New York Power Authority

Financial Report

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Management Report

Management is responsible for the preparation, integrity and objectivity of the financial statements of the Power Authority of the State of New York (the Authority), as well as all other information contained in the Annual Report. The financial statements have been prepared in conformity with U.S. generally accepted accounting principles and, in some cases, reflect amounts based on the best estimates and judgments of management, giving due consideration to materiality. Financial information contained in the Annual Report is consistent with the financial statements.

The Authority maintains a system of internal controls to provide reasonable assurance that transactions are executed in accordance with management's authorization, that financial statements are prepared in accordance with U.S. generally accepted accounting principles and that the assets of the Authority are properly safeguarded. The system of internal controls is documented, evaluated and tested on a continuing basis. No internal control system can provide absolute assurance that errors and irregularities will not occur due to the inherent limitations of the effectiveness of internal controls; however, management strives to maintain a balance, recognizing that the cost of such system should not exceed the benefits derived.

The Authority maintains an internal auditing program to independently assess the effectiveness of internal controls and to report findings and recommend possible improvements to management. This program includes a comprehensive assessment of internal controls as well as testing of all key controls to ensure that the system is functioning as intended. Additionally, as part of its audit of the Authority's financial statements, KPMG LLP, the Authority's independent auditors, considers internal controls over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal controls over financial reporting. Management has considered the recommendations of its internal auditors, the Office of the State Comptroller (OSC), and the independent auditors concerning the system of internal controls and has taken actions that it believed to be cost-effective in the circumstances to respond appropriately to these recommendations. Based on its structure and related processes, management believes that, as of December 31, 2015, the Authority's system of internal controls provides reasonable assurance as to the integrity and reliability of the financial statements, the protection of assets from unauthorized use or disposition and the prevention and detection of fraudulent financial reporting.

The members of the Authority's Board of Trustees, appointed by the Governor, by and with the advice and consent of the Senate, are not employees of the Authority. The Trustees' Audit Committee meets with the Authority's management, its Sr. Vice President of Internal Audit and its independent auditors periodically, throughout the year, to discuss internal controls and accounting matters, the Authority's financial statements, the scope and results of the audit by the independent auditors and the periodic audits by the OSC, and the audit programs of the Authority's internal auditing department. The independent auditors, the Sr. Vice President of Internal Audit and the Vice President & Chief Ethics and Compliance Officer have direct access to the Audit Committee.

Robert F. Lurie
Executive Vice President and Chief Financial Officer

March 29, 2016

Overview of the Financial Statements

This report consists of three parts: management's discussion and analysis, the basic financial statements, and the notes to the financial statements.

The financial statements provide summary information about the New York Power Authority's (the Authority) overall financial condition. The notes provide explanation and more details about the contents of the financial statements.

The Authority is considered a special-purpose government entity engaged in business-type activities and follows financial reporting for enterprise funds. The Authority's financial statements are prepared in accordance with generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB). Under the criteria set forth in GASB Statement No. 14, *The Financial Reporting Entity*, as amended by Governmental Accounting Standard (GAS) No. 39, *Determining Whether Certain Organizations Are Component Units* and GAS No. 61, *The Financial Reporting Entity: Omnibus--an amendment of GASB Statements No. 14 and No. 34*, the Authority considers its relationship to the State to be that of a related organization.

Forward Looking Statements

The statements in this management's discussion and analysis (MD&A) that are not purely historical facts are forward-looking statements based on current expectations of future events. Such forward-looking statements are necessarily based on various assumptions and estimates and are inherently subject to various risks and uncertainties, including, but not limited to, risks and uncertainties relating to the possible invalidity of the underlying assumptions and estimates and possible changes to or development in various important factors. Accordingly, actual results may vary from those we presently expect and such variations may be material. We therefore caution against placing undue reliance on the forward-looking statements contained in this MD&A. All forward-looking statements included in this MD&A are made only as of the date of this MD&A and we assume no obligation to update any such forward-looking statements as a result of new information, future events or other factors.

Summary of Revenues, Expenses and Changes in Net Position

The following is a summary of the Authority's financial information for 2015, 2014, and 2013:

		2015		2014		2013	2015 vs. 2014 favorable (unfavorable)	2014 vs. 2013 favorable (unfavorable)
				(In millions, except percentages)				
Operating revenues	$	2,625	$	3,175	$	3,030	(17)%	5%
Operating expenses:								
Purchased power		689		996		934	31	(7)
Fuel oil & gas		236		361		324	35	(11)
Wheeling		599		614		603	2	(2)
Operations and maintenance		569		562		566	(1)	1
Depreciation		237		232		228	(2)	(2)
Total operating expenses		2,330		2,765		2,655	16	(4)
Operating income		295		410		375	(28)	9
Nonoperating revenues		25		115		90	(78)	28
Nonoperating expenses		246		253		237	(3)	7
Net income		74		272		228	(73)	19
Contributed capital		—		—		21		
Net income and change in net position		74		272		249		
Net position – beginning		3,991		3,719		3,470		
Cumulative effect of change in accounting principle		(6)		—		—		
Net position – beginning, as restated		3,985		3,719		3,470		
Net position – ending	$	4,059	$	3,991	$	3,719		

