an adequate credit rating will also impact the amount and type of future external financing.

The Company presently anticipates that funds required for its construction program, acquisition of nuclear fuel, AFC, other capitalized costs and retirements of securities for the years 1995 through 1998 will be as follows:

<TABLE>
<CAPTION>

	1995	1996	1997	1998
		(In Thousands)		
<S>	<C>	<C>	<C>	<C>
Construction	$342,000	$342,000	$343,000	$343,000
Nuclear Fuel	13,000	56,000	1,000	62,000
AFC	8,000	7,000	7,000	8,000
Retirements of Securities, Sinking Fund Obligations, and Other Requirements	$79,000	$69,000	$50,000	$70,000

</TABLE>

The provisions of the Clean Air Act are expected to have an impact on the Company's fossil generation plants during the period through 2000 and beyond. The Company is studying options for compliance with the various provisions of Phase I of the Clean Air Act, which becomes effective January 1, 1995 and continues through 1999, including a possible strategy that focuses on fuel switching at its facilities. The potential for changing the coal burned at the Dunkirk Steam Station to a lower sulfur content is under review. The Company has included in the construction budget the cost of converting either Oswego Unit 5 or Unit 6 from oil to co-firing with natural gas and oil (including construction of a natural gas pipeline to the facility) and placing the other Oswego unit in long-term cold standby with an expected return to service at the end of the century. To meet compliance requirements, the Company must also lower its nitrous oxide emissions and plans to install low nitrous oxide burners at the Huntley and Dunkirk Steam Stations. For Phase I compliance, the Company has included approximately $46 million in its construction forecast for 1994 through 1997. Phase II of the Clean Air Act, effective January 1, 2000, will require further reductions in sulfur dioxide emissions. The Company has conducted studies indicating that the burning of lower sulfur fuels at all of its coal and oil fired units is a possible compliance method, but decisions on Phase II have not yet been made. The Company's preliminary assessment of Phase II sulfur dioxide and nitrogen oxide emission compliance costs is that additional capital expenditures on the order of $124 million (1994 dollars) will be required and incremental annual fuel costs and operating expenses of $21 million will be incurred. However, there are a number of uncertainties that make it difficult to project these costs at this time. The Company is continuing to study its options, taking into consideration the impact of emerging environmental laws and regulations at both the Federal and State levels and the effect of unregulated generator purchases and demand-side management initiatives on load forecasts, as well as continuing to examine the emerging market for trading emission allowances.

The Company believes that compliance with the new emission restrictions can be achieved with currently available control technology and fuel switching alternatives; however, until specific regulations implementing the Clean Air Act are issued, the Company can provide no assurance in this regard. The Company believes that all capital costs, as well as incremental operating and maintenance costs and fuel costs, will be recoverable from its ratepayers.

The Company's cost of financing and access to markets could be negatively impacted by events outside its control. The Company's securities ratings could be negatively impacted by, among other things, the growth in its reliance on unregulated generator purchase power requirements. Rating agencies have expressed concern about the impact on Company financial indicators and risk that unregulated generator financial leveraging may have.

As of December 31, 1993, the Company has the ability to issue $1,899 million aggregate principal amount of additional bonds under the Mortgage Trust Indenture dated as of October 1, 1937 between the Company and Marine Midland Bank, as Trustee (the "Mortgage"). This includes approximately $921 million issuable on the basis of retired bonds and $978 million issuable on the basis of Additional Property (as defined in the Mortgage) currently certified and available, assuming an 8% interest rate. The Company has authorized unissued Preferred Stock totaling $390 million. A total of $200 million of Preference Stock is also currently available for sale. The Company will also continue to explore and utilize, as appropriate, other methods of raising funds.

The Company's Charter restricts the amount of unsecured indebtedness which may be incurred by the Company to 10% of consolidated capitalization plus $50 million. The Company has not reached this restrictive limit.

SUPPLEMENTAL DESCRIPTION OF NEW BONDS

The following description of the particular terms of the New Bonds offered hereby supplements the description of the general terms and provisions of the New Bonds set forth in the Prospectus under "Description of New Bonds," to which description reference is hereby made.

Interest and Payment. The New Bonds will bear interest from March 1, 1994 and will mature March 1, 2001. Interest on the New Bonds will be paid semi-annually on March 1 and September 1, commencing September 1, 1994. (Supplemental Indenture, Part I).

Redemption of New Bonds. The New Bonds are not redeemable prior to maturity at the option of the Company, by operation of any sinking fund or the maintenance fund provided in the Mortgage. (Supplemental Indenture, Parts I and II).

Other. Other than the security afforded by the lien of the Mortgage and restrictions on the issuance of additional first mortgage bonds described in the Prospectus, the Mortgage does not contain any covenants or other provisions that are specifically intended to afford holders of the New Bonds special protection in the event of a highly leveraged transaction. However, such a transaction would require regulatory approval and management of the Company believes that such approval would be unlikely in a highly leveraged context.

Same-Day Settlement and Payment. Settlement for the New Bonds will be made by the Underwriters in immediately available funds. So long as The Depository Trust Company ("DTC") continues to make its Same-Day Funds Settlement System available to the Company, all payments of principal and interest on the New Bonds will be made by the Company in immediately available funds.

Secondary trading in long-term bonds, notes and debentures of corporate issuers is generally settled in clearinghouse or next-day funds. In contrast, the New Bonds will trade in DTC's Same-Day Funds Settlement System until maturity, and secondary market trading activity in the New Bonds will therefore be required by DTC to settle in immediately available funds. No assurances can be given as to the effect, if any, of settlement in immediately available funds on trading activity in the New Bonds.

Concerning the Trustee. Effective January 1, 1994, Marine Midland Bank, N.A., formerly a national banking association, became a trust company duly organized and existing under the laws of the State of New York, to be known as Marine Midland Bank.

UNDERWRITING

Subject to the terms and conditions of the Underwriting Agreement, the Company has agreed to sell to each of the Underwriters named below (the "Underwriters"), and each of the Underwriters has severally agreed to purchase, the principal amount of the New Bonds set forth opposite its name below.

<TABLE>
<CAPTION>

Underwriter	Principal Amount of New Bonds
<S>	<C>
Merrill Lynch, Pierce, Fenner & Smith Incorporated	$ 52,500,000
Citicorp Securities, Inc.	52,500,000
Goldman, Sachs & Co.	52,500,000
J.P. Morgan Securities Inc.	52,500,000
Total	$210,000,000

</TABLE>

Under the terms and conditions of the Underwriting Agreement, the Underwriters are committed to take and pay for all of the New Bonds, if any are taken.

From time to time, the Underwriters and certain of their affiliates have engaged and may in the future engage in transactions with and perform services (including commercial banking services) for the Company in the ordinary course of business.

Donald B. Riefler, a director of the Company since 1978, was Chairman of the Market Risk Committee for J.P. Morgan & Co. Incorporated and Morgan Guaranty Trust Company of New York, affiliates of J.P. Morgan Securities Inc. Mr. Riefler retired from such position effective February 1, 1991.

The Company has been advised by the Underwriters that they propose to offer the New Bonds to the public at the initial public offering price set forth on the cover page of this Prospectus Supplement and to certain dealers at such price less a concession not in excess of .375% of the principal amount of the New Bonds. The Underwriters may allow, and such dealers may reallow, a discount not in excess of .25% of the principal amount of the New Bonds to certain other dealers. After the initial public offering, the public offering price, concession and discount may be changed.

The New Bonds are a new issue of securities with no established trading market. The Company has been advised by the Underwriters that the Underwriters intend to make a market in the New Bonds but are not obligated to do so and may discontinue market making at any time without notice. No assurance can be given as to the liquidity of the trading market for the New Bonds.

The Company has agreed to indemnify the Underwriters against certain liabilities, including liabilities under the Securities Act of 1933, as amended.

PROSPECTUS

$1,160,000,000

NIAGARA MOHAWK POWER CORPORATION

FIRST MORTGAGE BONDS,
PREFERRED STOCK ($25 PAR VALUE),
PREFERRED STOCK ($100 PAR VALUE) AND/OR
COMMON STOCK ($1 PAR VALUE)

Niagara Mohawk Power Corporation (the "Company") from time to time may offer its First Mortgage Bonds (the "New Bonds"), its Preferred Stock ($25 par value), its Preferred Stock ($100 par value) (collectively the "New Preferred Stock") and its Common Stock ($1 par value) (the "Additional Common Stock" and, together with the New Bonds and the New Preferred Stock, the "Securities") at prices and on terms to be determined at the time of sale. The Securities offered pursuant to this Prospectus may be issued in one or more series or issuances and will be limited to an aggregate public offering amounting to $1,160,000,000.

For each offering of Securities for which this Prospectus is being delivered, there will be an accompanying Prospectus Supplement (the "Prospectus Supplement") that sets forth, with respect to New Bonds, the specific series designation, aggregate principal amount, rate (or method of calculation) and time of payment of interest, maturity, any redemption terms, credit enhancement, if any, and other specific terms, if any, of the series of New Bonds in respect of which this Prospectus is being delivered; with respect to New Preferred Stock, the number of shares, the specific title and par value, any dividend, liquidation or redemption terms, the dividend payment dates and other specific terms, if any, of the series of New Preferred Stock in respect of which this Prospectus is being delivered; and with respect to Additional Common Stock, the number of shares and the other specific terms, if any, of the offering thereof in respect of which this Prospectus is being delivered. See "Description of New Bonds," "Description of New Preferred Stock," and "Description of Additional Common Stock."

The Company's Common Stock is traded on the New York Stock Exchange under the symbol NMK. See "Common Stock Dividends and Price Range."

The Company may sell the Securities through underwriters, through dealers, directly to one or more institutional purchasers or through agents. If any underwriters, dealers or agents are involved in any sale of the Securities in respect of which this Prospectus is being delivered, the Prospectus Supplement will set forth the terms of the offering of the Securities offered thereby, including the name or names of any underwriters, dealers or agents, the purchase price of such Securities and the proceeds to the Company from such sale, any underwriting discounts and other items constituting underwriters' compensation and any initial public offering price and any discounts or concessions allowed or reallowed or paid to dealers. See "Plan of Distribution."

