New York State Electric & Gas Corporation
Financial Statements
For the Years Ended December 31, 2009 and 2008

New York State Electric & Gas Corporation

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Report of Independent Auditors

To the Shareholders and Board of Directors
of New York State Electric & Gas Corporation:

In our opinion, the accompanying balance sheets and the related statements of income, of cash flows and of changes in common stock equity present fairly, in all material respects, the financial position of New York State Electric & Gas Corporation at December 31, 2009 and 2008, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

March 30, 2010

New York State Electric & Gas Corporation
Statements of Income

Year Ended December 31,	2009	2008
(Thousands)		
Operating Revenues		
Electric	**$1,217,171**	$1,428,400
Natural gas	**433,781**	467,497
Total Operating Revenues	**1,650,952**	1,895,897
Operating Expenses		
Electricity purchased	**589,771**	798,705
Natural gas purchased	**252,352**	302,563
Other operating expenses	**334,368**	268,792
Positive benefit adjustments	**-**	164,761
Maintenance	**96,861**	78,228
Depreciation and amortization	**109,028**	107,381
Other taxes	**118,659**	114,984
Total Operating Expenses	**1,501,039**	1,835,414
Operating Income	**149,913**	60,483
Other (Income)	**(15,424)**	(7,048)
Other Deductions	**1,254**	3,724
Interest Charges, Net	**78,369**	72,094
Income (Loss) Before Income Taxes	**85,714**	(8,287)
Income Taxes (Benefit)	**30,400**	(14,131)
Net Income	**55,314**	5,844
Preferred Stock Dividends	**396**	396
Earnings Available for Common Stock	**$54,918**	$5,448

The notes on pages 6 through 33 are an integral part of our financial statements.

New York State Electric & Gas Corporation
Balance Sheets

December 31,	2009	2008
(Thousands)		
Assets		
Current Assets		
Cash and cash equivalents	**$42,555**	$9,528
Accounts receivable and unbilled revenues, net	**290,394**	292,267
Affiliated accounts receivable	**2,521**	2,983
Fuel and natural gas in storage, at average cost	**41,641**	67,903
Materials and supplies, at average cost	**8,784**	9,610
Deferred income taxes	**18,084**	16,704
Derivative assets	**203**	-
Broker margin accounts	**7,166**	43,564
Prepayments and other current assets	**44,725**	45,770
Total Current Assets	**456,073**	488,329
Utility Plant, at Original Cost		
Electric	**2,990,907**	2,927,806
Natural gas	**791,547**	778,039
Common	**299,687**	301,911
	4,082,141	4,007,756
Less accumulated depreciation	**1,623,332**	1,544,441
Net Utility Plant in Service	**2,458,809**	2,463,315
Construction work in progress	**57,061**	43,173
Total Utility Plant	**2,515,870**	2,506,488
Other Property and Investments	**21,366**	22,285
Regulatory and Other Assets		
Regulatory assets		
Environmental remediation costs	**172,465**	141,178
Unfunded future income taxes	**59,646**	46,943
Unamortized loss on debt reacquisitions	**34,719**	38,758
Natural gas hedges	**4,178**	39,469
Pension and other postretirement benefits	**566,070**	672,149
Other	**136,041**	133,766
Total regulatory assets	**973,119**	1,072,263
Other assets		
Prepaid pension benefits	**144,362**	27,031
Other	**31,129**	26,228
Total other assets	**175,491**	53,259
Total Regulatory and Other Assets	**1,148,610**	1,125,522
Total Assets	**$4,141,919**	$4,142,624

The notes on pages 6 through 33 are an integral part of our financial statements.

New York State Electric & Gas Corporation
Balance Sheets

December 31,	2009	2008
(Thousands)		
Liabilities		
Current Liabilities		
Current portion of long-term debt	**$187,768**	$187,840
Notes payable	**-**	117,000
Notes payable to affiliates	**-**	19,000
Accounts payable and accrued liabilities	**46,278**	61,968
Accounts payable to affiliates	**27,576**	21,325
Accounts payable, natural gas purchased	**18,163**	23,283
Accounts payable, electricity purchased	**55,896**	67,859
Interest accrued	**7,639**	7,610
Taxes accrued	**5,431**	4,869
Derivative liabilities	**4,048**	45,863
Environmental remediation costs	**26,707**	31,212
Other	**78,522**	62,154
Total Current Liabilities	**458,028**	649,983
Regulatory and Other Liabilities		
Regulatory liabilities		
Deferred income taxes	**166,337**	198,863
Accrued removal obligations	**409,292**	393,015
Positive benefit adjustments	**177,920**	167,639
Other	**60,753**	61,597
Total regulatory liabilities	**814,302**	821,114
Other liabilities		
Deferred income taxes	**559,795**	433,925
Other postretirement benefits	**158,528**	160,350
Asset retirement obligation	**16,716**	17,345
Environmental remediation costs	**102,456**	90,473
Other	**76,733**	64,214
Total other liabilities	**914,228**	766,307
Total Regulatory and Other Liabilities	**1,728,530**	1,587,421
Long-term debt	**904,082**	913,252
Total Liabilities	**3,090,640**	3,150,656
Commitments and Contingencies		
Preferred Stock		
Redeemable solely at the option of NYSEG	**10,159**	10,159
Common Stock Equity		
Common stock ($6.66 2/3 par value, 90,000 shares authorized and 64,508 shares outstanding for 2009 and 2008)	**430,057**	430,057
Capital in excess of par value	**268,364**	268,364
Retained earnings	**350,793**	295,875
Accumulated other comprehensive (loss)	**(8,094)**	(12,487)
Total Common Stock Equity	**1,041,120**	981,809
Total Liabilities and Equity	**$4,141,919**	$4,142,624

The notes on pages 6 through 33 are an integral part of our financial statements.

New York State Electric & Gas Corporation
Statements of Cash Flows

Year Ended December 31,	2009	2008
(Thousands)		
Operating Activities		
Net income	**$55,314**	$5,844
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	**118,957**	117,141
Amortization of regulatory and other assets and liabilities	**4,168**	5,818
Deferred income taxes and investment tax credits, net	**99,116**	14,552
Positive benefit adjustments including carrying costs	**10,281**	167,639
Pension income	**(14,929)**	(47,790)
Changes in current operating assets and liabilities		
Accounts receivable and unbilled revenues, net	**2,723**	64,059
Inventories	**27,089**	(10,214)
Broker margin accounts	**36,398**	(28,115)
Prepayments and other current assets	**(9,855)**	(2,461)
Accounts payable and accrued liabilities	**(26,522)**	5,602
Interest accrued	**29**	(1,387)
Taxes accrued	**15,763**	(22,442)
Other current liabilities	**15,472**	4,020
Postretirement benefits contributions	**-**	(52,000)
Changes in other assets		
Nonbypassable wires charge	**2,323**	(18,018)
Environmental reserves	**(23,807)**	(2,099)
Other	**(26,626)**	7,439
Changes in other liabilities		
Storm costs	**-**	(43,781)
Reserve on regulatory assets	**30,000**	-
Asset sale gain account charges	**(23,829)**	14,352
Other	**5,107**	(5,816)
Net Cash Provided by Operating Activities	**297,172**	172,343
Investing Activities		
Utility plant additions	**(119,376)**	(152,320)
Investments, net	**1,192**	193
Net Cash Used in Investing Activities	**(118,184)**	(152,127)
Financing Activities		
Equity contribution from parent	**-**	874
Long-term note repayments	**(9,565)**	(89,317)
Notes payable three months or less, net	**(117,000)**	104,803
Notes payable affiliates	**(19,000)**	19,000
Dividends paid on common and preferred stocks	**(396)**	(60,396)
Net Cash Used in Financing Activities	**(145,961)**	(25,036)
Net Increase (Decrease) in Cash and Cash Equivalents	**33,027**	(4,820)
Cash and Cash Equivalents, Beginning of Year	**9,528**	14,348
Cash and Cash Equivalents, End of Year	**$42,555**	$9,528

The notes on pages 6 through 33 are an integral part of our financial statements.

New York State Electric & Gas Corporation
Statements of Changes in Common Stock Equity

(Thousands)	Common Stock Outstanding $6.66 2/3 Par Value Shares	Amount	Capital in Excess of Par Value	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance, January 1, 2008	64,508	$430,057	$267,490	$350,427	$12,676	$1,060,650
Net income				5,844		5,844
Other comprehensive (loss), net of tax					(25,163)	(25,163)
Comprehensive (loss)						(19,319)
Equity contribution from parent			874			874
Cash dividends declared						
Preferred stock (at serial rates)						
Redeemable - optional				(396)		(396)
Common stock				(60,000)		(60,000)
Balance, December 31, 2008	64,508	430,057	268,364	295,875	(12,487)	981,809
Net income				55,314		55,314
Other comprehensive income, net of tax					4,393	4,393
Comprehensive income						59,707
Cash dividends declared						
Preferred stock (at serial rates)						
Redeemable - optional				(396)		(396)
Balance, December 31, 2009	64,508	$430,057	$268,364	$350,793	$(8,094)	$1,041,120

The notes on pages 6 through 33 are an integral part of our financial statements.