The following summarizes the Authority's financial performance for the years 2015 and 2014:

The Authority had net income of $74 million for the year ended December 31, 2015 compared to $272 million in 2014. The current year decrease of $198 million included lower operating income of $115 million and lower nonoperating revenues of $90 million, partially offset by lower nonoperating expenses of $7 million. Operating income declined compared to last year due to lower energy revenues resulting from lower prices on market-based sales of energy into the NYISO market. Market energy prices were lower due to a significant drop in natural gas prices toward the end of 2014 and continuing into 2015 as well as mild summer weather in 2015. Purchased power and fuel expenses decreased $432 million for the year ended December 31, 2015, compared to the prior year. The large decrease was a result of lower prices substantially offset by the pass-through of such savings to customers through operating revenues. Non-operating revenues were $90 million lower compared to last year, mainly due to the expiration of the Value Sharing Agreements, which were part of the Authority's sales of its nuclear projects in 2000. Lower non-operating expenses in 2015 compared to 2014 included a lower interest expense due to the 2015 bond refinancing and scheduled debt retirements.

The change in net position was attributable to the positive 2015 net income of $74 million and a $(6) million adjustment to the beginning net position due to a cumulative change in accounting principle as a result of the Authority's adoption of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions.*

The Authority had net income of $272 million for the year ended December 31, 2014 compared to $228 million in 2013. The 2014 increase of $44 million included higher operating income of $35 million and higher nonoperating revenues of $25 million; partially offset by higher nonoperating expenses of $16 million. Operating income was higher primarily due to higher production at Niagara and higher prices on market-based sales of energy into the NYISO market. Severe winter weather conditions caused a significant spike in market energy prices in early 2014. Large increases in purchased power and fuel expenses from year to year were substantially offset by the recovery of such costs through operating revenues. Nonoperating revenue was higher primarily due to insurance reimbursements received in the current year and a lower unrealized loss on fixed income securities in the Authority's investment portfolio. Nonoperating expenses were higher in 2014 due to higher voluntary contributions to New York State ($25 million) partially offset by a lower interest expense.

Net position increased in 2014 due to positive net income of $272 million.

Operating Revenues

Operating revenues of $2,625 million in 2015 were $550 million or 17% lower than the $3,175 million in 2014, primarily due to lower energy revenues resulting from lower prices on market-based sales of energy into the NYISO market. Market energy prices were lower due to a significant drop in natural gas prices toward the end of 2014 and continuing into 2015 as well as mild summer weather in 2015.

Purchased Power and Fuel

Purchased power costs decreased by 31% in 2015 to $689 million from $996 million in 2014, primarily due to lower prices ($242 million) and volumes ($22 million) of energy purchases. Fuel costs were $125 million (35%) lower during 2015, primarily due to lower prices ($106 million) and lower volume ($19 million). The average price of fuel consumed was lower in 2015 compared to 2014 due to the favorable market prices experienced during the year.

Operations and Maintenance (O&M)

O&M expenses increased by $7 million, or 1%, in 2015 to $569 million, primarily due to equipment repairs and plant outage.

Nonoperating Revenues

For 2015, nonoperating revenues decreased by $90 million, or 78%, due to the expiration of the Value Sharing Agreements ($71 million) relating to the Authority's sales in 2000 of its nuclear projects. See note 11(a) "Nuclear Plant Divestiture," of notes to the financial statements, for additional information. Also, due to lower investment earnings of $7 million in the Authority's investment portfolio as result of a mark-to-market loss and continuing lower market interest rates on fixed income securities.

Nonoperating Expenses

For 2015, nonoperating expenses decreased by $7 million, or 3%, this was attributable to a decrease in interest expense, related to a decrease in both the average balance and average interest rate on outstanding debt.

Cash Flows

Net cash flows provided by operating activities decreased by $78 million in 2015 compared to 2014. The decrease was due to lower operating income of $115 million, and the timing of payments and receipts.

Net Generation

Net generation was 28.8 million megawatt-hours (MWh) in 2015, relatively unchanged compared to 2014. Net generation from the Niagara and St. Lawrence hydroelectric plants in 2015 (21.2 million MWh) was 3% higher than 2014 (20.7 million MWh) due to higher water flows. The higher water flows were related to the 2014 winter melting snow pack continuing into the first few of months of 2015. For 2015, net hydro generation was approximately 105% of long-term average and above 2014, which was 103%. Combined net generation of the fossil fuel plants for 2015 was 7.60 million MWh, or 6% lower than 2014 (8.05 million MWh), with a 0.4 million MWh decrease attributable to the Small Clean Power Plants (SCPP).