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION NOR HAS THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

The date of this Prospectus is February 24, 1994

AVAILABLE INFORMATION

The Company is subject to the informational requirements of the Securities Exchange Act of 1934, as amended ("1934 Act"), and in accordance therewith files reports and other information with the Securities and Exchange Commission (the "Commission"). Information as of particular dates concerning directors and officers, their remuneration and any material interest of such persons in transactions with the Company is disclosed in proxy statements distributed to stockholders of the Company and filed with the Commission. Such reports, proxy statements and other information can be inspected and copied at the public reference facilities of the Commission at Room 1024, 450 Fifth Street, N.W., Washington, D.C. 20549, and at the Commission's regional offices at 500 West Madison, Suite 1400, Chicago, Illinois 60661, and Seven World Trade Center, New York, New York 10048; and copies of such material can be obtained from the Public Reference Section of the Commission at 450 Fifth Street, N.W., Washington, D.C. 20549 at prescribed rates. Certain securities of the Company are listed on the New York Stock Exchange. Reports, proxy statements and other information concerning the Company may be inspected at the offices of the New York Stock Exchange, Inc., 20 Broad Street, New York, New York 10005.

INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE

There are hereby incorporated by reference in this Prospectus the following documents heretofore filed with the Commission pursuant to the 1934 Act:

1. The Company's Annual Report on Form 10-K for the year

ended December 31, 1992, as amended by Amendment No. 1 on Form 8 dated July 8, 1993.

2. The Company's Current Reports on Form 8-K dated February 22, April 28 and July 6, 1993, February 18 and February 24, 1994.

3. The Company's Quarterly Reports on Form 10-Q for the quarterly periods ended March 31, June 30 and September 30, 1993.

All documents filed by the Company pursuant to Section 13(a), 13(c), 14 or 15(d) of the 1934 Act after the date of this Prospectus and prior to the termination of the offering made by this Prospectus shall be deemed to be incorporated by reference in this Prospectus and to be a part hereof from the date of filing of such documents. Any statement contained in an incorporated document shall be deemed to be modified or superseded for purposes of this Prospectus to the extent that a statement contained herein or in any other subsequently filed incorporated document modifies or supersedes such statement. Any such statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Prospectus.

The Company hereby undertakes to provide without charge to each person, including any beneficial owner, to whom a copy of this Prospectus has been delivered, upon the written or oral request of any such person, a copy of any or all of the documents referred to above which have been or may be incorporated by reference in this Prospectus. Requests for such copies should be directed to Mr. Leon T. Mazur, Manager-Investor Relations, Niagara Mohawk Power Corporation, 300 Erie Boulevard West, Syracuse, New York 13202, telephone number: (315) 474-1511.

THE COMPANY

The Company, organized in 1937 under the laws of New York, is engaged principally in the business of production and/or purchase, transmission, distribution and sale of electricity and the purchase, distribution and sale of gas in New York state. The Company renders electric service to the public in an area of New York state having a total population of about 3,500,000, including, among others, the cities of Buffalo, Syracuse, Albany, Utica, Schenectady, Niagara Falls, Watertown and Troy. The Company distributes natural gas in areas of central, northern and eastern New York having a total population of about 1,700,000, nearly all within the Company's electric service area. A Canadian subsidiary is an electric company and has operations in the Province of Ontario, Canada. A Texas subsidiary has an interest in a uranium mining operation in Live Oak County, Texas which is now in the process of reclamation and restoration. A New York subsidiary owns, develops and operates cogeneration and small power plants. Another New York subsidiary engages in real estate development. Each of these subsidiaries is wholly-owned by the Company. The Company's principal executive offices are located at 300 Erie Boulevard West, Syracuse, New York 13202 and its telephone number is (315) 474-1511.

RATIO OF EARNINGS TO FIXED CHARGES

The following table sets forth the historical ratio of earnings to fixed charges for the periods indicated:

<TABLE>
<CAPTION>

Year Ended December 31,

1993	1992	1991	1990	1989
2.31	2.24	2.09	1.41	1.71

For the purpose of computing the historical ratio of earnings to fixed charges in the above table, earnings consist of net income plus Federal and foreign taxes based on income or profits, and fixed charges. Fixed charges consist of interest charges plus a portion of rentals which is deemed representative of the interest factor.

RATIO OF EARNINGS TO COMBINED FIXED CHARGES AND PREFERRED STOCK DIVIDENDS

Year Ended December 31,				
1993	1992	1991	1990	1989
2.00	1.90	1.77	1.17	1.41

For the purpose of computing the historical ratio of earnings to combined fixed charges and preferred stock dividends in the above table, earnings consist of net income plus Federal and foreign taxes based on income or profits, and fixed charges. Fixed charges consist of interest charges and preferred stock dividend requirements of subsidiaries plus a portion of rentals which is deemed representative of the interest factor. Preferred Stock dividends have been increased by an amount representing the pre-tax earnings required to cover such dividends.

APPLICATION OF PROCEEDS

The proceeds to the Company from the sale of the Securities will be used to finance the Company's construction program, to refund existing long-term debt and preferred stock, to reduce short-term debt and for other corporate purposes. See the Prospectus Supplement for a description of the Company's construction program and its proposed refunding of long-term debt and preferred stock and reduction of short-term debt.

SIGNIFICANT FACTORS AND RECENT DEVELOPMENTS

GENERAL

The utility industry continues to face a wide array of uncertainties and challenges. The Company's electric generation business faces competition from alternate energy sources, including cogeneration facilities. Its retail sales business is under competitive pressures from potential self-generation by industrial customers and from initiatives relating to possible transmission access by others to the Company's system. Local gas distribution companies are also responding to increasing competition in industrial and commercial markets from pipelines and alternative energy sources. The adoption by regulators of a combination of competitive bidding programs for new electric resources as well as increased emphasis on demand-side management (conservation) proposals may permit utility companies to serve their customers without the need to construct base load generating facilities, while challenging them to maintain adequate earnings for shareholders. Further, increased reliance on unregulated generators raises concerns as to system reliability, excess capacity and fuel mix. The Company's securities ratings could be negatively impacted by, among other things, the growth in its reliance on unregulated generator purchase power requirements. Rating agencies have expressed concern about the impact on the Company's financial indicators and risk that unregulated generator financial leveraging may have. Increased regulation of nuclear operations and the attendant increased complexity of nuclear management and nuclear waste disposal and storage have increased the financial risks of utilities with investments in nuclear generating facilities.

On October 27, 1993, Standard & Poor's Corporation ("S&P") issued its revised electric utility financial ratio benchmarks. S&P has made its benchmarks more stringent to counter increasing business risk caused by accelerating competition in the electric power industry as well as environmental and nuclear operating cost pressure and slow earnings growth prospects. While the Company was not downgraded (currently rated BBB), S&P revised the Company's rating outlook from "stable" to "negative." Moody's Investors Service has also indicated that it expects utility bond ratings will come under increasing pressure over the next three to five years because of changes in the business environment. These assessments may increase the cost to issue new securities.

S&P also observed that because of the more disparate business prospects for electric utilities, it was segregating companies into groups based upon competitive position, business prospects and predictability of cash flows to withstand greater financial risks. The Company was included in the "Below Average," or lowest rated group in S&P's assessment of business position. While the Company has not been informed of the specific reasons for the classification, the Company's high cost structure, driven principally by required unregulated generator purchases, sunk costs of assets for serving customer load and operating taxes, may be viewed as a significant disadvantage, particularly if and to the extent that large portions of its business may be opened up to competition. S&P's views are shared by others who follow the Company and the electric utility industry.

The Company is working vigorously to deal with the many social and regulatory burdens that have developed over recent years and that may inhibit its ability to compete effectively if its markets are opened to widespread competition. Among other things, the Company has initiated a significant cost control program and offered an industrial discount program to mitigate its cost disadvantages. However, the passage of the National Energy Policy Act of 1992 ("NEPA"), is resulting in a rapid increase in wholesale competition and the

Company is unable to predict whether or to what extent its efforts will be successful, or what the impact of increasing competition may be on its financial condition, results of operations or ability to sustain or grow its level of earnings and dividend payments. NEPA eases the way for additional categories of unregulated generators to enter the marketplace and requires the utility owners of electricity transmission systems to "wheel" power for wholesale transactions.

There continue to be actions by external entities with respect to the protection of the environment, particularly in regard to acid rain, global warming, remediation of waste disposal sites, disposal of hazardous waste and emissions into the atmosphere, as demonstrated by the federal Clean Air Act Amendments of 1990 ("Clean Air Act"). There are growing concerns about the effects of electromagnetic fields ("EMF"), including those produced by distribution, transmission and substation installations, although the scientific evidence on possible health hazards of EMF is not yet conclusive.

There are also a number of emerging state and federal regulatory developments and possible structural changes in the electric and gas industries which may have a much broader and longer-lasting effect on the Company's operations and the environment in which it conducts business. These issues include: questions of open access to the Company's electric transmission facilities by other parties and vice versa; possible "by-pass" of the Company's electric and gas systems by large industrial and cogeneration customers (which could have the dual effect of increasing rates to remaining system customers while creating the possibility of excess electric capacity); initiatives relating to "incentive regulation" which may change the manner in which rates are set and which may ultimately affect how the consequences of regulation are reflected in the Company's financial statements; the possibility of flexible electric and gas utility rate pricing designed to help retain customers, especially large industrial customers; and the compliance and implementation considerations of the Clean Air Act as well as possible stricter state emissions regulation.

In recent years, concerns have been raised about the possible health effects of define EMFs from transmission and distribution lines as well as household wiring and appliances. Numerous studies on the effects of EMFs have been done and are continuing throughout the world, with results that are often hard to interpret and sometimes conflicting. On February 26, 1993, the Environmental Protection Agency (the "EPA") called for significant additional research on EMFs. The Company is taking a proactive approach and has already begun investigating power lines which are near public school buildings to evaluate the possibility of any health risks from EMFs. It is impossible to predict what further effect, if any, continued research and epidemiological studies on EMFs could have on the Company and the electric utility industry. The role of the utility industry in addressing these environmental matters will be prominent and could be costly.

While the Company believes that full recovery of its investment will be provided through the rate setting process with respect to all of these issues, a review of political and regulatory actions during the past 15 years with respect to industry issues indicates that utility shareholders may ultimately bear some of the burden of solving problems of this nature.