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Notes to Financial Statements

New York State Electric & Gas Corporation

Note 1. Significant Accounting Policies

Background: New York State Electric & Gas Corporation (NYSEG, the company, we, our, us) conducts regulated electricity transmission and distribution operations and regulated natural gas transportation, storage and distribution operations in upstate New York. It also generates electricity, primarily from its several hydroelectric stations. NYSEG serves approximately 872,000 electricity and 256,000 natural gas customers in its service territory of approximately 20,000 square miles, which is located in the central, eastern and western parts of the state of New York and has a population of approximately 2.5 million. The larger cities in which NYSEG serves electricity and natural gas customers are Binghamton, Elmira, Auburn, Geneva, Ithaca and Lockport. We operate under the authority of the New York State Public Service Commission (NYPSC) and are also subject to regulation by the Federal Energy Regulatory Commission (FERC).

We have evaluated events or transactions that occurred after December 31, 2009, for inclusion in these financial statements through March 30, 2010, which is the date these financial statements were available to be issued. (See “New accounting standards adopted,” “Subsequent events,” below.)

Effective September 16, 2008, Energy East Corporation (Energy East) became a wholly-owned subsidiary of Iberdrola, S.A. (Iberdrola), a corporation organized under the laws of the Kingdom of Spain. The merger provided for a business combination whereby Energy East and its subsidiaries, which include NYSEG, became wholly-owned subsidiaries of Iberdrola. The merger was completed through the acquisition by a subsidiary of Iberdrola, of all the outstanding common stock of Energy East. The effects of the merger required for accounting purposes, including any allocation of goodwill, were not pushed down to Energy East or NYSEG. The accompanying financial statements have not been adjusted to reflect Iberdrola’s basis in Energy East or its subsidiaries. On December 1, 2009, Energy East changed its legal and operating name to Iberdrola USA, Inc.

Under the merger order prescribed by the NYSPC, our electric and gas customers will receive $165 million in positive benefit adjustments (PBAs). Those benefits will, over time, be used to either reduce rates or moderate requested rate increases. Conditions were also established to ensure that ratepayers receive a portion of any added benefits associated with synergy savings and efficiency gains produced by the transaction. The PBAs were recorded in September 2008, in accordance with the merger order, as a regulatory liability with an offsetting charge to income, and will accrue a carrying cost at the pretax rate allowed by the NYPSC until used for the customers’ benefit. Carrying costs, which are included in interest expense, were $10 million in 2009 and $3 million in 2008.

As part of an effort to reduce costs and increase efficiency, we have undertaken various measures to reduce workforce levels in 2010. On January 29, 2010, workforce levels were reduced through an involuntary separation. On February 12, 2010, we offered a voluntary early retirement program to our employees. Eligible employees who accept the offer will receive a pension that is enhanced by the annuity value of one week’s pay for every full year of service and not reduced by the normal early retirement factors. Eligible employees have until April 2, 2010 to make their decision to accept the early retirement package. As of the date of these financial statements, an estimate of the impact to the Company can not be determined.

New York State Electric & Gas Corporation

***Accounts receivable*:** Accounts receivable at December 31 include unbilled revenues of $84 million for 2009 and $86 million for 2008, and are shown net of an allowance for doubtful accounts at December 31 of $11 million for 2009 and $12 million for 2008. Accounts receivable do not bear interest, although late fees may be assessed. Bad debt expense was $17 million in 2009 and $25 million in 2008.

Unbilled revenues represent estimates of receivables for energy provided but not yet billed. The estimates are determined based on various assumptions, such as current month energy load requirements, billing rates by customer classification and delivery loss factors. Changes in those assumptions could significantly affect the estimates of unbilled revenues.

The allowance for doubtful accounts is our best estimate of the amount of probable credit losses in our existing accounts receivable, determined based on experience for each service region and operating segment and other economic data. Each month we review our allowance for doubtful accounts and past due accounts over 90 days and/or above a specified amount, and review all other balances on a pooled basis by age and type of receivable. When we believe that a receivable will not be recovered, we charge off the account balance against the allowance. Changes in assumptions about input factors such as economic conditions and customer receivables, which are inherently uncertain and susceptible to change from period to period, could significantly affect the allowance for doubtful accounts estimates.

***Asset retirement obligations*:** We record the fair value of the liability for an asset retirement obligation (ARO) and/or a conditional ARO in the period in which it is incurred and capitalize the cost by increasing the carrying amount of the related long-lived asset. We adjust the liability to its present value periodically over time, and depreciate the capitalized cost over the useful life of the related asset. Upon settlement we will either settle the obligation at its recorded amount or incur a gain or a loss. We defer any timing differences between rate recovery and depreciation expense as either a regulatory asset or a regulatory liability.

The term conditional ARO refers to an entity's legal obligation to perform an asset retirement activity in which the timing and/or method of settlement are conditional on a future event that may or may not be within the control of the entity. If an entity has sufficient information to reasonably estimate the fair value of the liability for a conditional ARO, it must recognize that liability at the time the liability is incurred.

Our ARO at December 31, including our conditional ARO was $17 million for 2009 and 2008. The ARO consists primarily of obligations related to removal or retirement of: asbestos, polychlorinated biphenyl (PCB) contaminated equipment, gas pipeline and cast iron gas mains. The long-lived assets associated with our AROs are generation property, gas storage property, distribution property and other property.

We have AROs for which we have not recognized a liability because the fair value cannot be reasonably estimated due to indeterminate settlement dates, including: the removal of hydroelectric dams due to structural inadequacy; the removal of property upon termination of an easement, right-of-way or franchise; and costs for abandonment of certain types of gas mains.

Accrued removal obligations: We meet the requirements concerning accounting for regulated operations, and recognize a regulatory liability, for financial reporting purposes only, for the difference between removal costs collected in rates and actual costs incurred. We classify those amounts as accrued removal obligations.

New York State Electric & Gas Corporation

Broker margin accounts: We maintain accounts with clearing firms that require initial margin deposits upon the establishment of new positions, primarily related to gas and electric derivatives, as well as maintenance margin deposits in the event of unfavorable movements in market valuation for those positions. The amount reflecting those activities is shown as broker margin accounts on our balance sheet. This amount decreased by $36 million in 2009 due to decreased derivative liabilities.

***Statements of cash flows*:** We consider all highly liquid investments with a maturity date of three months or less when acquired to be cash equivalents and those investments are included in cash and cash equivalents.

Supplemental Disclosure of Cash Flows Information	**2009**	**2008**
(Thousands)		
Cash paid (received) during the year ended December 31:		
Interest, net of amounts capitalized	**$53,559**	$60,083
Income taxes received, net of taxes paid	**$(83,869)**	$(9,680)

The amount of capitalized interest was $0.7 million in 2009 and $1 million in 2008.

***Depreciation and amortization*:** We determine depreciation expense using the straight-line method, based on the average service lives of groups of depreciable property, which include estimated cost of removal. The weighted-average service lives of certain classifications of property are: transmission property – 62 years, distribution property - 54 years, gas production and storage property – 20 years, generation property – 59 years and other property – 37 years. Our depreciation accruals were equivalent to 2.7% of average depreciable property for 2009 and 2008.

We charge repairs and minor replacements to operating expense, and capitalize renewals and betterments, including certain indirect costs. We charge the original cost of utility plant retired or otherwise disposed of to accumulated depreciation.

New accounting standards adopted: We have adopted new accounting standards issued by the Financial Accounting Standards Board (FASB) as explained below.

Disclosures about derivative instruments and hedging activities: In March 2008 the FASB issued a new standard that requires enhanced disclosures about an entity's derivative instruments and hedging activities to enable investors to better understand their effects on the entity's financial position, financial performance and cash flows. The enhanced disclosures are intended to improve transparency about the location and amounts of derivative instruments in an entity's financial statements and how the entity accounts for derivative instruments and related hedged items. Requirements include: disclosure of fair values of derivative instruments and their gains and losses in a tabular format, disclosure of derivative features that are credit risk-related, and cross-referencing within the notes to enable financial statement users to locate important information about derivative instruments. The new standard is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. In years after initial adoption, comparative disclosures are required only for periods subsequent to initial adoption. Our adoption of the new requirements effective for our financial statements issued for fiscal years and interim periods beginning on or after January 1, 2009, did not affect our financial position, results of operation or cash flows. (See Note 8.)

New York State Electric & Gas Corporation

Fair value measurements: The FASB has issued a number of new standards related to fair value measurements. The initial new standard was issued in September 2006, which we adopted effective January 1, 2008, for our fair value measurements of financial assets and financial liabilities. Changes as a result of the application of the new standard relate to the definition of fair value, the methods used to measure fair value, and expanded disclosures about fair value measurements. The new standard applies under other accounting pronouncements that require or permit fair value measurements in which the FASB previously concluded that fair value is the relevant measurement attribute, but does not require any new fair value measurements.

The FASB issued a related new standard in February 2008 that was effective upon issuance. It delayed the effective date of the initial fair value measurement standard for nonfinancial assets and nonfinancial liabilities, except for items that are recognized or disclosed at fair value in an entity's financial statements on a recurring basis (at least annually), to fiscal years beginning after November 15, 2008, and interim periods within those fiscal years. It also requires additional disclosures concerning application of the provisions of the initial fair value measurement standard.