Summary of Statements of Net Position

The following is a summary of the Authority's statements of net position for 2015, 2014, and 2013:

	2015	2014	2013	2015 vs. 2014	2014 vs. 2013
	(In millions, except percentages)				
Current assets	$ 1,754	$ 1,925	$ 1,824	(9) %	6 %
Capital assets	4,778	4,731	4,771	1	(1)
Other noncurrent assets	3,003	2,851	2,694	5	6
Deferred outflows	40	17	42	135	(60)
Total assets and deferred outflows	$ 9,575	$ 9,524	$ 9,331	1	2
Current liabilities	$ 1,096	$ 927	$ 1,012	18	(8)
Noncurrent liabilities	4,110	4,320	4,320	(5)	—
Total liabilities	5,206	5,247	5,332	(1)	(2)
Deferred inflows	310	286	280	8	2
Net position	4,059	3,991	3,719	2	7
Total liabilities, deferred inflows and net position	$ 9,575	$ 9,524	$ 9,331	1	2

The following summarizes the Authority's statements of net position variances for the years 2015 and 2014:

In 2015, current assets decreased by $171 million (9%) to $1,754 million due to timing of customer cash receipts and a decrease in miscellaneous receivables due to the cash received in 2015 from the final installment of the Entergy Value Sharing Agreements/notes receivable.

Capital assets increased by $47 million (1%) to $4,778 million, compared to last year, as a result of continuing investments in generating assets at existing facilities and transmission upgrades, necessary to maintain reliability. Other noncurrent assets increased by $152 million (5%) primarily due to an increase in energy efficiency program work in progress and transmission line interconnection costs associated with Hudson Transmission Partners, LLC (HTP). Deferred outflows increased by $23 million primarily due to the deferral of pension contributions ($25 million) made in the current year subsequent to the pension plans measurement date, in accordance with the requirements of GASB Statement No.68, adopted in 2015. Current liabilities increased by $169 million (18%), to $1,096 million compared to last year. This increase is attributable to the increase in long-term debt due within one year resulting from scheduled maturities, and the Authority's intent to repay on an accelerated basis the Adjustable Rate Tender Notes (ART Notes) in 2016 and a portion of the Extendible Municipal Commercial Paper (EMCP). Noncurrent liabilities were lower by $210 million (5%), primarily due to the decrease in long-term debt resulting from the scheduled maturities, and payments on capital lease obligations. Deferred inflows increased by $24 million (8%) compared to last year, primarily due to changes in fair value and settlements of derivative instruments and a $13 million increase in the costs of removal obligation. The changes in net position for 2015 and 2014 are discussed in the summary of revenues, expenses and changes in net position in this Management's Discussion and Analysis.

In 2014, current assets increased by $101 million (6%) to $1,925 million primarily due to an increases in cash resulting from the timing of payments and receipts. Capital assets decreased by $40 million (1%) to $4,731 million, primarily due to the excess of depreciation over additions to plant and construction in progress. Other noncurrent assets increased by $157 million (6%) primarily due to an increase in the nuclear decommissioning fund, transmission line interconnection costs associated with HTP and recoverable costs related to the Astoria capital lease. Deferred outflows decreased by $25 million (60%) primarily due to changes in fair value and settlements of derivative instruments. Current liabilities decreased by $85 million (8%), to $927 million, primarily due to decreases in accounts payable and accrued liabilities ($76 million). Noncurrent liabilities, which were unchanged, included a $115 million increase in the nuclear plant decommissioning obligation reflecting investment earnings of the decommissioning fund (i.e., the Authority's obligation is limited to no more than the amount in the decommissioning fund and therefore the liability increases or decreases to reflect the fair value of the decommissioning fund), partially offset by decreases in long-term debt ($93 million) due to scheduled maturities and payments on capital lease obligations. Deferred inflows reflect a reclassification of $286 million from other noncurrent liabilities to deferred inflows based on a current year review of deferred inflows of resources financial reporting requirements related to costs of removal obligations. The changes in net position for 2014 and 2013 are discussed in the summary of revenues, expenses and changes in net position in this Management's Discussion and Analysis.

Capital Asset and Long-Term Debt Activity

The Authority currently estimates that it will expend approximately $2 billion for various capital improvements over the five-year period 2016-2020. The Authority anticipates that these expenditures will be funded using existing construction funds, internally generated funds and additional borrowings. Such additional borrowings are expected to be accomplished through the issuance of commercial paper notes and/or the issuance of long-term fixed rate debt.