RATE MATTERS

1993 Rate Settlement. On January 27, 1993, the New York Public Service Commission ("PSC") approved a 1993 Rate Settlement authorizing a 3.1% increase in the Company's electric and gas rates providing for additional annual revenues of $108.5 million (electric $98.4 million or 3.4%; gas $10.1 million or 1.8%). Retroactive application of the new rates to January 1, 1993 was authorized by the PSC.

The increase reflects an allowed return on equity of 11.4%, as compared to 12.3% authorized for 1992. The settlement also included extension of the Niagara Mohawk Electric Revenue Adjustment Mechanism ("NERAM") through December 1993 and provisions to defer expenses related to mitigation of unregulated generator costs (aggregating to $50.7 million at December 31, 1993), including contract buyout costs and certain other items.

The Company and the local unions of the International Brotherhood of Electrical Workers agreed on a two-year nine- month labor contract effective June 1, 1993. The new labor contract includes general wage increases of 4.00% on each June 1st through 1995 and changes to employee benefit plans including certain contributions by employees. Agreement was also reached concerning several work practices which should result in improved productivity and enhanced customer service. The PSC approved a filing resulting from the union settlement and authorized $8.1 million in additional revenues ($6.8 million electric and $1.3 million gas) for 1993.

NERAM. The NERAM requires the Company to reconcile actual results to forecast electric public sales gross margin used in establishing rates. The NERAM produces certainty in the amount of electric gross margin the Company will receive in a given period to fund its operations. While reducing risk during periods of economic uncertainty and mitigating the variable effects of weather, the NERAM does not allow the Company to benefit from unforeseen growth in sales. Recovery or refund of accruals pursuant to the NERAM is accomplished by a surcharge (either plus or minus) to customers over a twelve-month period, to begin when cumulative amounts reach certain levels specified in the Company's 1991 Financial Recovery Agreement. As of December 31, 1993, the Company had a recoverable NERAM balance (amounts subject to reconciliation) of $21.4 million. The Company has proposed discontinuation of NERAM beginning in 1995.

MERIT. The Company's Measured Equity Return Incentive Term ("MERIT") program is the incentive mechanism which originally allowed the Company to earn up to $180 million of additional return on equity through May 31, 1994. The program was later amended to extend the performance period through 1995 and add $10 million to the total available award.

The PSC granted the full $30 million of MERIT award the Company claimed for the period January 1991 through May 1991, which was reflected in earnings in the third quarter of 1991 ($.14 per common share). The second MERIT period, June 1991 through December 1991, had a maximum award of $30 million. Of this amount, the PSC granted $22.8 million, or approximately $.11 per share, which the Company included in June 1992 earnings.

Measurement criteria for the $25 million of MERIT for 1992 focused on implementation of self-assessment recommendations, including measurements of responsiveness to customers, nuclear performance, cost management and environmental performance. The Company claimed, and the PSC approved in 1993, a MERIT award of approximately $14.3 million, of which $4 million was included in 1992 earnings. The shortfall from the full award available reflected the increasing difficulty of achieving the targets established in customer service and cost management, as well as lower than anticipated nuclear operating performance.

Overall goal targets and criteria for the 1993-1995 MERIT periods are results-oriented and are intended to measure change in key overall performance areas. The targets emphasize three main areas: (1) responsiveness to customer needs, (2) efficiency through cost management, improved operations and employee empowerment and (3) aggressive, responsible leadership in addressing environmental issues.

A report supporting the achievement of MERIT goals for 1993 is anticipated to be submitted in February 1994 to the parties to the 1991 Financial Recovery Agreement. The Company anticipates claiming an award of approximately $20 million, which would be expected to be billed to customers over a twelve-month period, after PSC confirmation of the earned award. The Company recorded $10 million of this award in 1993 based on management's assessment of the achievement of objectively measured criteria. The shortfall from the full award reflects the increasing difficulty of achieving the targets established in customer service and cost benchmarking against other utilities.

1994 Rate Filing. On February 2, 1994, the PSC approved an increase in gas rates of $10.4 million or 1.7%. The gas rates became effective as of January 1, 1994 and include for the first time a weather normalization clause.

The PSC also approved the Company's electric supplement agreement with the PSC Staff and other parties to extend certain cost recovery mechanisms in the 1993 Rate Settlement without increasing electric base rates for calendar year 1994. The goal of the supplement is to keep total electric bill impacts for 1994 at or below the rate of inflation. Modifications were made to the NERAM and MERIT provisions which determine how these amounts are to be distributed to various customer classes and also provide for the Company to absorb 20% of margin variances (within certain limits) originating from SC-10 rate discounts (as described below) and certain other discount programs for industrial customers as well as 20% of the gross margin variance from NERAM targets for industrial customers not subject to discounts. The Company estimates its total exposure on such variances for 1994 to be approximately $10 million, depending on the amount of discounts given. The supplement also allows the Company to begin recovery over three years of approximately $15 million of unregulated generator buyout costs, subject to final PSC determination with respect to the reasonableness of such costs.

The Company is experiencing a loss of industrial load through bypass across its system. Several substantial industrial customers, constituting approximately 85 MW of demand, have chosen to purchase generation from other sources, either from newly constructed facilities or under circumstances where they directly use the power they had been generating and selling to the Company under power purchase contracts mandated by the Public Utilities Regulatory Policies Act of 1978 ("PURPA") and New York laws and PSC programs.

As a first step in addressing the threat of a loss of industrial load, the PSC approved a new rate (referred to as SC-10) under which the Company is allowed to negotiate individual contracts with some of its largest industrial and commercial customers to provide them with electricity at lower prices. Under the new rate, customers must demonstrate that leaving the Company's system is an economically viable alternative. The Company estimates that as many as 75 of its 235 largest customers may be inclined to bypass the utility's system by making electricity on their own unless they receive price discounts, which would cost about $26 million per year, while losing those 75 customers would reduce net revenues by an estimated $100 million per year. As of January 1994, the Company has offered annual SC-10 discounts to customers totaling $6.6 million, of which $2.7 million have been accepted.

On July 28, 1993, the Company petitioned the PSC for permission to offer competitively priced natural gas to customers who presently purchase gas from non-utility sources. The new rate is designed to regain a share of the industrial and commercial sales volume the Company lost in the 1980's when large customers were allowed to buy gas from non-utility sources. The Company will delay any implementation of this rate until the issues are further addressed in a comprehensive generic investigation, currently being conducted by the PSC into the issue of how to design rates for customers with competitive electric and gas service alternatives.

1995 Five-Year Rate Plan Filing. On February 4, 1994, the Company made a combined electric and gas rate filing for rates to be effective January 1, 1995 seeking a $133.7 million (4.3%) increase in electric revenues and a $24.8 million (4.1%) increase in gas revenues. The electric filing includes a proposal to institute a methodology to establish rates beginning in 1996 and running through 1999. The proposal would provide for rate indexing to a quarterly forecast of the consumer price index as adjusted for a productivity factor. The methodology sets a price cap, but the Company may elect not to raise its rates up to the cap. Such a decision would be based on its assessment of the market. NERAM and certain expense deferrals would be eliminated, while the fuel adjustment clause would be modified to cap the Company's exposure to fuel and purchased power cost variances from forecast at $20 million annually. However, certain items which are not within the Company's control would be outside of the indexing; such items would include legislative, accounting, regulatory and tax law changes as well as environmental and nuclear decommissioning costs. These items and the existing balances of certain other deferral items such as MERIT and demand-side management, would be recovered or returned using a temporary rate surcharge. The proposal would also establish a minimum return on equity which, if not achieved, would permit the Company to refile and reset base rates subject to indexing or to seek some other form of rate relief. Conversely, in the event earnings exceed an established maximum allowed return on equity, such excess earnings would be used to accelerate recovery of

regulatory or other assets. The proposal would provide the Company with greater flexibility to adjust prices within customer classes to meet competitive pressures from alternative electric suppliers while increasing the risk that the Company will earn less than its allowed rate of return. Gas rate adjustments beyond 1995 would follow traditional regulatory methodology.

NUCLEAR OPERATIONS

The Company is the owner and operator of Nine Mile Point Nuclear Station Unit No. 1 ("Unit 1"), which has a design capability of 613 MW, and the operator and a 41% co-owner of Nine Mile Point Nuclear Station Unit No. 2 ("Unit 2"), which has a design capability of 1,062 MW. Ownership of Unit 2 is shared with Long Island Lighting Company (18%), New York State Electric & Gas Corporation (14%), and Central Hudson Gas & Electric Corporation (9%). Output of Unit 2, and the cost of operation and capital improvements, are shared in the same proportions as the cotenants' respective ownership interests.

Unit 1 Economic Study. Under the terms of a previous regulatory agreement, the Company agreed to prepare and update studies of the advantages and disadvantages of continued operation of Unit 1 prior to the start of the next two refueling outages. The first report, which recommended continued operation of Unit 1 over the remaining term of its license (which expires in 2009), was filed with the PSC in March 1990.

On November 20, 1992 the Company submitted to the PSC an updated economic analysis which indicated that Unit 1 can be expected to provide value to customers and shareholders through its next fuel cycle, which will end in early 1995. The study also indicated that the Unit could continue to provide benefits for the full term of its license if operating costs can be reduced and generating output improved above its historical average.

The study analyzed a number of scenarios resulting in break-even capacity factors, ranging from 44% to 122%. The "base case" assumes a capacity factor of 61%, consistent with the target reflected in the Unit 1 operating incentive mechanism, and also assumes future operating and capital costs slightly lower than historical performance. While a marginal benefit would be realized from operating the Unit for at least the next two years (one fuel cycle) under the "base case," there would be a negative net present value in excess of $100 million if the Unit were to be operated over its remaining 17-year license period. Under an "improved performance case, the Unit is assumed to operate at a 70% capacity factor with future operating and capital costs consistent with average industry performance. The Company believes these goals are achievable for Unit 1, as indicated by Unit 1 operating and financial performance in 1993 that was better than the improved performance case. The "improved performance case" results in positive net present value in excess of $100 million if the Unit is operated over its remaining life. Such results demonstrate the volatility of the assumptions and uncertainties involved in developing the Unit's economic forecast. These assumptions include various levels of the Unit's capacity factor, operating and capital costs, demand for electricity, supply of electricity including unregulated generator power, implementation and compliance costs of the Clean Air Act and other federal and state environmental requirements and fuel availability and prices, especially natural gas. Given the potential for rapid and substantial change in any or all of these assumptions, the Company has developed operational and external criteria, other than refueling, which would initiate a prompt reassessment of the economic viability of the Unit.