In August 2009 the FASB issued an accounting standards update to provide amended guidance concerning the fair value measurement of liabilities. The key provisions of the amendments include clarification about valuation techniques that are to be used in circumstances in which a quoted price in an active market for the identical liability is not available and that a reporting entity is not to include a separate input or adjustments to other inputs to reflect the existence of a restriction that prevents the transfer of a liability. The amended guidance is effective for an entity's first reporting period (including interim periods) beginning after issuance of the update. We initially began applying the guidance effective October 1, 2009.

Our adoption of the various new standards related to fair value measurements had no effect on our financial position, results of operation or cash flows.

Postretirement benefit plan assets disclosures: In December 2008 the FASB issued a new standard that amends the disclosures an employer is required to provide about its pensions and other postretirement benefits, to improve disclosures about postretirement benefit plan assets. The improved disclosures include objectives and other information concerning fair value measurements of plan assets, and must be provided for fiscal years ending after December 15, 2009. Our application of the new standard beginning with the annual reporting period ending December 31, 2009, did not affect our financial position, results of operation or cash flows. (See Note 11.)

Subsequent events: In May 2009 the FASB issued a new standard to establish principles and requirements concerning accounting for and disclosure of subsequent events – events that occur after the balance sheet date but before the financial statements are issued or available to be issued. The new accounting standard is based on the same principles as in the existing auditing standard, with new terminology as to the evaluation of subsequent events either as of the date the financial statements are "issued" or "available to be issued". We adopted the new standard as of June 30, 2009, and it had no effect on our financial position, results of operation or cash flows. (See "Background," above, for the required disclosure.)

New York State Electric & Gas Corporation

New accounting standards issued but not yet adopted: New accounting standards issued by the FASB that we have not yet adopted in these financial statements are as explained below.

Variable interest entities: In June 2009 the FASB issued amendments to its revised interpretation concerning consolidation of variable interest entities (VIEs). The amendments clarify, but do not significantly change, the criteria for determining whether an entity meets the definition of a VIE, and change existing consolidation guidance so that qualifying special purpose entities are no longer exempt from consolidation. The amendments require an enterprise to perform ongoing assessments as to whether an entity is a VIE and whether the enterprise is the primary beneficiary of a VIE. Previously such assessments were required only when specified events occurred. The amended standard will alter how an enterprise determines when an entity that is not sufficiently capitalized or not controlled through voting should be consolidated. An enterprise will also be required to perform a qualitative analysis to determine whether it should provide consolidated reporting of an entity based upon the entity's purpose and design and the enterprise's ability to direct the entity's actions. The amended standard also requires enhanced disclosures to provide more transparent information about an enterprise's involvement in a VIE, and any significant changes in its risk exposure due to that involvement. The amendments are effective at the start of a company's first fiscal year beginning after November 15, 2009, including interim periods. Earlier application is prohibited. We expect that our adoption of the amendments effective January 1, 2010, will not affect our results of operation, financial position or cash flows.

Disclosures about fair value measurements: In January 2010 the FASB issued amendments to improve disclosures about fair value measurements. New disclosures that will be required include: 1) details of transfers in and out of Levels 1 and Level 2 of the fair value measurement hierarchy, and 2) gross presentation of roll forward activity within Level 3 – separate presentation of information about purchases, sales, issuances and settlements. Entities will also have to provide fair value measurement disclosures for each class of assets and liabilities, as well as disclosures about inputs and valuation techniques for both recurring and nonrecurring Level 2 and Level 3 fair value measurements. The amendments are effective for interim and annual reporting periods beginning after December 15, 2009, except that the disclosures about Level 3 roll forward activity are effective for fiscal years beginning after December 15, 2010, and interim periods within those fiscal years. Our adoption of the amendments as they become effective will not affect our results of operation, financial position or cash flows.

Other (Income) and Other Deductions:

Year Ended December 31,	**2009**	**2008**
(Thousands)		
Interest and dividend income	**$(868)**	$(2,565)
Carrying cost on regulatory assets	**(12,360)**	(3,203)
Allowance for funds used during construction	**(1,007)**	(1,019)
Miscellaneous	**(1,189)**	(261)
Total other (income)	**$(15,424)**	$(7,048)
Losses on energy risk contracts	**-**	$288
Civic donations	**$420**	919
Accrued penalties	**78**	1,010
Miscellaneous	**756**	1,507
Total other deductions	**$1,254**	$3,724

New York State Electric & Gas Corporation

***Reclassifications*:** Certain amounts have been reclassified in our consolidated financial statements to conform to the 2009 presentation.

***Regulatory assets and regulatory liabilities*:** We currently meet the requirements concerning accounting for regulated operations for our electric and natural gas operations in New York; however, we cannot predict what effect the competitive market or future actions of regulatory entities would have on our ability to continue to do so. If we were to no longer meet the requirements concerning accounting for regulated operations for all or a separable part of our operations, we may have to record certain regulatory assets and regulatory liabilities as an expense or as revenue, or include them in accumulated other comprehensive income.

Pursuant to the requirements concerning accounting for regulated operations, we capitalize, as regulatory assets, incurred and accrued costs that are probable of recovery in future electric and natural gas rates. Substantially all regulatory assets for which funds have been expended are either included in rate base or are accruing carrying costs. The primary regulatory assets accruing carrying costs are related to deferred pension costs and transmission congestion costs accruals. We also record, as regulatory liabilities, obligations to refund previously collected revenue or to spend revenue collected from customers on future costs.

Unfunded future income taxes and deferred income taxes are amortized as the related temporary differences reverse. Unamortized loss on debt reacquisitions is amortized over the lives of the related debt issues. Nuclear plant obligations, gain on sale of generation assets, other regulatory assets and other regulatory liabilities are amortized over various periods in accordance with our current rate plans. Amortization of total regulatory liabilities net of amortization of total regulatory assets was $3 million in 2009 and $1 million in 2008.

In 2009 we recorded reserves totaling $30 million on existing regulatory assets to reflect management's assessment of risk and increased uncertainty about the ultimate recovery for ongoing disputes about earnings sharing accruals (see Note 6) that have not been resolved with our regulator. The resulting charge increased other operating expenses for the period.

Other regulatory assets and other regulatory liabilities consisted of:

December 31,	**2009**	**2008**
(Thousands)		
Asset retirement obligations	**$15,299**	$14,013
Deferred pension costs	**52,299**	38,161
Deferred storm costs	**69,649**	55,507
Nonbypassable wires charge	**11,611**	13,934
Other	**17,183**	12,151
Reserve on regulatory assets	**(30,000)**	-
Total other regulatory assets	**$136,041**	$133,766
Earnings sharing	**-**	$14,245
Economic development	**$8,278**	-
Deferred natural gas costs	**13,281**	8,168
Asset retirement obligations	**3,001**	3,014
Taxes on depreciation expense	**11,552**	7,473
Asset sale gain account	**17,470**	19,474
Other	**7,171**	9,223
Total other regulatory liabilities	**$60,753**	$61,597

New York State Electric & Gas Corporation

Regulatory proceeding: On September 17, 2009, we filed rate cases for our electric and natural gas businesses with the NYPSC. The rate cases request approval to increase the rates that we charge to deliver electricity and natural gas by a total of $233 million. If approved, the proposed rates would ensure that we can meet our increasing cost of service and achieve an adequate return on investment. The increases would be the first for us since the mid-1990s.

Under the proposed delivery rates, the typical NYSEG total residential electricity bill would increase approximately 18.6% and the typical NYSEG total residential natural gas heating bill would increase approximately 17.4%. The rate filings request an 11.43% ROE and a 48% equity ratio.

On January 22, 2010, the NYPSC Staff filed its testimony and exhibits related to our rate filings. Staff's testimony recommended a $28 million electric net rate increase and no gas rate increases. Staff's proposal included ROEs of 9.6%, and accepted our proposed 48% equity ratio. The NYPSC Staff also proposed one-time charge of $79 million related to historical annual compliance filings and accounting for certain software costs. In addition, the NYSPC Staff proposes that NYSEG electric not be allowed to collect $26 million of deferred storm costs. On February 12, 2010, NYSEG filed its rebuttal testimony and revised the requested rate increases to a total of $176 million. Settlement discussions occurred during February and on February 26, 2010 the parties agreed to suspend hearings for 30 days to continue settlement discussions. If no settlement is reached, then hearings will begin on April 12, 2010. A decision by the NYPSC is expected in the summer of 2010.

Related party transactions: Iberdrola USA Management Corporation provides various administrative and management services to Iberdrola USA's operating utilities, including NYSEG, pursuant to service agreements. The cost for those services is allocated in accordance with methodologies set forth in the service agreements. The cost allocation methodologies vary depending on the type of service provided. Management believes such allocations are reasonable. The cost for services provided to NYSEG by Iberdrola USA Management Corporation was approximately $51 million for 2009 and $55 million for 2008.

***Revenue recognition*:** We recognize revenues upon delivery of energy and energy-related products and services to our customers.

We enter into power purchase and sales transactions with the New York Independent System Operator (NYISO). When we sell electricity from owned generation to the NYISO, and subsequently repurchase electricity from the NYISO to serve our customers, we record the transactions on a net basis in our statement of income. We net our purchase and sale transactions with the NYISO on a net hourly basis.

***Taxes*:** We compute our income tax provision on a separate return method. The determination and allocation of our income tax provision and its components are outlined and agreed to in the tax sharing agreements with Iberdrola USA.

Deferred income taxes reflect the effect of temporary differences between the amount of assets and liabilities recognized for financial reporting purposes and the amount recognized for tax purposes. We amortize investment tax credits over the estimated lives of the related assets.