Projected capital requirements during this period include (in millions):

Smart G&T Initiative Future Planning	$	371
MA1 & MA2 - 230kV Replacement		259
Lewiston Pump Generating Plant (LPGP)-Life Extension & Modernization (LEM)		243
RMNPP Life Extension & Modernization Program		124
Switchyard LEM - (Niagara, St. Lawrence, Blenheim-Gilboa, Clark Energy Center,)		152
St. Lawrence Breaker & Relay Replacement Program		59
Fiber Optic Installation, Microwave Communication Upgrade		53
Substation LEM (Adk, Plattsburgh, Saranac & Willis, Massena)		56
IT Initiatives		80
Marcy South Series Compensation		25
RMPD Hatch Cover Deck Roof		22
R-22 Inlet Chilling System		21
Install Advanced Hot Gas Path (HGP) Components		20
PV-20 Submarine Cable Replacement		20
New Security and Warehouse Facility (St. Lawrence)		20
Generator Step-Up (GSU) Transformer Replacement (St. Lawrence)		15
MA & MWP Structure Replacements Phase II		15
Protective Relay Replacement Project (Niagara)		14
Relicensing (Blenheim-Gilboa, St. Lawrence, Niagara)		19
Rotor Modification for Stress Redistribution (St. Lawrence)		12
Other (projects less than $9 million)		406
	$	2,006

In addition, the Authority's capital plan includes the provision of approximately $1.2 billion in financing for Energy Services and Technology projects to be undertaken by the Authority's governmental customers and other public entities in the State. There may be increases in the capital expenditures indicated in the table above due to projects under review. Such additional capital expenditures would be subject to evaluation and Trustee approval.

In 2012, the Authority's Trustees approved a $726 million Transmission Life Extension and Modernization Program (Transmission LEM Program) on the Authority's Transmission system through 2025. The Transmission LEM Program encompasses transmission assets in the Central, Northern and Western regions of New York and will include work to be done such as upgrades, refurbishments and replacements associated with switchyards and substations, transmission line structures or towers and associated hardware and replacement of the submarine cable on the PV-20 line. Reinvestment in this strategic component of the Authority's overall mission supports the repair, upgrade and/or expansion of the transmission infrastructure. The Authority intends to finance the Transmission LEM Program with internal funds and proceeds from debt obligations to be issued by the Authority. The work on the Transmission LEM Program is underway and is expected to continue through 2025.

The Authority's Trustees approved a $460 million Life Extension and Modernization Program at the Niagara project's Lewiston Pump-Generating Plant, (Lewiston LEM Program) of which $300 million of expenditures have been authorized and approximately $167 million spent as of December 31, 2015. The work to be done includes a major overhaul of the plant's 12 pump turbine generator units. The Lewiston LEM Program will increase pump and turbine efficiency, operating efficiency, and the peaking capacity of the overall Niagara project. The Authority filed an application with the Federal Energy Regulatory Commission (FERC) for a noncapacity license amendment in connection with the program. The amendment was approved with a FERC order issued in 2012. The Authority intends to finance this LEM Program with internal funds and proceeds from debt obligations to be issued by the Authority. The unit work began in late 2012 and is on-going, with the final unit expected to be completed in 2020.

By order issued March 15, 2007, FERC issued the Authority a new 50-year license for the Niagara Project effective September 1, 2007. In doing so, FERC approved six relicensing settlement agreements entered into by the Authority with various public and private entities. In 2007, the Authority estimated that the capital cost associated with the relicensing of the Niagara project would be approximately $495 million. This estimate does not include the value of the power allocations and operation and maintenance expenses associated with several habitat and recreational elements of the settlement agreements. As of December 31, 2015, the balance in the recorded liability associated with the relicensing on the statement of net position is $297 million ($27 million in current and $270 million in other noncurrent liabilities).

In 2003, FERC approved a Comprehensive Relicensing Settlement Agreement ("Relicensing Agreement") reached by the Authority and numerous parties and issued the Authority a new 50-year license for the St. Lawrence-FDR Project ("St. Lawrence-FDR License"). The Relicensing Agreement between the Authority and the Local Government Task Force ("LGTF") provided for a review of the Relicensing Agreement every ten years to address issues not contemplated at the time of relicensing in 2003. Following the review that began in 2013, the Authority and the LGTF entered into an agreement effective May 4, 2015 (the "LGTF Ten-Year Review Agreement") in which the Authority agreed to certain actions, including to: (1) fund an economic development strategic marketing study; (2) temporarily reduce electricity costs for certain farms and businesses; (3) initiate an energy efficiency and renewable energy program for the LGTF communities; and (4) enhance certain recreational facilities in the LGTF communities. On March 26, 2015, the Authority's Trustees authorized expenditures of up to $45.1 million for the purpose of implementing the commitments in the LGTF 10-Year Review Agreement.