An agreement with the PSC allows recovery of all reasonable and prudently-incurred sunk costs and costs of retirement, should a prudent decision be made to retire Unit 1 before early 1995. All parties to the Company's 1991 Financial Recovery Agreement reserve the right to petition the PSC to institute a formal investigation to review the prudence of any Company decision to retire Unit 1. Any such decision by the Company will be made in consultation with governmental and regulatory authorities. The Company's net investment in Unit 1 is approximately $580 million, exclusive of decommissioning costs.

Unit 1 Status. On February 20, 1993, Unit 1 was taken out of service for a planned 55 day refueling and maintenance outage. On April 15, 1993, Unit 1 returned to service ahead of schedule. The next

refueling outage is scheduled to begin in February 1995. Unit 1's capacity factor for 1993 was approximately 81.0%.

Unit 2 Status. On October 2, 1993, Unit 2 was taken out of service for a planned 60 day refueling and maintenance outage. On November 29, 1993, Unit 2 returned to service ahead of schedule. The next refueling outage is scheduled to begin in the spring of 1995. Unit 2's capacity factor for 1993 was approximately 78%.

Nuclear Plant Decommissioning. Based on a 1989 study, the cost of decommissioning Unit 1, which is expected to begin in the year 2009, is estimated by the Company to be approximately $416 million at that time ($257 million in 1993 dollars). The Company's 41% share of the total cost to decommission Unit 2, expected to begin in 2027, is estimated by the Company to be approximately $316 million ($109 million in 1993 dollars). The annual decommissioning allowance reflected in ratemaking is based upon these estimates which include amounts for both radioactive and non-radioactive dismantlement costs. The non-radioactive dismantlement costs are estimated in the 1989 study to be $24 million for Unit 1 and $18 million for its share of Unit 2, in 1993 dollars.

Decommissioning costs recovered in rates are reflected in Accumulated Depreciation and Amortization on the Balance Sheet and amount to $113.9 million and $90.5 million at December 31, 1993 and 1992, respectively. The annual allowance for Unit 1 and the Company's share of Unit 2 for the years ended December 31, 1993, 1992 and 1991 was approximately $18.7, $23.1 and $23.0 million, respectively.

The Company will update its Unit 1 decommissioning study in 1994 in support of the update of the Unit 1 economic study. The Unit 2 decommissioning study is also expected to be updated in 1994. Rate allowance adjustments will be sought when appropriate. There is no assurance that the decommissioning allowance recovered in rates will ultimately aggregate a sufficient amount to decommission the units. However, the Company believes that if decommissioning costs are higher than currently estimated they would ultimately be recovered in the rate process.

The Nuclear Regulatory Commission ("NRC") issued regulations in 1988 requiring owners of nuclear power plants to place funds into an external trust to provide for the cost of decommissioning contaminated portions of nuclear facilities as well as establishing minimum amounts that must be available in such a trust for these specified decommissioning activities at the time of decommissioning. As of December 31, 1993, the Company has accumulated in an external trust $63.1 million for Unit 1 and $15.4 million for its share of Unit 2, which are included in Other Property and Investments. Earnings on such investments aggregated $8.6 million through December 31, 1993 and, because they are available to fund decommissioning, have also been included in Accumulated Depreciation and Amortization. Amounts recovered for non-radioactive dismantlement are accumulated in an internal reserve fund which has an accumulated balance of $35.4 million at December 31, 1993.

Based upon studies applying the 1988 NRC regulations, the Company had estimated that the minimum funding requirements for Unit 1 and its share of Unit 2, respectively, would be $191 million and $87 million in 1993 dollars. In May 1993, the NRC established new labor, energy and burial cost factors for determining the NRC minimum funding requirements. A substantial increase in burial costs, partly offset by reduced estimates in the volumes of waste to be disposed, increased the NRC minimum requirement for Unit 1 to $372 million in 1993 dollars and the Company's share of Unit 2 to $169 million in 1993 dollars. The Company has requested an annual aggregate increase of approximately $10 million in the Unit 1 and Unit 2 decommissioning allowances as part of its 1995 rate request, to reflect the increased NRC minimum requirements.

UNREGULATED GENERATORS

In recent years, a leading factor in the increases in customer bills and deterioration of the Company's competitiveness has been the requirement to purchase power from unregulated generators at prices

in excess of its internal cost of production and in volumes greater than the Company's needs. The PURPA, New York State law and PSC policies and procedures have collectively required that the Company purchase this power from qualified unregulated generators. The price used in negotiating purchased power contracts with unregulated generators (Long Run Avoided Costs) is established periodically by the PSC. Until repeal in 1992, the statute which governed many of these contracts had established the floor on avoided costs at $0.06/kwh (the "Six-Cent Law"). The Six-Cent Law, in combination with other factors, attracted large numbers of unregulated generator projects to New York State and, in particular, to the Company's service territory.

As of December 31, 1993, 147 of these unregulated generators with a combined capacity of 2,253 MW were on line and selling power to the Company. For the year ended December 31, 1993, unregulated generator purchases were approximately $736 million (11,720 GWHrs) as compared to $543 million (8,632 GWHrs) in 1992. The Company estimates that its unregulated generator purchases will be $932 million, $1,057 million, $1,111 million, $1,174 million and $1,220 million in 1994 through 1998, respectively.

Most of the additional capacity will be grandfathered under the Six-Cent Law. Without any other actions, the Company's installed capacity reserve margin was projected to grow to 40%-50% before declining in the late 1990's, as compared to the minimum mandated requirement of 18%. While the Company favors the availability of unregulated generators in satisfying its generating needs, the Company believes it is paying a premium to unregulated generators for energy it does not currently need. The Company has initiated a series of actions to address this situation but expects in large part that the higher costs will continue.

On August 18, 1992, the Company filed a petition with the PSC which calls for the implementation of "curtailment procedures." Under existing Federal Energy Regulatory Commission ("FERC") and PSC policy, this petition would allow the Company to limit its purchases from unregulated generators when demand is low. While the Administrative Law Judge has submitted recommendations to the PSC, the Company cannot predict the outcome of this case. Also, the Company has commenced settlement discussions with certain unregulated generators regarding curtailments.

On October 23, 1992, the Company also petitioned the PSC to order unregulated generators to post letters of credit or other firm security to protect ratepayers' interests in advance payments made in prior years to these generators. The PSC dismissed the original petition without prejudice, which the Company believes would permit the Company to reinitiate its request at a later date. The Company is conducting discussions with unregulated generators representing over 1,600 MW of capacity, addressing the issues contained in its petitions.

On February 4, 1994, the Company notified the owners of nine projects with contracts that provide for advance payments of the Company's demand for adequate assurance that the owners will perform all of their future repayment obligations, including the obligation to deliver electricity in the future at prices below the Company's avoided cost and to repay any advance payment which remains outstanding at the end of the contract. The projects at issue total 426 MW. The Company's demand is based on its assessment of the amount of advance payment to be accumulated under the terms of the contracts, future avoided costs and future operating costs of the projects. The Company cannot predict the outcome of this notification.

ENVIRONMENTAL ISSUES

The public utility industry typically utilizes and/or generates in its operations a broad range of potentially hazardous wastes and by-products. These wastes or by-products may not have previously been considered hazardous, and may not be considered hazardous currently, but may be identified as such by Federal, state or local authorities in the future. 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 assure compliance with such requirements. The Company is also currently conducting a program to investigate and restore, as necessary to meet current environmental standards, certain properties associated with its former gas manufacturing process and other properties which the Company has learned may be contaminated with industrial waste, as well as investigating potential industrial waste sites as to which it may be determined that the Company contributed.

The Company has been advised that various Federal, state or local agencies believe that certain properties require investigation and has prioritized the sites based on available information in order to enhance the management of investigation and remediation, if determined to be necessary.

The Company is currently aware of 82 sites with which it has been or may be associated, including 42 which are Company-owned. The Company-owned sites include 23 former coal gasification ("MGP") sites, 14 industrial waste sites and 5 operating property sites where corrective actions may be deemed necessary to prevent, contain and/or remediate contamination of soil and/or water in the vicinity. Of these Company-owned sites, Saratoga Springs is on the Federal National Priorities List for Uncontrolled Hazardous Waste Sites ("NPL") as published by the EPA in the Federal Register. The 40 non-owned sites with which the Company has been or may be associated are generally industrial waste sites where the Company is alleged to be a Potentially Responsible Party ("PRP") and may be required to contribute some proportionate share towards investigation and clean-up. Not included in the 82 sites are seven sites where the Company has reached settlement agreements with other PRP's and three sites where remediation activities have been completed. There also exist approximately 20 formerly-owned MGP sites with which the Company has been or may be associated that may require future investigation and remediation. To date, the Company has not been made aware of any claims.

Also, approximately 22 fire training sites owned or used by the Company have been identified but not investigated. Presently, the Company is unable to determine its potential involvement with such sites and has made no provision for liability, if any, at this time.

Investigations at each of the Company-owned sites are designed to (1) determine if environmental contamination problems exist, (2) determine the extent, rate of movement and concentration of pollutants, (3) if necessary, determine the appropriate remedial actions required for site restoration and (4) where appropriate, identify other parties who should bear some or all of the cost of remediation. Legal action against such other parties, if necessary, will be initiated. After site investigations have been completed, the Company expects to determine site-specific remedial actions necessary and to estimate the attendant costs for restoration. However, since technologies are still developing and the Company has not yet undertaken any full- scale remedial actions following regulatory requirements at any identified sites, nor have any detailed remedial designs been prepared or submitted to appropriate regulatory agencies, the ultimate cost of remedial actions may change substantially as investigation and remediation progresses.

The Company has estimated that it is probable that 36 of the 42 owned sites will require some degree of investigation, remediation and monitoring. This conclusion is based upon a number of factors, including the nature of the identified or potential contaminants, the location and size of the site, the proximity of the site to sensitive resources, the status of regulatory investigation and knowledge of activities at similarly situated sites. Although the Company has not extensively investigated many of those sites, it believes it has sufficient information to estimate a range of cost of investigation and remediation. As a consequence of site characterizations and assessments completed to date, the Company has accrued a liability of $210 million for these owned sites, representing the low end of the range of the estimated cost for investigation and remediation. The high end of the range is presently estimated at approximately $520 million.