We account for sales tax collected from customers and remitted to taxing authorities on a net basis.

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We classify all interest and penalties related to uncertain tax positions as income tax expense.

Use of estimates and assumptions: The preparation of our financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting periods. Significant estimates and assumptions are used for, but not limited to: (1) allowance for doubtful accounts and unbilled revenues; (2) asset impairments, including goodwill; (3) depreciable lives of assets; (4) income tax valuation allowances; (5) uncertain tax positions; (6) reserves for professional, workers' compensation, and comprehensive general insurance liability risks; (7) contingency and litigation reserves; and (8) earnings sharing mechanism (ESM), nonbypassable wires charge and environmental remediation liability. Future events and their effects cannot be predicted with certainty; accordingly, our accounting estimates require the exercise of judgment. The accounting estimates used in the preparation of our financial statements will change as new events occur, as more experience is acquired, as additional information is obtained, and as our operating environment changes. We evaluate and update our assumptions and estimates on an ongoing basis and may employ outside experts to assist in our evaluation, as considered necessary. Actual results could differ from those estimates.

Note 2. Income Taxes

Year Ended December 31,	**2009**	**2008**
(Thousands)		
Current		
Federal	**$(55,575)**	$(18,250)
State	**(13,140)**	(10,434)
Current taxes charged to expense	**(68,715)**	(28,684)
Deferred		
Federal	**85,373**	13,535
State	**14,449**	1,698
Deferred taxes charged to expense	**99,822**	15,233
Investment tax credit adjustments	**(707)**	(680)
Total	**$30,400**	$(14,131)

The significant decrease in current income tax expense in 2009 as compared to 2008 is driven primarily by the effect of filing the 2008 federal and state income tax returns in September 2009. Those filings included a significant one-time tax deduction related to previously capitalized repair costs. The one-time deduction is a temporary difference between book and tax expense and requires normalization, resulting in an offsetting deferred tax expense, which is the primary driver of the significant increase in deferred income tax expense in 2009 as compared to 2008.

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Our tax expense differed from the expense at the statutory rate of 35% due to the following:

Year Ended December 31, (Thousands)	2009	2008
Tax expense at statutory rate	**$30,000**	$(2,900)
Depreciation and amortization not normalized	**3,162**	6,217
Investment tax credit amortization	**(707)**	(680)
Removal costs	**(2,381)**	(2,654)
Medicare subsidy	**(2,725)**	(3,255)
Tax return and audit adjustments	**1,828**	(4,099)
State taxes, net of federal benefit	**851**	(5,679)
Other, net	**372**	(1,081)
Total	**$30,400**	$(14,131)

Income taxes were $0.4 million more in 2009 than they would have been at the federal statutory rate of 35% and $11.2 million less in 2008. The increase in the effective tax rate in 2009 is primarily due to recurring flow-through items and the effects of the differences in the 2008 filed tax return compared to the 2008 booked tax expense driven primarily by tax depreciation. The decrease in the 2008 effective tax rate is primarily due to recurring flow-through items and the effects of the differences in the 2007 filed tax return compared to the 2007 booked tax expense. The variance in State taxes, net in 2009 as compared to 2008 is driven primarily by the increase in pretax income and favorable resolution of state audits in 2008.

Our deferred tax assets and liabilities consisted of:

December 31, (Thousands)	2009	2008
Current Deferred Income Tax Assets		
Derivative assets	**$1,589**	$109
Other	**16,495**	16,595
Total Current Deferred Income Tax Assets	**$18,084**	$16,704
Noncurrent Deferred Income Tax Liabilities (Assets)		
Depreciation	**$536,560**	$420,305
Unfunded future income taxes	**26,425**	21,403
Accumulated deferred investment tax credits	**19,165**	19,872
Pension	**205,657**	203,565
Other postretirement benefits	**(34,042)**	(44,130)
PBA merger order	**(70,483)**	(66,410)
Other	**42,850**	78,183
Total Noncurrent Deferred Income Tax Liabilities	**726,132**	632,788
Less amounts classified as regulatory liabilities		
Deferred income taxes	**166,337**	198,863
Noncurrent Deferred Income Tax Liabilities	**$559,795**	$433,925
Deferred tax assets	**$122,609**	$127,244
Deferred tax liabilities	**830,657**	743,328
Net Accumulated Deferred Income Tax Liabilities	**$708,048**	$616,084

We have no federal or state tax credit or loss carryforwards, and no valuation allowances.

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Reconciliation of Gross Income Tax Reserves	2009	2008
(Thousands)		
Balance as of January 1	**$606**	$2,594
Increases for tax positions related to prior years	**22,203**	-
Decreases for positions related to settlements with taxing authority	**-**	(1,988)
Balance as of December 31	**$22,809**	$606

The total gross unrecognized tax benefits as of December 31, 2009, were $23.5 million, including income taxes of $22.8 million and interest of $0.7 million. Including interest, $1.8 million of the gross unrecognized tax benefits would affect the effective tax rate, if recognized. Gross income tax reserves increased $22.2 million in 2009, primarily due to accelerated deductions taken on the 2008 federal and state tax returns.

We have been audited through 2005 for federal income taxes. The statue of limitations in the state of New York has expired for all years though 2005. Our federal returns for 2006 through 2008 are currently under review. We anticipate that the reviews will be completed in 2011. We cannot predict the ultimate outcome of the reviews.

Note 3. Long-term Debt

At December 31, 2009 and 2008, our long-term debt was:

			Amount (Thousands)	
	Interest Rates	**Maturity**	**2009**	**2008**
1985 Series A, B & D	4.00% to 4.10%	2015	**132,000**	132,000
2004 Series B & C	3.245% to 5.35%	2028-2034	**170,000**	170,000
Pollution control notes, fixed	3.245% to 5.35%	2015 to 2034	**$302,000**	$302,000
2006 Series A	.27%	2024	**12,000**	12,000
2005 Series A	.25%	2026	**1,550**	6,975
2004 Series A	.32%	2027	**175**	3,475
1994 Series B,C, D1 & D2	.17% to .24%	2029	**175,000**	175,000
Pollution control notes, variable	.17% to .32%	2024 to 2029	**188,725**	197,450
Long-term notes	5.50% to 6.15%	2012 to 2023	**600,000**	600,000
Obligations under capital leases			**3,876**	4,716
Unamortized premium and discount on debt, net			**(2,751)**	(3,074)
Total long-term debt			**1,091,850**	1,101,092
Less variable rate demand notes included in current liabilities			**187,000**	187,000
Less capital leases included in current liabilities			**768**	840
Total Long-term Debt			**$904,082**	$913,252

We have no secured indebtedness. None of our debt obligations are guaranteed or secured by any of our affiliates.

As of December 31, 2009, we had outstanding $489 million of tax-exempt pollution control notes (PCNs), of which $202 million have coupons fixed to maturity, $100 million are auction rate notes under a special rate period where the rate is fixed until January 2010, $187 million are weekly variable rate demand notes (VRDNs) and $2 million are 7-day auction rate notes.

As of December 31, 2008, we had outstanding $588 million of tax-exempt PCNs, of which $202 million had coupons fixed to maturity, $100 million were auction rate notes under a special rate period where the rate was fixed until January 2010, $187 million were weekly VRDNs and $99 million were 7-day auction rate notes.

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In response to market disruptions triggered by downgrades of bond insurers that began in the first quarter of 2008, in August 2008 we began to place orders for our own accounts in the auctions for $99 million of auction rate notes. We bid at each auction for 100% of the outstanding securities at the greater of the one-month London Interbank Offer Rate (LIBOR) or the Securities Industry and Financial Markets index. As of December 31, 2008, we held a total of $89 million which we account for as a redemption of long-term debt including: NYSEG PCN 2004 Series A and NYSEG PCN 2005 Series A. During 2009 we continued to bid on $99 million of our auction rate notes. As of December 31, 2009, we held a total of $97 million of those securities.

As of March 19, 2010, we were:

- Paying rates averaging 0.67% on the remaining $100 million of auction rate notes for which we are not placing orders at auction.
- Paying rates averaging 0.24% on the $99 million of auction rates notes on which we are placing orders at auction. The $99 million includes $98.8 million of notes being held on account that we have accounted for as a redemption of long-term debt.
- Paying rates averaging 0.23% on the $187 million weekly VRDNs.

At December 31, 2009, long-term debt and capital lease payments (in thousands) that will become due during the next five years, including VDRNs in 2010 as explained above, is:

2010	2011	2012	2013	2014
$187,768	$303	$100,269	$293	$319

Note 4. Bank Loans and Other Borrowings

NYSEG is a party with the other Iberdrola USA operating utilities in a joint revolving credit facility. The joint facility provides up to $475 million of credit in aggregate to the joint borrowers. Sublimits that total to the aggregate limit apply to each borrower and can be altered within constraints imposed by maximum limits that apply to each borrower. NYSEG's credit limit under the joint facility is $190 million at December 31, 2009 and at March 19, 2010. The joint facility expires in 2012 and requires a fee on undrawn borrowing capacity. We pay a facility fee of 10 basis points annually on our current joint facility sublimit.