The Authority has embarked on several initiatives, which are in varying stages of development. These initiatives will enhance the Authority's current operations and expand energy services and include, but are not limited to Smart Generation and Transmission (deployment of advanced technologies that ensure that grid operations become increasingly intelligent), Customer Energy Solutions (development of innovative, cost-effective and resilient energy systems to provide our customers with choices enabling them to achieve their energy goals in new ways) and Asset Management (strengthening investment planning through enhanced use of technology, data, people and processes).

More detailed information about the Authority's capital assets is presented in notes 2 and 5 of the notes to the financial statements.

Capital Structure

		2015		2014		2013
				(In millions)		
Long-term debt, net of current maturities:						
Senior:						
Revenue bonds	$	845	$	902	$	958
Adjustable rate tender notes		—		86		96
Subordinated:						
Subordinated Notes, Series 2012 (1)		21		23		24
Commercial paper		5		44		70
Total long-term debt, net of current maturities		871		1,055		1,148
Net position		4,059		3,991		3,719
Total capitalization	$	4,930	$	5,046	$	4,867

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(1) The Subordinated Notes, Series 2012, which were issued on November 2012, are subordinate to the Series 2003 A Revenue Bonds, the Series 2007 A, B, and C Revenue Bonds, the Series 2011 A Revenue Bonds, the Series 2015 A Revenue Bonds and the Adjustable Rate Tender Notes.

During 2015, long-term debt, net of current maturities, decreased by $184 million, primarily due to scheduled maturities, cash funding of capital expenditures and the reclassification of debt that the Authority has decided to redeem on an accelerated basis in the first quarter of 2016. In 2015, the Authority's Trustees approved the redemption of the outstanding ART Notes, on an accelerated basis in the first quarter of 2016, which were scheduled to reset at the March 1, 2016.

In September 2015, the Authority's Trustees authorized the issuance of up to $80 million of additional revenue bonds for the purpose of refunding certain revenue bonds. In November 2015, the Authority issued $69 million of Series 2015 A Revenue Bonds (2015 Bonds). The proceeds from the issuance of the 2015 Bonds and cash-on-hand were used to: (i) refund $74.59 million of the Authority's Series 2006 A Revenue Bonds; and (ii) pay the cost of issuance of the Series 2015 Bonds.

Total debt to equity ratio as of December 31, 2015, was at .39-to-1 when compared to .40-to-1 as of December 31, 2014. Total debt as of December 31, 2015 is at its lowest level since December 31, 1975.

Debt Ratings

	Moody's	Standard & Poor's	Fitch
NYPA's underlying credit ratings:			
Senior debt:			
Long-term debt (a)	Aa1	AA	AA
Adjustable rate tender notes	Aa1/VMIG1	AA/A-1+	N/A
Subordinate debt:			
Subordinate Note, Series 2012	N/A	N/A	AA
Commercial paper	P-1	A-l+	F1+

(a) Long term debt includes certain bonds - Series 2007 A, B and C Revenue Bonds and Series 2003 A Revenue Bonds – the principal and interest when due is guaranteed under insurance policies issued by

MBIA Insurance Corporation and Assured Guaranty Municipal Corporation, respectively. The credit ratings of MBIA Insurance Corporation and Assured Guaranty Municipal Corporation are currently at or below the Authority's underlying credit ratings.

In August 2015, Moody's Investors Service affirmed the Authority's senior and subordinate debt ratings and in October 2015, Standard & Poor's Ratings Service also affirmed the Authority's senior and subordinate debt ratings, but raised the short-term component of the rating of the Authority's Adjustable Rate Tender Notes to A-1+ from A-1. In October 2015, Fitch Ratings affirmed the Authority's senior and subordinate debt ratings and revised their outlook to stable from positive.

The Authority has a line of credit under a 2015 revolving credit agreement (the 2015 RCA) with a syndicate of banks, to provide liquidity support for the Series 1-3 CP Notes, under which the Authority may borrow up to $600 million in aggregate principal amount outstanding at any time for certain purposes, including the repayment of the Series 1–3 CP Notes. The 2015 RCA terminates January 15, 2017, unless mutually extended by the banks and the Authority. The 2015 RCA succeeded another revolving credit agreement (the 2011 RCA) in January 2015. No borrowings have been made under the 2015 RCA or the 2011 RCA.

Economic Conditions

Competitive Environment

The Authority's mission is to power the economic growth and competitiveness of New York State by providing customers with low-cost, clean, reliable power and the innovative energy infrastructure and services they value. The Authority's financial performance goal is to have the resources necessary to achieve its mission, to maximize opportunities to serve its customers better and to preserve its strong credit rating.