The majority of these cost estimates relate to the MGP sites. Of the 23 MGP sites, Harbor Point (Utica, NY) and Saratoga Springs are subject to regulatory enforcement actions and to date have remedial investigation and/or feasibility study work in progress. The remaining 21 MGP sites are the subject of an Order On Consent executed with the New York State Department of Environmental Conservation providing for an investigation and remediation program over approximately ten years. Preliminary site assessments have been conducted or are in process at five of these 21 sites, with remedial investigations either currently in process or scheduled for 1994. Remedial investigations were also conducted for two industrial waste sites and for three operating properties where corrective actions were considered necessary.

The Company does not currently believe that a clean-up will be required at the six remaining Company-owned sites, although some degree of investigation of these sites is included in its investigation and remediation program.

With respect to the 40 sites with which the Company has been or may be associated as a PRP, nine are on the NPL. Total costs to investigate and remediate the sites with which the Company is associated as a PRP are estimated to be approximately $590 million; however, the Company estimates its share of this total at approximately $30 million and this amount has been accrued at December 31, 1993.

The Company believes that costs incurred in the investigation and restoration process for both Company-owned sites and sites with which it is associated will be recoverable in the ratesetting process. Rate agreements in effect since 1991 provide for recovery of anticipated investigation and remediation expenditures, although the PSC Staff reserves the right to review the appropriateness of the costs incurred. While the PSC Staff has not challenged any remediation costs to date, the PSC Staff asserted in the recently-decided gas rate proceeding that the Company must, in future rate proceedings, justify why it is appropriate that remediation costs associated with non-utility property be recovered from ratepayers. The Company's 1994 rate settlement includes $21.7 million for site investigation and remediation. Based upon management's assessment that remediation costs will be recovered from ratepayers, a regulatory asset has been recorded representing the future recovery of remediation obligations accrued to date.

The Company also agreed in rate agreements to a cost sharing arrangement with respect to one industrial waste site. The Company does not believe that this cost sharing agreement, as it relates to this particular industrial waste site, will have a material effect on the Company's financial position or results of operations.

The Company is also in the process of providing notices of insurance claims to carriers with respect to the investigation and remediation costs for manufactured gas plant and industrial waste sites. The Company is unable to predict whether such insurance claims will be successful.

TAX ASSESSMENTS

The Internal Revenue Service ("IRS") has conducted an examination of the Company's federal income tax returns for the years 1987 and 1988 and has submitted a Revenue Agents' Report to the Company. The IRS has proposed various adjustments to the Company's federal income tax liability for these years which could increase the Federal income tax liability by approximately $80 million before assessment of penalties and interest. Included in these proposed adjustments are several significant issues involving Unit 2. The Company is vigorously defending its position on each of these issues, and submitted a protest to the IRS in 1993. Pursuant to the Unit 2 settlement entered into in 1990, to the extent the IRS is able to sustain disallowances, the Company will be required to absorb a portion of any disallowance. The Company believes any such disallowance will not have a material impact on its financial position or results of operations.

LEGAL PROCEEDINGS

On March 22, 1993, a complaint was filed in the Supreme Court of the State of New York, Albany County, against the Company and certain of its officers and employees. The plaintiff, Inter-Power of New York, Inc. ("Inter-Power"), alleges, among other matters, fraud, negligent misrepresentation and breach of contract in connection with the Company's alleged termination of a power purchase agreement in January 1993. The power purchase agreement was entered into in early 1988 in connection with a 200 MW cogeneration project to be developed by Inter-Power in Halfmoon, New York. The plaintiff is seeking enforcement of the original contract or compensatory and punitive damages on fourteen causes of action in an aggregate amount that would not exceed $1 billion, excluding pre-judgment interest.

The Company believes it has done no wrong, and intends to vigorously defend against this action. On May 7, 1993, the Company filed an answer denying liability and raising certain affirmative defenses. Thereafter, the Company and Inter-Power filed cross-motions for summary judgment. The court dismissed two of Inter-Power's fourteen causes of action but otherwise denied the Company's motion. The court also dismissed two of the Company's affirmative defenses and otherwise denied Inter-Power's cross- motion. Both parties have filed Notices of Appeals regarding these dismissals. Discovery is in progress. The ultimate outcome of the litigation cannot presently be determined. Accordingly, no provision for liability, if any, that may result, has been made in the Company's financial statements.

On November 12, 1993, Fourth Branch Associates Mechanicville ("Fourth Branch"), filed suit against the Company and several of its officers and employees in the New York Supreme Court, Albany County, seeking compensatory damages of $50 million, punitive damages of $100 million and injunctive and other related relief. The suit grows out of the Company's termination of a contract for Fourth Branch to operate and maintain a hydroelectric plant the Company owns in the Town of Halfmoon, New York. Fourth Branch's complaint also alleges claims based on the inability of Fourth Branch and the Company to agree on terms for the purchase of power from a new facility that Fourth Branch hoped to construct at the Mechanicville site. On January 3, 1994, the defendants filed a joint motion to dismiss Fourth Branch's complaint. The Company believes that it has substantial defenses to Fourth Branch's claims, but is unable to predict the outcome of this litigation. Accordingly, no provision for liability, if any, that may result has been made in the Company's financial statements.

On June 22, 1993, the Company and twenty other industrial entities and the owner/operator of the Pfohl Brothers Landfill near Buffalo, New York were sued by a group of residents living in the vicinity of the landfill. The plaintiffs are seeking compensation and damages for economic loss and property damages claimed to have resulted from contamination emanating from the landfill. The Company is unable to predict the ultimate outcome of this proceeding.

FERC ORDER 636

In 1992, the FERC issued Order 636, which requires interstate pipelines to unbundle pipeline sales services from pipeline transportation service. These changes enable the Company to arrange for its gas supply directly with producers, gas marketers or pipelines, at its discretion, as well as arrange for transportation and gas storage services.

As a result of these structural changes, pipelines face "transition" costs from implementation of the Order. The principal costs are: unrecovered gas costs that would otherwise have been billable to pipeline customers under previously existing rules, costs related to restructuring existing gas supply contracts and costs of assets needed to implement the Order (such as meters, valves, etc.). Under the Order, pipelines are allowed to recover 100% of prudently incurred costs from customers. Prudence will be determined by FERC review.

The amount of restructuring costs ultimately billed to the Company will be determined in accordance with pipeline restructuring plans which have been submitted to the FERC for approval. There are four pipelines to which the Company has some liability. The Company is actively participating in FERC hearings on these matters, to ensure an equitable allocation of costs. The restructuring costs will be primarily reflected in demand charges paid to reserve space on the various interstate pipelines and will be billed over a period of approximately seven years, with billings more heavily weighted to the first three years.

Based upon information presently available to the Company from the petitions filed by the pipelines, the Company's participation in settlement negotiations, and the three settlements to which it is a party, its liability for the pipelines' unrecovered gas costs is expected to be as much as $31 million and its liability for pipeline restructuring costs could be as much as $38 million. The Company has recorded a liability of $31 million at December 31, 1993, representing the low end of the range of such transition costs. The Company is unable to predict the final outcome of current pipeline restructuring settlements and the ultimate amounts for which it will be liable or the period over which this liability will be billed.

Based upon Management's assessment that transition costs will be recovered from ratepayers, a regulatory asset has been recorded representing the future recovery of transition costs accrued to date. Currently, such costs billed to the Company are treated as a cost of purchased gas and recoverable through the operation of the gas adjustment clause mechanism.

DESCRIPTION OF NEW BONDS

The New Bonds are to be issued under a mortgage indenture between the Company and Marine Midland Bank, as Trustee (the "Trustee"), dated as of October 1, 1937, as heretofore supplemented and amended and as to be supplemented by a separate supplemental indenture (the "Supplemental Indenture") creating each series of New Bonds to be offered under this Prospectus and the accompanying Prospectus Supplement. The Mortgage Trust Indenture dated as of October 1, 1937 between the Company and the Trustee (the "Mortgage"), including the form of the Supplemental Indenture, has been filed or incorporated by reference as an exhibit to the registration statement. The following brief summaries of certain provisions contained in the Mortgage do not purport to be complete, use certain capitalized terms (not otherwise defined herein) defined in the Mortgage, and are qualified in their entirety by express reference to the cited provisions of the Mortgage.

TERMS OF NEW BONDS

Reference is made to the Prospectus Supplement which accompanies this Prospectus for the following terms and other information with respect to the New Bonds being offered thereby: (1) the designation and aggregate principal amount of such New Bonds; (2) the date on which such New Bonds will mature; (3) the rate per annum at which such New Bonds will bear interest and the date from which such interest shall accrue; (4) the dates on which such interest will be payable; and (5) any redemption terms or other specific terms applicable to the New Bonds. The New Bonds will be issued only in the form of registered Bonds without coupons in denominations of $1,000 and multiples thereof. The New Bonds may be exchanged for Bonds of the same series without service charge. (Supplemental Indenture, Part I.)

SECURITY

The New Bonds, when issued, are to be secured by the Mortgage, which, in the opinion of counsel, will constitute a direct lien on substantially all gas and electric properties presently owned by the Company and used or useful in the operation of the Company's properties as an integrated system, together with all rights appertaining thereto. The Mortgage provides that substantially all after-acquired property of such character shall become subject to the lien thereof (except, unless the Company elects otherwise, those acquired through merger or consolidation or through purchase of all or substantially all the properties of any other corporation).

There are expressly reserved from the lien of the Mortgage: (1) revenues and profits of the Mortgaged Property, cash (except cash deposited with the Trustee), book accounts, bills and notes, materials or supplies, merchandise and other property held for sale or resale in the usual course of business, except to the extent permitted by law in the event of a completed default followed by the Trustee or a receiver or trustee entering upon or taking possession of the Mortgaged Property; (2) securities and contracts; and (3) all oil, gas and other minerals, together with the right to remove the same.

