

2009 Annual Report

President's Letter

TO OUR SHAREHOLDERS

2009 was our 106th year as a natural gas utility in New York. There are very few independent local gas utilities left in our country. We believe that our company and business model are more capable of reacting to a rapidly changing economic/energy environment than many of our larger brethren. We also believe that as a small local utility, we remain connected with our customers and communities and that connection will provide us with a competitive edge.

Corning Natural Gas is geographically blessed. Our service territory sits just north of rapidly developing Marcellus Shale gas fields. New interstate pipeline and storage projects have recently been built in our area. Our local knowledge and relationships, our rights-of-way and our pipelines have provided us with a once in a lifetime opportunity to grow our company.

Our company now is comprised of two complementary businesses. First, we are a local utility distributing gas to nearly 15,000 customers in upstate New York. But secondly, we are an intrastate pipeline moving significant volumes of gas to large industrial users, other utilities and in the future, the interstate pipeline system. In 2009, this business segment "took off." We completed a two-mile pipeline to connect to Marcellus Shale gas in Pennsylvania. This pipeline has set the stage for greater growth in 2010. We anticipate a multi-fold increase in volumes from this pipeline and we plan to connect more "Trenton Black" gas in New York.

As regards our local utility, we continue to focus on providing safe, reliable and economical service to all customers. In 2009, we completed several projects to enhance the safety and reliability of our gas system. These included the replacement of 8 ½ miles of bare steel distribution main and 413 bare steel services. We also repaired 180 leaks. In addition to the system repair and upgrades, 90 new natural gas services were added to our distribution system during 2009.

But we are not satisfied with just managing our existing core distribution assets, we are growing this business. In 2009 we completed two expansions to connect asphalt plants in our service territory. These plants are likely to be major customers of the company for many years. Aside from our Marcellus Shale investment, the major undertaking last year was the completion of a new franchise in the Town of Virgil, NY. This project was begun as a result of a new development in the area. The project included a new meter and regulator station, 4 ½ miles of distribution main and the connection of a ski resort (Greek Peak) and water park/hotel (Hope Lake Lodge). During 2009, the backbone of the system was constructed, as well as 20 residential customers added. In 2010, we will focus our efforts on connecting an additional 100 residential and commercial customers.

A critical part of remaining a successful local utility is staying connected to our customers. We continue to have more than 20 percent of our customers come to our office each month to add, change or settle their accounts. It is a pleasure to see them and our customer service staff goes all out to make their visit positive. We continue to believe that remaining accessible to our customers and providing superior customer service makes good business sense.

Over the last year, we have begun to reward you, our shareholder, for your patience through the lean years. We reinstated a dividend and then raised the payout ratio. We anticipate continuing this trend and hope you will remain an owner of the company.

For more than 100 years, our employees have been good stewards of your company's assets and the communities and customers we serve. For a small company, we are blessed with uniquely talented and dedicated staff. I believe this will lead our company to even greater success in the future.

Thank you.

Sincerely,

Michael I. German
President & CEO