We use drawings on our credit facilities to finance working capital needs, to finance temporarily certain refundings and for other corporate purposes. We had no short-term debt outstanding at December 31, 2009 and $136 million at December 31, 2008, all of which was borrowed under the joint facility. The weighted average interest rate on short-term debt was 1.5% at December 31, 2008. At March 19, 2010, there was no debt outstanding under the joint credit facility.

In our revolving credit facility we covenant not to permit, without the consent of the lender, our ratio of indebtedness to total capitalization to exceed 0.65 to 1.00 at any time. The facility contains various other covenants, including a restriction on the amount of secured indebtedness NYSEG may maintain. Continued unremedied failure to comply with those covenants for 15 days after written notice of such failure from the lender constitutes an event of default and would result in acceleration of maturity. NYSEG's ratio of indebtedness to total capitalization pursuant to the revolving credit facility was 0.51 to 1.00 at December 31, 2009. We were not in default as of December 31, 2009.

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We also have an intercompany borrowing under a demand note agreement with Iberdrola USA that provides financing of up to $250 million. Under the terms of that agreement, which expires in 2018, we pay the same rate as under Iberdrola USA's credit facility. We had no debt outstanding under the agreement at December 31, 2009, and March 19, 2010. Iberdrola USA obtains funding for its own short-term needs and for the temporary needs of its subsidiaries through a separate credit facility providing maximum borrowings of up to $300 million. That credit facility expires in 2012 and requires a fee on undrawn borrowings of 6 basis points. As of December 31, 2009, Iberdrola USA had borrowed $93 million of the $300 million available under its facility.

In its revolving credit facility, Iberdrola USA covenants not to permit, without the consent of the lender, its ratio of consolidated indebtedness to consolidated total capitalization to exceed 0.65 to 1.00 at any time. The facility contains various other covenants, including a restriction on the amount of secured indebtedness Iberdrola USA may maintain. Continued unremedied failure to comply with those covenants for 15 days after written notice of such failure from the lender constitutes an event of default and would result in acceleration of maturity. Iberdrola USA's ratio of consolidated indebtedness to consolidated total capitalization pursuant to the revolving credit facility was 0.55 to 1.00 at December 31, 2009. Iberdrola USA was not in default as of December 31, 2009.

We believe we have sufficient liquidity available to meet our working capital and capital spending requirements. As of March 19, 2009 we have a $190 million maximum limit available under the joint revolver and approximately $60 million of cash on hand.

Note 5. Preferred Stock Redeemable Solely at the Option of the Company

At December 31, 2009 and 2008, our serial cumulative preferred stock was:

Series	Par Value Per Share	Redemption Price Per Share	Shares Authorized and Outstanding[1]	Amount (Thousands) 2009	2008
(Thousands, except per share amounts)					
3.75%	$100	$104.00	78,379	**$7,838**	$7,838
4.50% (1949)	100	103.75	11,800	**1,180**	1,180
4.40%	100	102.00	7,093	**709**	709
4.15% (1954)	100	102.00	4,317	**432**	432
Total				**$10,159**	$10,159

[1] At December 31, 2009, NYSEG had 2,353,411 shares of $100 par value preferred stock, 10,800,000 shares of $25 par value preferred stock and 1,000,000 shares of $100 par value preference stock authorized but unissued.

We had no redemptions or purchases of preferred stock during 2009 and 2008.

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Note 6. Commitments and Contingencies

Capital spending**:** We have commitments in connection with our capital spending program. The New York merger order contains a capital expenditure condition for NYSEG for a total of $320 million during 2009 and 2010. The company has requested a limited waiver of the capital expenditure merger condition to allow it to spend its capital investment by 2011. The request is pending before the PSC. We plan to invest approximately $1.7 billion in our energy delivery infrastructure during the next five years, including amounts dedicated to electric reliability. Capital spending is expected to be paid for principally with funds generated from debt security and equity infusion. The program is subject to periodic review and revision. Our capital spending will be principally for necessary improvements to existing facilities, the extension of energy delivery service, compliance with environmental requirements and governmental mandates and an Infrastructure Replacement Program.

We have received initial approval for a grant from the U.S. Department of Energy of approximately $30 million for an Advanced Compressed Air Energy Storage Demonstration plant using a salt storage cavern. The total estimated cost of the project is $125 million.

Staff allegations concerning earnings sharing calculations: The New York Department of Public Service Staff (Staff) in its testimony and briefs in the merger proceeding alleged that NYSEG did not properly compute the amount due to customers under the electric ESM in NYSEG's electric rate plan that was in effect from 2002 through 2006. The Staff claimed that its preliminary analysis showed an additional $67 million, including interest, that should have been allocated to customers.

In its January 22, 2010, testimony, the NYPSC provided a detailed analysis of that issue. The Staff proposed a one-time charge of $79 million relating to our annual compliance filings including the calculation of the ESM and accounting for certain software costs. We vigorously dispute Staff's claims, but cannot predict how the matters will be resolved. We have reduced our regulatory assets by $30 million as a result of the uncertainty related to this proceeding.

Homer City: In June 2008 NYSEG received a letter from subsidiaries of Edison Mission Energy regarding a notice of violation (NOV) from the U. S. Environmental Protection Agency (EPA) claiming that certain modifications to the Homer City Electric Generation Station (Homer City) during the time it was owned by NYSEG and Pennsylvania Electric Company (Penelec) were done in violation of EPA's new source review (NSR) regulations. Homer City was sold in 1999 to Edison Mission Energy by NYSEG and Penelec. Edison Mission Energy asserts that it is entitled to indemnification for certain fines, penalties and costs arising out of the violations alleged in the NOV under the terms of the Asset Purchase Agreement for Homer City. That appears to be the same claim Edison Mission Energy made to NYSEG in October 2000. NYSEG continues to believe that the costs sought by Edison Mission Energy are not liabilities of NYSEG and therefore did not retain liability for those material claims.

In September 2008 NYSEG, Penelec and Edison Mission Energy met with the EPA for a required NOV conference. EPA indicated at the meeting that it seeks a system-wide NSR settlement covering Edison Mission Energy's entire generation fleet, including a number of plants in Illinois, and would require installation of scrubbers on Homer City Units 1 and 2 as part of the settlement. In April 2009 EPA sent Edison Mission Energy a settlement proposal that included those controls, along with specified emissions caps, operational controls, improvement projects and fines. To our knowledge, Edison Mission Energy has not yet formally responded to EPA's proposal. While the EPA's settlement proposal substantially increases the potential value of the claim, NYSEG believes it has sound contractual defenses under the Asset Purchase Agreement. We estimate that our most likely cost exposure over the next several years will be primarily for legal defense costs and, potentially, a proportionate share of fines EPA may assess against Edison Mission Energy. We cannot predict the nature or amounts of any potential fines or penalties.

***Nonutility generator power purchase contracts*:** We expensed approximately $129 million for NUG power in 2009, and $269 million in 2008. We have commitments to purchase NUG power until 2020. We estimate that our NUG power purchases will total $12 million in 2010 and $11 million in 2011 through 2014.

***Nuclear entitlement power purchase contract*:** In connection with the sale of the Nine Mile Point 2 nuclear generating station in 2001, including our 18% interest, we entered into an entitlement contract under which we purchase electricity at a fixed contract price. We expensed approximately $56 million for nuclear entitlement power in 2009 and $50 million in 2008. We estimate that our nuclear entitlement power purchases will be $53 million in 2010 and $56 million in 2011.

Note 7. Environmental Liability

From time to time environmental laws, regulations and compliance programs may require changes in our operations and facilities and may increase the cost of electric and natural gas service.

The EPA and the New York State Department of Environmental Conservation (NYSDEC), as appropriate, have notified us that we are among the potentially responsible parties who may be liable for costs incurred to remediate certain hazardous substances at 11 waste sites. The 11 sites do not include sites where gas was manufactured in the past, which are discussed below. All of the 11 sites are included in the New York State Registry of Inactive Hazardous Waste Disposal Sites and four of the sites are also included on the National Priorities list.

Any liability may be joint and several for certain of those sites. We recorded an estimated liability of less than $1 million at December 31, 2009, related to two of the 11 sites. We have paid remediation costs related to the remaining nine sites, and do not expect to incur any additional liability. The ultimate cost to remediate the sites may be significantly more than the accrued amount. Factors affecting the estimated remediation amount include the remedial action plan selected, the extent of site contamination and the portion attributed to us.

We have a program to investigate and perform necessary remediation at our sites where gas was manufactured in the past. In 1994 and 1996 we entered into orders on consent with the NYSDEC. Those orders require us to investigate and, where necessary, remediate 33 of our 36 sites. Eight sites are included in the New York State Registry.

Our estimate for all costs related to investigation and remediation of the 36 sites ranges from $129 million to $237 million at December 31, 2009. That estimate is based on both known and potential site conditions and multiple remediation alternatives for each of the sites. The estimate could change materially based on facts and circumstances derived from site investigations, changes in required remedial action, changes in technology relating to remedial alternatives and changes to current laws and regulations.

The liability to investigate and perform remediation, as necessary, at the known inactive gas manufacturing sites was $129 million at December 31, 2009, and $120 million at December 31, 2008. We recorded a corresponding regulatory asset, net of insurance recoveries, because we expect to recover the net costs in rates.

Our environmental liability accruals have been established on an undiscounted basis. We have received insurance settlements which we accounted for as reductions in our related regulatory asset.