The lien of the Mortgage is subject to (1) liens for taxes and assessments not due and payable or being contested in good faith; (2) obligations to public authorities as to any franchise, consent, grant, license or permit; (3) various easements, contracts and other outstanding rights; (4) leases and other rights of tenants and of licensees; and (5) liens on property acquired for transmission or distribution systems or right-of-way purposes, securing indebtedness neither assumed by the Company nor on which it customarily pays interest charges. (Granting Clauses of Mortgage.)

In the opinion of counsel, the New Bonds will rank pari passu with the other Mortgage Bonds of the Company.

The title to certain of the properties of the Company is subject to rights and claims of parties in possession not disclosed of record, any facts which accurate surveys would disclose, the effect of zoning ordinances, the lien of any unpaid taxes or assessments, rights of the public in the use of streets, roads and waterways abutting on or extending through parts of said lands, leases, covenants, easements, liens and rights of

various types (including mineral and gas rights), and other types of encumbrances, none of which materially interferes with the operations of the Company and its subsidiaries.

CREDIT ENHANCEMENT

If any series of New Bonds is entitled to the benefits of a surety bond or other form of credit enhancement, information with respect thereto will be set forth in a Prospectus Supplement.

ISSUE OF ADDITIONAL BONDS

The Mortgage provides that no securities may be created by the Company which will rank ahead of the New Bonds as to security. However, the Company may, with stated exceptions, acquire property subject to prior liens and may mortgage after-acquired property which is not subject to the lien of the Mortgage. Additional Bonds may be issued under the Mortgage in an unlimited amount which will, as to security, rank pari passu with the New Bonds, but only as follows (Mortgage, Article Fourth):

1. Bonds may be issued in a principal amount equal to 60% of the Cost (as defined) to the Company of Additional Property (as defined), after specified deductions for Additional Property theretofore made the basis of authentication of Bonds, withdrawal of cash, release of property or other action under the Mortgage (including compliance with the debt retirement and maintenance funds) and for prior liens thereon. The amount of Additional Property as of December 31, 1993 against which Bonds may be issued was approximately $1.6 billion.

2. Bonds of a like principal amount may, subject to certain limitations, be issued in exchange for Bonds outstanding under the Mortgage or in substitution for Bonds previously authenticated and delivered under the Mortgage and retired. The amount of Bonds which were reacquired by the Company either through purchases, retirements or sinking fund payments and were available as the basis for issuance of additional Bonds as of December 31, 1993 was approximately $921 million.

3. Bonds may be issued in a principal amount equal to cash deposited with the Trustee. Such cash may be withdrawn, subject to certain limitations, in lieu of Bonds to which the Company may then be entitled under the Mortgage, or may be applied to the purchase, payment or redemption of prior lien bonds or Bonds issued under the Mortgage.

The New Bonds will be issued on the basis of Additional Property and/or purchases, retirements or sinking fund payments of the Bonds pursuant to paragraphs 1 and 2 above.

Bonds may not be issued in the circumstances described in paragraphs 1 and 3 above unless the Net Earnings Available for Interest Charges (defined as the amount by which gross income for the applicable period, computed in accordance with the Uniform Systems of Accounts for Electric and Gas Corporations prescribed by the PSC, excluding gains from dispositions of capital assets, exceeds expenses and other proper income charges for such period including depreciation, obsolescence and amortization, but excluding (i) losses from dispositions of capital assets, (ii) interest on Funded Indebtedness (as hereinafter defined), (iii) income taxes and (iv) the effect of any increase or decrease in income or surplus due to readjustments of property accounts on properties existing on January 1, 1938 or changes in depreciation reserves on properties for any period before January 1, 1944, and with the proviso that if gross non-operating income exceeds 15% of the net earnings computed as provided above, such excess shall be deducted from net earnings and only the balance thereof shall be Net Earnings Available for Interest Charges) during any 12 consecutive months out of the 15 preceding months shall have been equal to at least 1.75 times the then interest charges for one year on Funded Indebtedness (defined to include the Bonds then to be issued and other bonds of, or assumed by, the Company secured by liens on any property owned by the Company). (Mortgage, Article First, Section 1(q); Section 1(r); Article Fourth, Section 6, Section 8.)

RELEASES OF PROPERTY

Subject to certain limitations, the Company, without notice to Bondholders, may obtain the release from the lien of the Mortgage of property (other than cash and certain prior lien bonds) sold, exchanged, contracted to be sold or exchanged, condemned, taken or expropriated. Any property (other than cash or securities) received by the Company upon the release of Mortgaged Property shall be subject to the lien of the Mortgage, and any cash or securities so received shall, unless otherwise disposed of pursuant to some prior lien, become part of the security for the Bonds issued under the Mortgage. Any moneys received by the Trustee as principal of obligations held by it subject to the Mortgage or as proceeds of released property shall at the Company's request be used to reimburse the Company for retirement of Bonds and certain prior lien bonds, or to pay, purchase or redeem the same. Such cash shall also on request be delivered to the Company in an amount equal to 166 2/3% of the principal amount of Bonds which could have been issued under the Mortgage in respect of Additional Property and as to which the Company forgoes the right to issue such Bonds in exchange for the Trustee's release to it of such cash. In the ordinary course of business and otherwise, the Company regularly obtains from the Trustee the release of various properties from the lien of the Mortgage. In the case of exchanges of property, no exchange shall be made if the Funded Indebtedness of the Company is thereby increased. (Mortgage, Articles Sixth and Seventh.)

MAINTENANCE FUND PROVISIONS

The Company is required, within 90 days after the close of each fiscal year, to (a) certify the Cost of Additional Property; (b) deposit with the Trustee cash, Bonds or certain prior lien bonds; or (c) waive its right to the authentication and delivery of the principal amount of Bonds to which it is then entitled under the Mortgage, to the extent that the aggregate amount of expenditures for maintenance, repairs, renewals and replacements for the period commencing January 1, 1977 is less than the sum of 2.25% of the depreciable property (as defined) of the Company on January 1 of each year during such period. (Mortgage, Article Fifth, Section 22.)

RESTRICTION OF COMMON STOCK DIVIDENDS

To the extent that the aggregate amount of expenditures for maintenance and repairs, plus the aggregate amount credited to depreciation, retirements and other like reserves, for the period commencing January 1, 1977 is less than the sum of 2.25% of the depreciable property of the Company on January 1 of each year during such period, an equivalent amount of surplus of the Company must be reserved and held unavailable for distribution as a dividend on the common stock of the Company. (Mortgage, Article Fifth, Section 23.)

MODIFICATION OF MORTGAGE

The Mortgage may be modified without action by or notice to the holders of Bonds by supplemental indenture between the Company and the Trustee, for purposes which are not inconsistent with the terms of the Mortgage and which shall not impair the security thereof, including corrections of property descriptions, modifications of the Mortgage or form of bonds and coupons to facilitate stock exchange listing requirements, or the curing of ambiguities or manifest errors in the Mortgage. (Mortgage, Article Twelfth, Section 1.)

The holders of 66-2/3% of the outstanding Bonds affected (exclusive of Bonds owned by the Company or any affiliate) may by consent effect any amendment, repeal, or modification of the Mortgage which shall not (1) alter or impair the Company's obligation to pay the principal and interest on any Bond at the time and place and at the rate and in the currency prescribed therein; (2) permit the creation by the Company of any mortgage, or lien in the nature of a mortgage, ranking prior to or pari passu with the lien of the Mortgage; (3) alter adversely to the Bondholders the character of the lien of the Mortgage; (4) affect the Trustee without its consent; or (5) permit a reduction of the percentage required for any change or modification of the Mortgage. (Mortgage, Article Twelfth, Section 2.) The Supplemental Indenture creating the New Bonds reserves to the Company the right to amend the Indenture to provide for using written consents, in addition to the existing

provisions for bondholder meetings, as a means of supplementing or amending the Indenture, but subject to the restrictions contained in the preceding sentence. (Supplemental Indenture, Part III.)

EVENTS OF DEFAULT AND NOTICE THEREOF

The Mortgage provides that each of the following shall be a "default" thereunder: (a) default in payment of the principal on any Bond when due; (b) default in the payment of interest on any Bond continuing for 60 days; (c) default in the observance by the Company of any other agreement in the Mortgage continuing unremedied for 90 days after written notice thereof to the Company by the Trustee, unless the Company shall have commenced and be continuing proceedings to remedy such default--the notice of such default may be given by the Trustee in its discretion, and shall be given upon the written request of the holders of a majority in principal amount of the Bonds; (d)(1) adjudication of the Company as a bankrupt by decree of a court of competent jurisdiction, or (2) the approval by order of a petition or answer seeking reorganization or readjustment of the Company under the Federal bankruptcy laws or other Federal or state statute, or (3) the appointment by court order (unstayed and in effect for 60 days) of a trustee in bankruptcy or a receiver of substantially all of the property of the Company or of any part of the property of the Company subject to the lien of the Mortgage; or (e)(1) the filing by the Company of a petition in voluntary bankruptcy, or (2) the making by the Company of an assignment for the benefit of creditors, or (3) the consent by the Company to the appointment of a receiver of any part of its property, or (4) the filing by the Company of a petition seeking reorganization or readjustment under the Federal bankruptcy laws or other Federal or state statute, or (5) the filing by the Company of a petition to take advantage of any debtors' act. (Mortgage, Article Ninth, Section 1.) Prior to exercising the powers conferred upon it to enforce the provisions of the Mortgage, the Trustee is entitled to be provided with indemnity satisfactory to it. (Mortgage, Article Ninth, Section 5.)

The Trustee shall, within 90 days after occurrence of any default (exclusive of any periods of grace provided in the definitions of defaults), give to the holders of Bonds issued under the Mortgage (in the manner provided in the Mortgage) notice of all defaults known to the Trustee, unless such defaults shall have been cured. In cases of default referred to in (b) and (c) above, such notice shall not be given until at least 60 days after the occurrence of such default. Except in the case of default in payment of principal or interest, or in the payment of any installment upon any retirement, improvement, sinking or purchase fund, the Trustee shall be protected in withholding such notice if and so long as the Board of Directors, Executive Committee, Trust Committee of directors or responsible officers of the Trustee in good faith determine that the withholding of such notice is in the interest of the holders of the Bonds. (Mortgage, Article Ninth, Section 18.)

The Mortgage does not contain a requirement for periodic certification as to the absence of default or compliance with the terms of the Mortgage; however, it is a condition to the issuance of additional Bonds (including the New Bonds) pursuant to Article Fourth of the Mortgage that the Company not be in default with respect to the performance or observance of any covenant or agreement contained in the Mortgage.