To maintain its position as a low cost provider of power in a changing environment, the Authority has undertaken and continues to carry out a multifaceted program, including: (a) the upgrade and relicensing of the Niagara and St. Lawrence-FDR projects; (b) long-term supplemental electricity supply agreements with its governmental customers located mainly within the City of New York (NYC Governmental Customers); (c) a long-term electricity supply contract with Astoria Generating LLC for the purchase of the output of a 550-MW power plant in Astoria, Queens, ("AEII") which entered into service on July 1, 2011; (d) contracting for 75% of a 660 MW capacity, seven mile, underground and underwater transmission line connecting New York City into the PJM ISO, which went operational in June 2013; (e) a significant reduction of outstanding debt; and (f) implementation of an enterprise-wide and energy/fuel risk management program. As a component of NYPA's strategic plan, efforts to modernize NYPA's generation and transmission infrastructure are being developed and implemented to increase flexibility and resiliency, and to serve customers' needs in an increasingly changing electric utility marketplace.

The Authority operates in a competitive and sometimes volatile market environment. Through its participation in the NYISO and other commodity markets, the Authority is subject to electric energy price, fuel price and electric capacity price risks that impact the revenue and purchased power streams of its facilities and customer market areas. Such volatility can potentially have adverse effects on the Authority's financial condition. To mitigate downside effects, many of the Authority's customer contracts, including the NYC Governmental Customers, provide for the complete or partial pass-through of these costs. The NYC Governmental Customer market cost situation is further mitigated by their receiving the benefits of the generation output from the Authority's 500-MW Plant and the contracted output from the AEII plant.

To moderate cost impacts to the Authority and its customers, NYPA hedges market risks through the use of financial instruments and physical contracts. Hedges are transacted by the Authority to mitigate volatility in the cost of energy or related products needed to meet customer needs; to mitigate risk related to the price of energy and related products sold by the Authority; to mitigate risk related to margins (electric sales versus fuel use) where the Authority owns generation or other capacity; and mitigation of geographic cost differentials of energy procured or sold for transmission or transportation to an ultimate location. Commodities to be hedged include, but are not limited to, natural gas, natural gas basis, electric energy, electric capacity and congestion costs associated with the transmission of electricity. Any such actions are taken pursuant to policies and procedures approved by the Authority's Trustees and under the oversight of an Executive Risk Management Committee chaired by the Chief Financial Officer.

The Authority can give no assurance that, even with these measures, it will not lose customers in the future as a result of the restructuring of the State's electric utility industry and the emergence of new competitors or increased competition from existing participants.

Rate Actions

Power and energy from the St. Lawrence-FDR and Niagara hydroelectric facilities are sold to municipal electric systems, rural electric cooperatives, industrial and other business customers, certain public bodies, investor-owned utilities, and out-of-state customers, as provided for under state and federal laws. The charges for firm and/or firm peaking power and associated energy sold by the Authority, as applicable, to the fifty-one municipal electric systems and rural electric cooperatives in New York State, two public transportation agencies, three investor-owned utilities for the benefit of rural and domestic customers, and seven out-of-state public customers have been established on the basis of the cost to serve these loads. In November 2011, the Authority's Trustees approved a 41-month rate plan providing for certain phased-in increases to these rates which result in effective hydro rate increases of 5.5% on December 1, 2011 and annual increases of approximately 5.5% from May 1, 2012 to May 1, 2014. The rates put into effect with the last increase in 2014 continue to be sufficient to recover the estimated costs to run the facilities for 2016, and will therefore remain in effect at current levels until further notice.

Expansion and replacement power industrial customers supplied from the Niagara facility and preservation power industrial customers supplied from the St. Lawrence-FDR facility are allocated over 30% of the combined firm contract demand of the plants. Their rates are subject to annual adjustment based on the average of three contractually agreed-upon economic indices reflecting changes in industrial energy prices.

In an order issued January 27, 1999, FERC approved the use of a $165.4 million transmission system revenue requirement in developing rates for use of NYPA's transmission facilities in the NYISO market. FERC also approved, among other things, the imposition of a NYPA Transmission Adjustment Charge ("NTAC") and the NYPA Transmission Service Charges ("TSC") which are the tariff elements established to achieve full recovery of the Authority's annual transmission revenue requirement. In July 2012, the Authority filed for its first requested increase in the revenue requirement with FERC since the implementation of the NYISO. This filing resulted in FERC's October 4, 2013 order accepting an uncontested settlement agreement establishing a new $175.5 million revenue requirement. In January 2016, the Authority filed to convert from a Stated Rate to a Formula Rate to recover its revenue requirement based upon projected future capital spending under the Life Extension and Modernization program. That filing also contained a request to increase the current $175.5 million revenue requirement to $189.9 million. The January 2016 request is pending with FERC.