Note 8. Accounting for Derivative Instruments and Hedging Activities

We are exposed to certain risks relating to our ongoing business operations. The primary risks we manage by using derivative instruments are interest rate risk and commodity price risk. In accordance with the accounting requirements concerning derivative instruments and hedging activities, we recognize all derivative instruments as either assets or liabilities at fair value on our balance sheet.

The financial instruments we hold or issue are not for trading or speculative purposes.

Commodity price risk: Commodity price risk, due to volatility experienced in the wholesale energy markets, is a significant issue for the electric and natural gas utility industries. We manage this risk through a combination of regulatory mechanisms, such as the pass-through of the market price of electricity and natural gas to customers, and through comprehensive risk management processes. Those measures mitigate our commodity price exposure, but do not completely eliminate it.

We have electricity commodity purchases and sales contracts for both capacity and energy (physical contracts) that have been designated and qualify for the normal purchases and normal sales exception in the accounting requirements concerning derivative instruments and hedging activities.

Effective January 1, 2010, we will no longer offer fixed price service to our customers. We currently have a nonbypassable wires charge adjustment that allows us to pass through rates any changes in the market price of electricity. We use electricity contracts, both physical and financial, to manage fluctuations in electricity commodity prices in order to provide price stability to customers. We include the cost or benefit of those contracts in the amount expensed for electricity purchased when the related electricity is sold. We record changes in the fair value of electric hedge contracts to derivative assets and/or liabilities with an offset to regulatory assets and/or regulatory liabilities in accordance with the requirements concerning accounting for regulated operations. At December 31, 2009, the loss recognized in regulatory assets was $0.1 million for electricity derivatives. For the year ended December 31, 2009, the loss reclassified from regulatory assets into income was $6.9 million, which is included in electricity purchased.

Owned electric generation and long-term supply contracts reduce our exposure to market fluctuations.

We have purchased a gas adjustment clause that allows us to recover through rates any changes in the market price of purchased natural gas, substantially eliminating our exposure to natural gas price risk. We use natural gas futures and forwards to manage fluctuations in natural gas commodity prices in order to provide price stability to customers. We include the cost or benefit of natural gas futures and forwards in the commodity cost that is passed on to customers

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when the related sales commitments are fulfilled. We record changes in the fair value of natural gas hedge contracts to derivative assets and/or liabilities with an offset to regulatory assets and/or regulatory liabilities in accordance with the requirements concerning accounting for regulated operations. At December 31, 2009, the loss recognized in regulatory liabilities was $4.1 million for natural gas hedges. For the year ended December 31, 2009, the loss reclassified from regulatory assets into income was $28.4 million, which is included in natural gas purchased.

Our derivative volumes by commodity type that are expected to settle each year are:

As of December 31, 2009	Electricity Contracts	Natural Gas Contracts	Other Fuel Contracts
Year to settle	**Financial Mwhs**	**Financial Dths**	**Financial Gals**
2010	578,600	7,030,000	1,555,700
2011	-	620,000	-

The location and amounts of derivative fair values in the balance sheet are:

	Asset Derivatives		Liability Derivatives	
As of December 31, 2009	**Balance Sheet Location**	**Fair Value**	**Balance Sheet Location**	**Fair Value**
(Thousands)				
Derivatives designated as hedging instruments				
Commodity contracts:				
Electricity derivatives:				
Current	Current assets	-	Current liabilities	$107
Natural gas derivatives Current	Current assets	-	Current liabilities	3,941
Long term	Other assets	-	Other liabilities	130
Other contracts	Current assets	$203	Current liabilities	-
Total derivatives designated as hedging instruments		$203		$4,178

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The effect of hedging instruments on other comprehensive income (OCI) and income was:

Period Ended December 31, 2009	Gain (Loss) Recognized in OCI on Derivatives	Location of Gain (Loss) Reclassified from Accumulated OCI into Income	Gain (Loss) Reclassified from Accumulated OCI into Income	Location of Gain (Loss) Recognized in Income on Derivatives	Gain (Loss) Recognized in Income on Derivatives
Derivatives in Cash Flow Hedging Relationships	**Effective Portion [1]**	**Effective Portion [1]**		**Ineffective Portion and Amount Excluded from Effectiveness Testing [2]**	
(Thousands)					
Commodity contracts:					
Electricity derivatives	$29,620	Electricity purchased	$(34,590)	Other (Income)/ Other Deductions	$104
Other	(768)	Other direct costs	(1,808)		-
Total	$28,852		$(36,398)		$104

(1) Changes in OCI are reported in after-tax dollars.
(2) Ineffective portion of long-term power supply contracts that are designated as cash flow hedges.

The amounts in OCI related to forward starting swaps and previously settled treasury lock contracts, after tax and accumulated amortization, at December 31 is a net loss of $(8.9) million for 2009 and $(10) million for 2008.

As of December 31, 2009, we reported $(35.9) million in net derivative losses related to discontinued cash flow hedges, of which $0.2 million in gains is reported in OCI because the forecasted transaction is considered to be probable. We expect that $0.2 million of gains in OCI will be reclassified into earnings within the next 12 months.

As of December 31, 2009, the maximum length of time over which we are hedging our exposure to the variability in future cash flows for forecasted energy transactions was 16 months – through April 2011. We estimate that no losses will be reclassified from accumulated other comprehensive income into earnings during 2010, as the underlying transactions occur.

NYSEG faces risks related to counterparty performance on hedging contracts due to counterparty credit default. We have developed a matrix of unsecured credit thresholds that are dependent on a counterparty's or the counterparty guarantor's applicable credit rating (normally Moody's or S&P). When our exposure to risk for a counterparty exceeds the unsecured credit threshold, the counterparty is required to post additional collateral or we will no longer transact with the counterparty until the exposure drops below the unsecured credit threshold.

We have various master netting arrangements in the form of multiple contracts with various single counterparties that are subject to contractual agreements that provide for the net settlement of all contracts through a single payment. Those arrangements reduce our exposure to a counterparty in the event of default on or termination of any one contract. For financial statement presentation, we do not offset fair value amounts recognized for derivative instruments and fair value amounts recognized for the right to reclaim or the obligation to return

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cash collateral arising from derivative instruments executed with the same counterparty under a master netting arrangement. Under the master netting arrangements our obligation to return cash collateral was $0.2 million at December 31, 2009 and we had no right to reclaim cash collateral at December 31, 2008.

Certain of our derivative instruments contain provisions that require us to maintain on our debt an investment grade credit rating from each of the major credit rating agencies. If our debt were to fall below investment grade, it would be in violation of those provisions, and the counterparties to the derivative instruments could request immediate payment or demand immediate and ongoing full overnight collateralization on derivative instruments in net liability positions. The aggregate fair value of all derivative instruments with credit-risk-related contingent features that are in a liability position on December 31, 2009, is $4.1 million for which we have posted collateral of $3.4 million in the normal course of business. If the credit-risk-related contingent features underlying those agreements were triggered on December 31, 2009, we would be required to post an additional $0.7 million of collateral to our counterparties.

Note 9. Fair Value of Financial Instruments and Fair Value Measurements

The carrying amounts and estimated fair values of our financial instruments are shown in the following table.

December 31,	2009		2008	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
(Thousands)				
Pollution control notes, fixed	**$302,000**	**$299,641**	$302,000	$280,148
Pollution control notes, variable	**$188,725**	**$188,725**	$197,450	$197,450
Various long-term debt	**$597,249**	**$591,172**	$596,926	$544,812

The carrying amounts for cash and cash equivalents, accounts receivable and notes payable approximate their estimated fair values.

We value all fixed rate long-term debt, taxable or tax-exempt, by assigning a market-based yield for each security and then deriving the price from the yield. Market-based yields are determined by observing secondary market trading levels for debt of similar maturity, rating, tax and structural characteristics. We value all variable rate debt at par as it approximates fair value.

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Assets and liabilities measured at fair value on a recurring basis

		Fair Value Measurements at December 31, Using		
Description	**Total**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
(Thousands)				
2009				
Assets				
Noncurrent investments available for sale	$15,715	$15,715	-	-
Derivatives	203	-		$203
Total	$15,918	$15,715	-	$203
Liabilities				
Derivatives	$4,178	$4,071	-	$107
Total	$4,178	$4,071	-	$107
2008				
Assets				
Noncurrent investments available for sale	$16,907	$16,907	-	-
Total	$16,907	$16,907	-	-
Liabilities				
Derivatives	$46,707	$32,422	-	$14,285
Total	$46,707	$32,422	-	$14,285

Valuation techniques: We measure the fair value of our noncurrent investments available for sale using quoted market prices in active markets for identical assets and include the measurements in Level 1. The investments primarily consist of money market funds.

We determine the fair value of our various derivative assets and liabilities utilizing market approach valuation techniques:
- We enter into electric energy derivative contracts to hedge the forecasted purchases required to serve our electric load obligations. We hedge our electric load obligations using derivative contracts that are settled based upon Locational Based Marginal Pricing published by the NYISO. Forward market price quotes for some NYISO locations are not actively traded and not readily available outright from market dealers. We derive forward market prices for some locations based on the historical relationship of prices in those locations to prices in locations where an active market exists. The resulting value represents the derived forward market price for each location, which we use to value the open derivative contracts. Because we adjust quoted market prices for our own load characteristics, we include those fair value measurements in Level 3.
- We enter into natural gas derivative contracts to hedge the forecasted purchases required to serve our natural gas load obligations. The forward market prices used to value our open natural gas derivative contracts are exchange-based prices for the identical derivative contracts traded actively on the New York Mercantile Exchange. Because we use prices quoted in an active market, we include those fair value measurements in Level 1.