CONCERNING THE TRUSTEE

Marine Midland Bank has extended a line of credit to the Company and also serves as Trustee under the Mortgage. The Company maintains bank accounts, borrows money and has other customary banking relationships with Marine Midland Bank in the ordinary course of business. Mr. Edward W. Duffy, a director of the Company, and Mr. John M. Endries, a director and President of the Company, are also directors of Marine Midland Bank.

DESCRIPTION OF NEW PREFERRED STOCK

The New Preferred Stock will be fully paid and nonassessable. The Transfer Agent is Chemical Bank, 450 West 33rd Street, New York, New York 10001. The Company acts as dividend disbursing agent and maintains stockholder records.

The Company's Certificate of Incorporation, as amended (the "Charter") at present authorizes four classes of capital Stock: Preferred Stock $25 par value, Preferred Stock, $100 par value, Preference Stock, $25 par value, and Common Stock, $1 par value. As of December 31, 1993 (i) 3,400,000 shares of the Preferred Stock, $100 par value, were authorized and 2,394,000 shares were outstanding, (ii) 19,600,000 shares of the Preferred Stock, $25 par value, were authorized and 8,040,005 shares were outstanding; (iii) 8,000,000 shares of Preference Stock, $25 par value, were authorized and no shares were outstanding; and (iv) 150,000,000 shares of the Common Stock, $1 par value, were authorized, and 142,427,057 shares were outstanding. The Preferred Stock ranks prior to the Common Stock and Preference Stock with respect to the payment of dividends, mandatory redemption and liquidation.

The following brief summaries of certain provisions contained in the Charter and in the form of Certificate of Amendment to the Charter relating to the New Preferred Stock (copies of which are filed as exhibits to the Registration Statement or incorporated by reference) do not purport to be complete, use certain capitalized terms (not otherwise defined herein) defined in the Charter and in the form of Certificate of Amendment to the Charter and are qualified in their entirety by express reference to the cited provisions of the Charter and in the form of Certificate of Amendment to the Charter.

DIVIDENDS AND DIVIDEND RIGHTS

Dividends on the New Preferred Stock are cumulative from the date fixed by the Board of Directors and will be payable, when and as declared by the Board of Directors out of funds legally available therefor, at the annual rate set forth on the cover page of the Prospectus Supplement. Payment of dividends on the Preferred Stock is not restricted by the Company's Mortgage or any other agreement of the Company. If dividends on any series of Preferred Stock are not paid in full, the holders of shares of all series of Preferred Stock then outstanding will be entitled to share ratably in the amounts available for payment.

SINKING FUND, REDEMPTION AND LIQUIDATION

Reference is made to the Prospectus Supplement which accompanies this Prospectus for any sinking fund, redemption terms, liquidation rights or other specific terms applicable to the New Preferred Stock.

VOTING RIGHTS

Except as indicated below or provided by statute, the New Preferred Stock has no voting rights. Holders of Preferred Stock, $25 par value, are entitled to one-quarter vote per share, and holders of Preferred Stock, $100 par value, are entitled to one vote per share. At any time when dividends payable on the Preferred Stock are in default in an aggregate amount equivalent to four full quarterly dividends on all shares of Preferred Stock then outstanding and thereafter until all dividends thereon are paid or declared and set aside for payment, the holders of the Preferred Stock are entitled, voting as a class and regardless of series, to elect a majority of the Board of Directors as then constituted. Consent of the holders of two-thirds of the votes of the then outstanding Preferred Stock is required prior to the taking of certain corporate action by the Company or its subsidiaries, including (in addition to restrictions upon the issuance or sale of preferred stock of a subsidiary) (1) payments or distributions out of capital or capital surplus (other than dividends payable in stock ranking junior to the Preferred Stock) to any holder of any stock ranking junior to the Preferred Stock; (2) payment of any Common Stock dividend (as defined) if (a) the Common Stock dividends during a prescribed 12-month period would exceed 75% of the net income applicable to the Common Stock (as defined) for a related 12-month period and the pro forma stock equity Junior to the Preferred Stock (as defined) would be less than 25% of the Company's pro forma total capitalization, each determined as of the end of such related 12-month period, or if (b) such Common Stock dividends would exceed 50% of such income and such pro forma stock equity junior to the Preferred Stock would be less than 20% of the Company's pro forma total capitalization, each determined as of the end of such related 12-month period; (3) creation or authorization of any stock ranking prior to the Preferred Stock with respect to the payment of dividends or upon dissolution, liquidation or winding up of the Company, whether voluntary or involuntary, or any obligation or security convertible into shares of any such stock; (4) amendment, alteration, change or repeal of any of the express terms of the Preferred Stock so as to affect the holders thereof adversely; and (5) issuance of any shares of any series of Preferred Stock or

shares ranking on a parity with them, unless such shares are issued in connection with the redemption of, or in exchange for, at least an equal number of outstanding shares of another series of Preferred Stock, or unless (x) the pro forma annual interest requirements on all indebtedness of the Company and its subsidiaries and the annual dividend requirements on the Preferred Stock and any stock of the Company ranking prior to or on a parity with the Preferred

Stock are covered at least one and one-half times by consolidated income (as defined) for any 12 consecutive months within the 15 calendar months immediately preceding the month within which such issuance is authorized by the Board of Directors, and (y) the stock equity junior to the Preferred Stock at a specified date prior to such issuance was not less than the voluntary liquidation value of the Preferred Stock determined at the same date. No outstanding series of Preferred Stock may be classified or reclassified so as to affect adversely the holders of any series of Preferred Stock without the consent of the holders of two-thirds of the total number of shares of each such series then outstanding so affected.

Consent of the holders of a majority of the votes of the then outstanding Preferred Stock is required prior to the taking of certain other corporate action by the Company, including (1) issuing or assuming, or permitting any wholly-owned subsidiary (as defined) to issue or assume, unsecured indebtedness (for purposes other than the refunding of outstanding securities or the redemption or other retirement of outstanding Preferred Stock of the Company or preferred stock of such wholly-owned subsidiary) if the total principal amount of all unsecured indebtedness of the Company and its wholly-owned subsidiaries on a pro forma basis would then exceed 10% of the aggregate of total consolidated surplus and secured indebtedness of the Company and its wholly-owned subsidiaries and the capital of the Company (in which connection reference is made to an existing consent which increased such amount by $50 million as discussed under the heading "Consent of Preferred Stockholders" below); (2) permitting any majority-owned subsidiary (as defined) to issue or assume unsecured indebtedness for purposes other than the refunding of outstanding securities or the redemption or other retirement of outstanding shares of preferred stock of such subsidiary if the total principal amount of its unsecured indebtedness on a pro forma basis would then exceed 10% of the aggregate of its surplus, capital and secured indebtedness; and (3) consolidating under the laws of the State of New York with or into any other corporation unless such consolidation or the issuance of the securities to be issued in connection therewith has been ordered, approved or permitted by the Commission under the provisions of the Public Utility Holding Company Act of 1935.

CONSENT OF PREFERRED STOCKHOLDERS

In accordance with the provisions of the Charter, the holders of a majority of the votes of the Preferred Stock then outstanding adopted a resolution at a meeting held December 5, 1956 consenting to the issuance by the Company of unsecured indebtedness at any one time outstanding in a total principal amount not exceeding 10% of the aggregate of total consolidated surplus and secured indebtedness of the Company and its wholly-owned subsidiaries and the capital of the Company plus $50,000,000.

OTHER RIGHTS

The holders of record of the New Preferred Stock are eligible to participate in the Company's Dividend Reinvestment and Common Stock Purchase Plan. The holders of the Preferred Stock have no preemptive rights.

COMMON STOCK DIVIDENDS AND PRICE RANGE

In the years 1991, 1992 and 1993, the Company paid annual cash dividends per share of Common Stock of $0.32, $0.76 and $0.95, respectively. On March 25, 1993, the Board of Directors of the Company voted to increase the quarterly common stock dividend from $0.20 per share to $0.25 per share on its Common Stock and has paid quarterly cash dividends since that date at such rate.

During recent years 100% of the dividends paid on the Common Stock were subject to federal income tax as ordinary income to the recipient. It is estimated that all of the 1993 dividends will be similarly subject to federal income tax.

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

Recent quarterly high and low prices of the Common Stock, as reported by The Wall Street Journal as NYSE Composite Transactions, have been as follows:

YEAR	HIGH	LOW
1991		
First Quarter	$15	$12-3/4
Second Quarter	15-7/8	14-1/4
Third Quarter	17	15-1/4
Fourth Quarter	18	16-3/4
1992		
First Quarter	$19	$17-5/8
Second Quarter	19-1/4	17-1/2
Third Quarter	20-1/2	18-7/8
Fourth Quarter	19-7/8	18-3/8
1993		
First Quarter	$22-3/8	$18-7/8
Second Quarter	24-1/4	21-5/8
Third Quarter	25-1/4	23-3/4
Fourth Quarter	23-7/8	19-1/4

The book value of the Company's Common Stock at December 31, 1993 was $17.25 per share.

DESCRIPTION OF ADDITIONAL COMMON STOCK

The outstanding shares of Common Stock of the Company are, and the Additional Common Stock will be, fully paid and nonassessable and listed on the New York Stock Exchange. The Transfer Agent is Chemical Bank, 450 West 33rd Street, New York, New York 10001. The Company acts as dividend disbursing agent and maintains stockholder records.

The following brief summaries of certain provisions contained in the Mortgage and the Charter (copies of which are filed as exhibits to the Registration Statement or incorporated by reference) relating to the Additional Common Stock do not purport to be complete, use certain capitalized terms (not otherwise defined herein) defined in the Mortgage and in the Charter and are qualified in their entirety by express reference to the Mortgage and the Charter.

DIVIDEND RIGHTS

After payment or setting aside for payment of cumulative dividends on all outstanding issues of Preferred and Preference Stock, the holders of Common Stock are entitled to dividends when and as declared by the Board of Directors out of funds legally available therefor.