Recharge New York Power Program

Chapter 60 (Part CC) of the Laws of 2011 (Chapter 60) established the "Recharge New York Power Program" (RNYPP), administered by the Authority, which has as its central benefit up to 910 MW of low cost power comprised of up to 455 MW of hydropower from the Niagara and St. Lawrence-FDR Projects and up to 455

MW of other power procured by the Authority from other sources. The 910 MW of power is available for allocation as provided by Chapter 60 to eligible new and existing businesses and not-for-profit corporations under contracts of up to seven years. RNYPP was effective beginning July 1, 2012.

The RNYPP replaced two other programs, the Power for Jobs (PFJ) and Energy Cost Savings Benefit (ECSB) Programs, which had extended benefits of low-cost power to certain businesses, small businesses and not-for-profit organizations. Those PFJ and ECSB Program customers who were in substantial compliance with contractual commitments under the PFJ and ECSB Programs and who applied but did not receive RNYPP allocations are eligible to apply for transitional electricity discounts, as provided for in Chapter 60. This transitional electricity discounts program provides for declining levels of discounts through June 30, 2016 when the program terminates, if payment of such discounts is deemed feasible and advisable by the Authority's Trustees. In June 2012, the Authority's Trustees authorized transitional electricity discount payments of up to $9 million for the year July 1, 2012 – June 30, 2013. On February 26, 2015, the Authority's Trustees approved an additional $8 million to fund anticipated payments for the period from July 1, 2013 to June 30, 2015. As of December 31, 2015, approximately $8 million of such discounts have been paid with approximately an additional $5 million in payments remaining to be made.

The hydropower used for the RNYPP was power formerly used to provide low-cost electricity to domestic and rural customers of the three private utilities that serve upstate New York. To mitigate the impacts from the redeployment of this hydropower for the RNYPP, Chapter 60 created a "Residential Consumer Discount Program" (RCDP). The RCDP authorizes the Authority, as deemed feasible and advisable by its Trustees, to provide annual funding of $100 million for the first three years following withdrawal of the hydropower from the residential and farm customers, $70 million for the fourth year, $50 million for the fifth year, and $30 million each year thereafter, for the purpose of funding a residential consumer discount program for those customers that had formerly received the hydropower that is utilized in the RNYPP. Chapter 60 further authorizes the Authority, as deemed feasible and advisable by the Trustees, to use revenues from the sales of hydroelectric power, and such other funds of the Authority, as deemed feasible and advisable by the Trustees, to fund the RCDP. The Authority's Trustees have authorized the release of a total $400.9 million through January 2015 in support of the RCDP. The Authority supplemented the market revenues through the use of internal funds, from the August 2011 start of the program through December 31, 2015, totaling cumulatively $111 million. Operations and maintenance expenses included $63 million and $88 million of residential consumer discounts in the years ended December 31, 2015 and 2014, respectively. On January 27, 2016, the Authority's Trustees approved up to an additional $43 million to fund anticipated payments for its 2016 fiscal year.

Western New York Power Proceeds Allocation Act

Effective March 30, 2012, Chapter 58 (Part GG) of the Laws of 2012 (Chapter 58) created the Western New York Power Proceeds Act (WNYPPA). The WNYPPA authorizes the Authority, as deemed feasible and advisable by the Trustees, to deposit net earnings from the sale of unallocated Expansion Power and Replacement Power from the Authority's Niagara project into an account administered by the Authority known as the Western New York Economic Development Fund (Fund). Net earnings are defined as any excess revenues earned from such power sold into the wholesale market over the revenues that would have been received had the power been sold at the Expansion Power and Replacement Power rates. Proceeds from the Fund may be used to support eligible projects undertaken within a 30-mile radius of the Niagara power project that satisfy applicable criteria. Chapter 58 also establishes a five-member Western New York Power Allocations Board, which is appointed by the Governor. Chapter 58 also repealed Chapter 436 of the Laws of 2010 which had created a similar program that could not be effectively implemented.

The Authority's Trustees have approved the release of up to $58 million in net earnings, calculated for the period August 30, 2010 through December 31, 2015 as provided in the legislation, for deposit into the Fund. As of December 31, 2015, $41 million has been deposited into the Fund. As of December 31, 2015, the Authority has approved awards of Fund money totaling approximately $30 million to businesses that have proposed eligible projects and has made payments totaling $12 million to such businesses. Payment of these awards is contingent upon the execution of acceptable contracts between the Authority and individual awardees.

Northern New York Power Proceeds Allocation Act

Chapter 545 of the Laws of 2014 enacted the "Northern New York Power Proceeds Act" (NNYPPA). The NNYPPA authorizes the Authority, as deemed feasible and advisable by the Trustees, to deposit "net earnings" from the sale of unallocated St. Lawrence County Economic Development Power (SLCEDP) by the Authority in the wholesale energy market into an account the Authority would administer known as the Northern New York Economic Development Fund (NNY Fund), and to make awards to eligible applicants that propose eligible projects that satisfy applicable criteria. The NNYPPA also establishes a five-member Northern New York Power Allocations Board appointed by the Governor to review applications seeking NNY Fund benefits and to make recommendations to the Authority concerning benefits awards.