Instruments measured at fair value on a recurring basis using significant unobservable inputs

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	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)	
	Derivatives, Net	
Year ended December 31,	**2009**	**2008**
(Thousands)		
Beginning balance	$(14,285)	$34,864
Total (losses) gains (realized/unrealized)		
Included in earnings	44,428	(19,925)
Included in other comprehensive income	(36,987)	4,183
Included in regulatory asset and liabilities	6,940	(33,407)
Ending balance	$96	$(14,285)
Total gains (losses) for the period included in earnings attributable to the change in unrealized gains (losses) relating to instruments still held at December 31	$90	$(19,925)

The amounts of realized and unrealized gains and losses included in earnings for the period (above), which are reported in the various categories indicated are:

	Electricity purchased	**Other operating expense**	**Other Income**
(Thousands)			
Total gains (losses) included in earnings for year ended December 31,			
2009	$49,560	$1,718	$90
2008	$(18,916)	$(1,297)	$288
Change in unrealized gains (losses) relating to instruments still held at December 31,			
2009	-	-	-
2008	$(18,916)	$(1,297)	$288

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Note 10. Accumulated Other Comprehensive Income (Loss)

(Thousands)	Balance January 1, 2008	2008 Change	Balance December 31, 2008	2009 Change	Balance December 31, 2009
Amortization of pension cost for nonqualified plans, net of income tax benefit of $987 for 2008 and $540 for 2009	$(514)	$(1,505)	$(2,019)	$(824)	$(2,843)
Unrealized gains (losses) on derivatives qualified as hedges:					
Unrealized (losses) during period on derivatives qualified as hedges, net of income tax benefit of $14,247 for 2008 and $11,430 for 2009		(21,717)		(17,422)	
Reclassification adjustment for (gains) losses included in net income, net of income tax expense (benefit) of $1,706 for 2008 and $(14,419) for 2009		(2,601)		21,979	
Net unrecognized gains on settled cash flow treasury hedges, net of income tax (expense) of $(433) for 2008 and 2009		660		660	
Net unrealized gains (losses) on derivatives qualified as hedges	13,190	(23,658)	(10,468)	5,217	(5,251)
Accumulated Other Comprehensive Income (Loss)	$12,676	$(25,163)	$(12,487)	$4,393	$(8,094)

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Note 11. Retirement Benefits

We have funded noncontributory defined benefit pension plans that cover substantially all of our employees. The plans provide defined benefits based on years of service and final average salary. We also have other postretirement health care benefit plans covering substantially all of our employees. The health care plans are contributory with participants' contributions adjusted annually.

Obligations and funded status:	**Pension Benefits**		**Postretirement Benefits**	
	2009	**2008**	**2009**	**2008**
(Thousands)				
Change in benefit obligation				
Benefit obligation at January 1	**$1,215,020**	$1,213,139	**$242,206**	$252,449
Service cost	**17,324**	17,296	**2,489**	2,363
Interest cost	**72,975**	72,867	**14,329**	14,813
Plan participants' contribution	**-**	-	**4,098**	4,456
Plan amendments	**-**	142	**-**	-
Actuarial loss (gain)	**38,397**	(15,540)	**18,713**	(11,015)
Benefits paid	**(72,955)**	(72,883)	**(22,822)**	(22,316)
Federal subsidy on benefits paid	**-**	-	**1,782**	1,456
Benefit obligation at December 31	**$1,270,761**	$1,215,021	**$260,795**	$242,206
Change in plan assets				
Fair value of plan assets at January 1	**$1,242,052**	$1,768,921	**$81,856**	$58,625
Actual return on plan assets	**246,026**	(453,986)	**20,320**	(28,769)
Employer contributions	**-**	-	**-**	52,000
Benefits paid	**(72,955)**	(72,883)	**-**	-
Fair value of plan assets at December 31	**$1,415,123**	$1,242,052	**$102,176**	$81,856
Funded status	**$144,362**	$27,031	**$(158,619)**	$(160,350)

Amounts recognized on the balance sheet	**Pension Benefits**		**Postretirement Benefits**	
December 31,	**2009**	**2008**	**2009**	**2008**
(Thousands)				
Noncurrent assets	**$144,362**	$27,031	**-**	-
Noncurrent liabilities	**-**	-	**$(158,619)**	$(160,350)
	$144,362	$27,031	**$(158,619)**	$(160,350)

We are allowed to defer as regulatory assets or regulatory liabilities items that would otherwise be recorded in accumulated other comprehensive income pursuant to the accounting requirements concerning defined benefit pension and other postretirement plans. Amounts recognized as regulatory assets or regulatory liabilities consist of:

	Pension Benefits		**Postretirement Benefits**	
December 31,	**2009**	**2008**	**2009**	**2008**
(Thousands)				
Net loss	**$508,803**	$608,405	**$20,763**	$23,798
Prior service cost (credit)	**$20,502**	$23,302	**$(4,398)**	$(10,556)
Transition obligation	-	-	**$20,400**	$27,200

Our accumulated benefit obligation for all defined benefit pension plans at December 31 was $1.2 billion for 2009 and $1.1 billion for 2008.

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Components of net periodic benefit cost and other amounts recognized in regulatory assets and regulatory liabilities:

	Pension Benefits		Postretirement Benefits	
Year ended December 31,	**2009**	**2008**	**2009**	**2008**
(Thousands)				
Net periodic benefit cost				
Service cost	**$17,324**	$17,296	**$2,489**	$2,363
Interest cost	**72,975**	72,867	**14,329**	14,813
Expected return on plan assets	**(138,383)**	(148,015)	**(3,929)**	(5,055)
Amortization of prior service cost (benefit)	**2,800**	3,045	**(6,157)**	(6,157)
Amortization of net loss	**30,355**	7,017	**5,356**	4,439
Amortization of transition obligation	**-**	-	**6,800**	6,800
Net periodic (income) benefit cost	**$(14,929)**	$(47,790)	**$18,888**	$17,203
Other changes in plan assets and benefit obligations recognized in regulatory assets and regulatory liabilities				
Net (gain) loss	**$(69,247)**	$586,461	**$2,322**	$22,809
Prior service cost	**-**	142	**-**	-
Amortization of net (loss)	**(30,355)**	(7,017)	**(5,356)**	(4,439)
Amortization of prior service (cost) credit	**(2,800)**	(3,045)	**6,157**	6,157
Amortization of transition obligation	**-**	-	**(6,800)**	(6,800)
Total recognized in regulatory assets (liabilities)	**$(102,402)**	$576,541	**$(3,677)**	$17,727
Total recognized in net periodic benefit cost and regulatory assets (liabilities)	**$(117,331)**	$528,751	**$15,211**	$34,930

We include the net periodic benefit cost in other operating expenses. The net periodic benefit cost for postretirement benefits represents the amount expensed for providing health care benefits to retirees and their eligible dependents. We had no postretirement benefit costs deferred as of December 31, 2009 and 2008. We are amortizing over 20 years the transition obligation for postretirement benefits that resulted from our adoption in 1992 of the accounting requirements concerning employers' accounting for postretirement benefits other than pensions.

Amounts expected to be amortized from regulatory assets or regulatory liabilities into net periodic benefit cost for the fiscal year ended December 31, 2010	**Pension Benefits**	**Postretirement Benefits**
(Thousands)		
Estimated net loss	$52,283	$5,420
Estimated prior service cost (credit)	$2,585	$(4,398)
Estimated transition obligation	-	$6,800

We expect that no pension benefit or postretirement benefit plan assets will be returned to us during the fiscal year ended December 31, 2010.

Weighted-average assumptions used to	**Pension Benefits**		**Postretirement Benefits**	
determine benefit obligations at December 31,	**2009**	**2008**	**2009**	**2008**
Discount rate	**5.80%**	6.10%	**5.80%**	6.10%
Rate of compensation increase	**4.00%**	4.00%	**N/A**	N/A

As of December 31, 2009, we decreased our discount rate from 6.10% to 5.80%. The discount rate is the rate at which the benefit obligations could presently be effectively settled. We determined the discount rate developing a yield curve derived from a portfolio of high grade noncallable bonds that closely matches the duration of the expected cash flows of our benefit obligations.

Weighted-average assumptions used to determine net periodic benefit cost for the year ended December 31,	Pension Benefits 2009	Pension Benefits 2008	Postretirement Benefits 2009	Postretirement Benefits 2008
Discount rate	**6.10%**	6.00%	**6.10%**	**6.00%**
Expected long-term return on plan assets	**8.75%**	8.75%	**4.80%**	**4.80%**
Expected long-term return on plan assets - nontaxable trust	**-**	-	**8.00%**	**8.00%**
Expected long-term return on plan assets - taxable trust	**-**	-	**4.80%**	**4.80%**
Rate of compensation increase	**4.00%**	4.00%	**N/A**	**N/A**

We developed our expected long-term rate of return on plan assets assumption based on a review of long-term historical returns for the major asset classes, the target asset allocations and the effect of rebalancing of plan assets discussed below. That analysis considered current capital market conditions and projected conditions. We amortize unrecognized actuarial gains and losses over 10 years from the date they are incurred.