Consent of the holders of two-thirds of the votes of the then outstanding Preferred Stock is required prior to the taking of certain corporate action by the Company or its subsidiaries, including (1) payments or distributions out of capital or capital surplus (other than dividends payable in stock ranking junior to the Preferred Stock) to any holder of any stock ranking junior to the Preferred Stock, and (2) payment of any Common Stock dividend (which includes purchases or acquisitions of and distributions or dividends on Common Stock, other than dividends payable on Common Stock), if (a) the Common Stock dividends during a prescribed 12-month period would exceed 75% of the net income applicable to the Common Stock (as defined in the Charter) for a related 12-month period and the pro forma stock equity junior to the Preferred Stock (as defined in the Charter) would be less than 25% of the Company's pro forma total capitalization (as defined in the Charter), each determined as of the end of such related 12- month period, or if (b) such Common Stock dividends would exceed 50% of such income and such pro forma stock equity junior to the Preferred Stock would be less than 20% of the Company's total pro forma capitalization, each determined as of the end of such related 12-month period. No approval of the holders of Preference Stock is required prior to the taking of comparable corporate action.

The Mortgage provides that surplus of the Company shall be reserved and held unavailable for the payment of dividends on Common Stock to the extent that the aggregate amount of expenditures for maintenance and repairs, plus the aggregate amount credited to depreciation, retirements and other like reserves, for the period commencing January 1, 1977 is less than the sum of 2.25% of the depreciable property of the Common on January 1 of each year during such period. Such provisions have never to date restricted the Company's surplus.

LIQUIDATION RIGHTS

Upon any dissolution, liquidation or winding up of the Company, the holders of the Common Stock are entitled to receive pro rata all of the Company's assets available for distribution to its stockholders after payment of the full preferential amounts to which holders of stock (including Preferred and Preference Stock) having priority over the Common Stock are entitled.

VOTING RIGHTS

The holders of the Common Stock are entitled to one vote per share. Holders of the Company's Common Stock do not have cumulative voting rights with respect to the election of Directors. Whenever dividends payable on Preferred Stock are in default in an aggregate amount equivalent to four full quarterly dividends on all shares of Preferred Stock then outstanding and thereafter until all dividends thereon are paid or declared and set aside for payment, the holders of the Preferred Stock are entitled to elect a majority of the Board of Directors as then constituted. Whenever dividends payable on Preference Stock are in default in an aggregate amount equivalent to six full quarterly dividends on all shares of Preference Stock then outstanding and thereafter until all dividends thereon are paid or declared and set aside for payment, the holders of the Preference Stock are entitled to elect two members of the Board of Directors as then constituted. No such dividends are now in default.

The Charter contains a "fair price" provision which (i) requires the approval of the holders of at least 75% of the combined voting power of the then outstanding shares of the Voting Stock (all outstanding shares of capital stock of all classes and series of the Company entitled to vote generally in the election of directors of the Company), voting as a single class (including at least two-thirds of the combined voting power of the outstanding shares of Voting Stock held by shareholders other than an

Interested Shareholder, as defined in the Charter), for certain business combinations involving the Company and any Interested Shareholder, unless (x) the business combination is approved by a majority of Disinterested Directors (as defined in the Charter) or (y) certain minimum price and procedural criteria are met and (ii) requires the affirmative vote of at least 80% of the combined voting power of the Voting Stock, voting as a single class (including at least two-thirds of the combined voting power of the outstanding shares of Voting Stock held by shareholders other than an Interested Shareholder), to alter, amend or repeal the "fair price" provision or to adopt any provision inconsistent with the "fair price" provision.

The Charter also provides for the classification of Directors, with three-year staggered terms, and a requirement of an affirmative vote of 80% of the outstanding shares of Voting Stock, voting together as a single class, is required to alter, amend or repeal the provisions relating to the size and classification of the Board of Directors and the removal of members from, and the filling of vacancies on, the Board of Directors.

The Charter further provides that an affirmative vote of 80% of the outstanding shares of Voting Stock, voting together as a single class, is required to alter, amend or repeal the provisions eliminating cumulative voting with respect to the election of Directors by the holders of Common Stock.

OTHER RIGHTS

The holders of record of the Common Stock are eligible to participate in the Company's Dividend Reinvestment and Common Stock Purchase Plan. The holders of the Common Stock have no preemptive rights.

PLAN OF DISTRIBUTION

The Company may sell the Securities (i) through underwriters; (ii) through dealers; (iii) directly to one or more institutional purchasers; or (iv) through agents. The Prospectus Supplement sets forth the terms of the offering of the Securities offered thereby, including the name or names of any underwriters, dealers or agents, the purchase price of such Securities and the proceeds to the Company from such sale, any underwriting discounts and other items constituting underwriters' compensation, any initial public offering price and any discounts or concessions allowed or reallowed or paid to dealers. Any initial public offering price and any discounts or concessions allowed or reallowed or paid to dealers may be changed from time to time. Only firms named in the Prospectus Supplement are deemed to be underwriters, dealers or agents in connection with the Securities offered thereby.

If underwriters are used in the sale, the Securities will be acquired by the underwriters for their own account and may be resold from time to time in one or more transactions, including negotiated transactions, at a fixed public offering price or at varying prices determined at the time of sale. The Securities may be offered to the public either through underwriting syndicates represented by one or more managing underwriters or directly by one or more of such firms. Unless otherwise set forth in the Prospectus Supplement, the obligations of the underwriters to purchase the Securities offered thereby will be subject to certain conditions precedent, and the underwriters will be obligated to purchase all such Securities if any are purchased.

Securities may be sold directly by the Company or through any firm designated by the Company from time to time, acting as principal or as agent. The Prospectus Supplement sets forth the name of any dealer or agent involved in the offer or sale of the Securities in respect of which the

Prospectus Supplement is delivered and the price payable to the Company by such dealer or any commissions payable by the Company to such agent. Unless otherwise indicated in the Prospectus Supplement, any such agent is acting on a best efforts basis for the period of its appointment.

Underwriters, dealers and agents may be entitled under agreements entered into with the Company to indemnification by the Company against certain civil liabilities, including liabilities under the Securities Act of 1933, as amended, or to contribution with respect to payments which the underwriters, dealers or agents may be required to make in respect thereof. Underwriters, dealers and agents may engage in transactions with or perform services for the Company in the ordinary course of business.

LEGAL OPINIONS AND EXPERTS

The legality of the Securities will be passed upon for the Company by Winthrop, Stimson, Putnam & Roberts and for any underwriters, dealers or agents by Simpson Thacher & Bartlett (a partnership which includes professional corporations). Paul J. Kaleta, Esq., Vice President--Law and General Counsel, and Winthrop, Stimson, Putnam & Roberts have reviewed the legal conclusions under the caption "Description of New Bonds," "Description of New Preferred Stock" and "Description of Additional Common Stock."

The financial statements incorporated in this Prospectus by reference to the Company's Annual Report on Form 10-K for the year ended December 31, 1992 and to the Form 8-K dated February 18, 1994 for the year ended December 31, 1993 have been so incorporated in reliance on the reports (of which the report on the December 31, 1993 financial statements included in such Form 8-K contains an explanatory paragraph relating to the Company's involvement as a defendant in lawsuits relating to actions with respect to certain purchased power contracts) of Price Waterhouse, independent accountants, given on the authority of said firm as experts in auditing and accounting.

With respect to the unaudited consolidated financial information of the Company for the three-month periods ended March 31, 1993 and 1992, the three-month and six-month periods ended June 30, 1993 and 1992, and the three-month and nine-month periods ended September 30, 1993 and 1992 incorporated by reference in this Prospectus, the Company's independent accountants, Price Waterhouse, reported that they have applied limited procedures in accordance with professional standards for a review of such information. However, their separate reports dated May 11, August 5 and November 4, 1993 state that they did not audit and they do not express an opinion on that unaudited consolidated financial information. Price Waterhouse has not carried out any significant or additional audit tests beyond those which would have been necessary if their report had not been included. Accordingly, the degree of reliance on their report on such information should be restricted in light of the limited nature of the review procedures applied. Price Waterhouse is not subject to the liability provisions of Section 11 of the Securities Act of 1933 for their report on the unaudited consolidated financial information because that report is not a "report" or a "part" of the Registration Statement prepared or certified by Price Waterhouse within the meaning of Sections 7 and 11 of the Act.

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NO DEALER, SALESPERSON OR OTHER INDIVIDUAL HAS BEEN AUTHORIZED TO GIVE ANY INFORMATION OR TO MAKE ANY REPRESENTATIONS OTHER THAN THOSE CONTAINED OR INCORPORATED BY REFERENCE IN THIS PROSPECTUS SUPPLEMENT OR THE PROSPECTUS IN CONNECTION WITH THE OFFER MADE BY THIS PROSPECTUS SUPPLEMENT AND THE PROSPECTUS AND, IF GIVEN OR MADE, SUCH INFORMATION OR REPRESENTATIONS MUST NOT BE RELIED UPON AS HAVING BEEN AUTHORIZED BY THE COMPANY OR ANY OF ITS UNDERWRITERS. NEITHER THE DELIVERY OF THIS PROSPECTUS SUPPLEMENT OR THE PROSPECTUS NOR ANY SALE MADE HEREUNDER OR THEREUNDER SHALL UNDER ANY CIRCUMSTANCE CREATE AN IMPLICATION THAT THERE HAS BEEN NO CHANGE IN THE AFFAIRS OF THE COMPANY SINCE THE DATE HEREOF. THIS PROSPECTUS SUPPLEMENT AND THE PROSPECTUS DO NOT CONSTITUTE AN OFFER OR SOLICITATION BY ANYONE IN ANY STATE IN WHICH SUCH OFFER OR SOLICITATION IS NOT AUTHORIZED OR IN WHICH THE PERSON MAKING SUCH OFFER OR SOLICITATION IS NOT QUALIFIED TO DO SO OR TO ANYONE TO WHOM IT IS UNLAWFUL TO MAKE AN OFFER OR SOLICITATION.

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PROSPECTUS SUPPLEMENT

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$210,000,000

NIAGARA MOHAWK
POWER CORPORATION

FIRST MORTGAGE BONDS,
6 7/8% SERIES DUE
MARCH 1, 2001

[LOGO]

PROSPECTUS SUPPLEMENT

MERRILL LYNCH & CO.

CITICORP SECURITIES, INC.

GOLDMAN, SACHS & CO.

J.P. MORGAN SECURITIES INC.

February 25, 1994

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