Assumed health care cost trend rates to determine benefit obligations at December 31	2009	2008
Health care cost trend rate assumed for next year	**8.0 %**	8.0%
Rate to which cost trend rate is assumed to decline (the ultimate rate trend rate)	**4.5%**	5.0%
Year that the rate reaches the ultimate trend rate	**2028**	2014

Assumed health care cost trend rates have a significant effect on the amount reported for the health care plans. A one-percentage-point change in assumed health care cost trend rates would have the following effects:

(Thousands)	1% Increase	1% Decrease
Effect on total of service and interest cost	$348	$(317)
Effect on postretirement benefit obligation	$8,353	$(7,426)

***Plan assets*:** Iberdrola USA's pension benefits plan assets are held in a master trust providing for a single trustee/custodian, a uniform investment manager lineup, and an efficient, cost-effective means of allocating expenses and investment performance to each plan under the master trust. Iberdrola USA's primary investment objective is to ensure that current and future benefits obligations are adequately funded and with volatility commensurate with its tolerance for risk. Preservation of capital and achievement of sufficient total return to fund accrued and future benefits obligations are of highest concern. Iberdrola USA's primary means for achieving capital preservation is through diversification of the trust's investments while avoiding significant concentrations of risk in any one area of the securities markets. Within each asset group, further diversification is achieved through utilizing multiple asset managers and systematic allocation to various asset classes; providing broad exposure to different segments of the equity, fixed-income and alternative investment markets.

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Iberdrola USA's asset allocation policy is the most important consideration in achieving its objective of superior investment returns while minimizing risk. Iberdrola USA has established a target asset allocation policy within allowable ranges for the pension benefits plan assets of 58% equity securities, 27% fixed income and 15% for all other types of investments. The target allocations within allowable ranges are further diversified into 30% large cap domestic equities, 10% medium and small cap domestic equities and 18% international equity securities. Fixed income investment targets and ranges are segregated into core fixed income at 5%, long dated corporate securities 6%, annuity contracts 13% and high yield fixed income 3%. All fixed income investments are in domestic securities. Other, alternative investment targets are 5% each for real estate, absolute return and strategic markets. Systematic rebalancing within the target ranges, should any asset categories drift outside their specified ranges, increases the probability that the annualized return on the investments will be enhanced, while realizing lower overall risk.

The fair values of the Iberdrola USA consolidated pension benefits plan assets at December 31, 2009, by asset category are shown in the following table. NYSEG's share of the total consolidated assets is approximately 63%.

		Fair Value Measurements at December 31, 2009, Using		
Asset Category	**Total**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
(Thousands)				
Cash and cash equivalents	$38,248	$927	$37,321	-
U.S. government securities	49,619	49,619	-	-
Common stocks	1,000,311	997,495	2,816	-
Registered investment companies	119,155	119,155	-	-
Corporate bonds	364,243	-	364,243	-
Preferred stocks	6,916	6,916	-	-
Common/collective trusts	358,201	-	62,557	$295,644
Partnership/joint venture interests	93,269	-	-	93,269
Real estate investments	40,618	-	-	40,618
Other investments, principally annuity and fixed income	183,173	20,784	31,265	131,124
Total	$2,253,753	$1,194,896	$498,202	$560,655

Valuation techniques: Iberdrola USA values the pension benefits plan assets as follows:

- Cash and cash equivalents – Level 1: at cost, plus accrued interest, which approximates fair value. Level 2: proprietary cash associated with other investments, based on yields currently available on comparable securities of issuers with similar credit ratings.
- U.S. government securities, Common stocks and Registered investment companies - at the closing price reported in the active market in which the security is traded.
- Corporate bonds – based on yields currently available on comparable securities of issuers with similar credit ratings.
- Preferred stocks – at the closing price reported in the active market in which the individual investment is traded.
- Common/collective trusts and Partnership/joint ventures – using the Net Asset Value (NAV) provided by the administrator of the fund. The NAV is based on the value of the underlying assets owned by the fund, minus its liabilities, and then divided by the number of shares outstanding. The NAV is classified as Level 2 if the plan has the ability to redeem the investment with the investee at NAV per share at the measurement date. Redemption

restrictions or adjustments to NAV based on unobservable inputs result in the fair value measurement being classified as a Level 3 measurement if those inputs are significant to the overall fair value measurement.

- Real estate investments – based on a discounted cash flow approach that includes the projected future rental receipts, expenses and residual values because the highest and best use of the real estate from a market participant view is as rental property.
- Other investments, principally annuity and fixed income - Level 1: at the closing price reported in the active market in which the individual investment is traded. Level 2: based on yields currently available on comparable securities of issuers with similar credit ratings. Level 3: when quoted prices are not available for identical or similar instruments, under a discounted cash flows approach that maximizes observable inputs such as current yields of similar instruments but includes adjustments for certain risks that may not be observable such as credit and liquidity risks.

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)					
(Thousands)	**Corporate Bonds**	**Common/ Collective Trusts**	**Partner-ship/ Joint Venture Interests**	**Real Estate Invest-ments**	**Other Invest-ments**	**Total**
Balance, December 31, 2008	$112	$432,918	$106,819	$58,687	$156,149	$754,685
Actual return on plan assets:						
Relating to assets still held at the reporting date	-	2,557	2,565	-	-	5,122
Relating to assets sold during the year	-	112,364	3,869	(19,345)	-	96,888
Purchases, sales and settlements	(112)	(252,195)	(19,984)	1,276	(25,025)	(296,040)
Transfers into and/or out of Level 3	-	-	-	-		
Balance, December 31, 2009	-	$295,644	$93,269	$40,618	$131,124	$560,655

Iberdrola USA's postretirement benefits plan assets are held with two trustees in multiple voluntary employees' beneficiary association (VEBA) and 401(h) arrangements and are invested among and within various asset classes in order to achieve sufficient diversification in accordance with its risk tolerance. This is achieved for the postretirement benefits plan assets through the utilization of multiple institutional mutual and money market funds, providing exposure to different segments of the fixed income, equity and short-term cash markets. Approximately 20% of the postretirement benefits plan assets are invested in VEBA and 401(h) arrangements that are not subject to income taxes. The remainder is invested in arrangements subject to income taxes.

Iberdrola USA has established a target asset allocation policy within allowable ranges for its postretirement benefits plan assets of 56% equity securities, 37% fixed income and 7% for all other types of investments. The target allocations within allowable ranges are further diversified into 30% large cap domestic equities, 7% medium and small cap domestic equities, 13% international developed market and 6% emerging market equity securities. Fixed income investment targets and ranges are segregated into core fixed income at 30%, global high yield fixed income 4% and international developed market debt 3%. Other, alternative investment targets are 4% for real estate and 3% absolute return. Systematic rebalancing within target ranges, should any asset categories drift outside their specified ranges, increases the probability that the annualized return on the investments will be enhanced, while realizing lower overall risk.

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The fair values of the Iberdrola USA consolidated other postretirement benefits plan assets at December 31, 2009, by asset category are shown in the following table. NYSEG's share of the total consolidated assets is approximately 70%.

Asset Category	Total	Fair Value Measurements at December 31, 2009, Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
(Thousands)				
Money market funds	$4,214	$4,214	-	-
Mutual funds, fixed	51,061	51,061	-	-
Mutual funds, equity	82,089	82,089	-	-
Other investments	3,109	1,865	$774	$470
Total assets measured at fair value	$140,473	$139,229	$774	$470
Whole life insurance contract	5,836			
Total postretirement benefits plan assets	$146,309			

Valuation techniques: Iberdrola USA values its postretirement benefits plan assets as follows:

- Money market funds and Mutual funds, fixed and equity – based upon quoted market prices, which represent the NAV of the shares held.
- Other investments – these are primarily 401(h) investments that are an allocation of pension Master Trust investments.

The whole life insurance contract is presented at the contract value, which is not a fair value measurement.

Diversified equity securities did not include any Iberdrola common stock at December 31, 2009.

Cash Flows

Contributions: In accordance with our funding policy we make annual contributions of not less than the minimum required by applicable regulations. We do not expect to contribute to our pension benefit plans in 2010 and expect to contribute $21 million to our other postretirement benefit plans in 2010.

Estimated future benefit payments: Our expected benefit payments and expected Medicare Prescription Drug, Improvement and Modernization Act of 2003 (Medicare Act) subsidy receipts, which reflect expected future service, as appropriate, are:

	Pension Benefits	Postretirement Benefits	Medicare Act Subsidy Receipts
(Thousands)			
2010	$74,362	$22,678	$1,903
2011	$79,914	$24,743	$2,088
2012	$84,397	$24,572	$2,345
2013	$88,024	$25,263	$2,614
2014	$90,928	$25,877	2,837
2015 - 2019	$485,891	$129,071	$17,120

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Note 12. Sale of Seneca Lake Storage Facility

On January 9, 2010, we entered into an agreement to sell our Seneca Lake Storage facility and related assets for $65 million. The carrying amount of the facility assets is approximately $33 million, and the assets are included in natural gas storage property at December 31, 2009. The sale of the facility is contingent on receiving appropriate regulatory approvals from the NYPSC and the FERC, but is expected to close in the second half of 2010. NYSEG and other petitioners are in the process of preparing regulatory filings, with such filings to be submitted within 60 days of the date of the purchase agreement.