SLCEDP consists of up to 20 MW of hydropower from the Authority's St. Lawrence-FDR Power Project which the Authority has made available for sale to the Town of Massena Electric Department ("MED") for MED to sub-allocate for economic development purposes in accordance with a contract between the parties entered into in 2012 (Authority-MED Contract). The NNYPPA defines "net earnings" as the aggregate excess of revenues received by the Authority from the sale of energy associated with SLCEDP by the Authority in the wholesale energy market over what revenues would have been received had such energy been sold to MED on a firm basis under the terms of the Authority-MED contract. For the first 5 years after enactment, the amount of SLCEDP the Authority could use to generate net earnings may not exceed the lesser of 20 MW or the amount of SLCEDP that has not been allocated by the Authority pursuant to the Authority-MED contract. Thereafter, the amount of SLCEDP that the Authority could use for such purpose may not exceed the lesser of 10 MW or the amount of SLCEDP that has not been allocated.

On February 26, 2015, the Authority's Trustees approved the release of funds, of up to $3 million, into the NNY Fund representing "net earnings" from the sale of unallocated SLCEDP into the wholesale energy market for the period December 29, 2014 through December 31, 2015. On January 26, 2016, the Authority's Trustees approved up to an additional $5 million in funds for the period January 1, 2016 through December 31, 2016. As of December 31, 2015, $1 million has been deposited into the Fund and no awards have been made.

New York State Budget and Other Matters

The Authority is requested, from time to time, to make financial contributions or transfers of funds to the State. Any such contribution or transfer of funds must (i) be authorized by law (typically, legislation enacted in connection with the State budget), and (ii) satisfy the requirements of the Bond Resolution. The Bond Resolution requirements to withdraw moneys "free and clear of the lien and pledge created by the (Bond) Resolution" are as follows: (1) such withdrawal must be for a "lawful corporate purpose as determined by the Authority," and (2) the Authority must determine "taking into account, among other considerations, anticipated future receipt of Revenues or other moneys constituting part of the Trust Estate, that the funds to be so withdrawn are not needed" for (a) payment of reasonable and necessary operating expenses, (b) an Operating Fund reserve for working capital, emergency repairs or replacements, major renewals, or for retirement from service, decommissioning or disposal of facilities, (c) payment of, or accumulation of a reserve for payment of, interest and principal on senior debt, or (d) payment of interest and principal on subordinate debt.

In May 2011, the Authority's Trustees adopted a policy statement (Policy Statement) which relates to, among other things, voluntary contributions, transfers, or other payments to the State by the Authority after that date. The Policy Statement provides, among other things, that in deciding whether to make such contributions, transfers, or payments, the Authority shall use as a reference point the maintenance of a debt service coverage ratio of at least 2.0, in addition to making the other determinations required by the Bond Resolution. The Policy Statement may at any time be modified or eliminated at the discretion of the Authority's Trustees.

Legislation enacted into law, as part of the 2000-2001 State budget, as amended up to the present time, has authorized the Authority as deemed feasible and advisable by the trustees, to make a series of voluntary contributions into the State treasury in connection with the PFJ Program and for other purposes as well. The PFJ Program, which had been extended to June 30, 2012, has ended and was replaced by the RNYPP, as discussed above and in note 12(a) "Recharge New York Power Program" of the notes to the financial statements. Cumulatively through December 31, 2012, the Authority has made voluntary contributions to the State totaling $475 million in connection with the ended PFJ Program.

In 2015 and 2014, the Authority made contributions of $90 million to the State in each year that were not related to the PFJ Program and which were recorded as nonoperating expenses in the year ended December 31, 2015 and 2014 statements of revenues, expenses and changes in net position. These contributions were authorized by the Authority's Trustees and were consistent with the related State fiscal year budgets. The 2015 contributions included $23 million that was paid to the State's General Fund and $67 million that was paid to Empire State Development Corporation (ESD). The 2014 contributions of $90 million were made in furtherance of ESD's statewide economic development initiatives. Cumulatively, between January 2008 and December 31, 2015, the Authority has made voluntary contributions to the State totaling $672 million unrelated to the PFJ program.

In addition, as part of the State's Enacted Budget for State fiscal year 2015-16, the Authority, as deemed feasible and advisable by its Trustees, is authorized and directed to consider for payment by March 31, 2016, the remaining contribution of $65 million to the State treasury to the credit of the General Fund, or as otherwise directed in writing by the Director of the Budget.

In addition to the voluntary contributions described above, Section 3 of Subpart H of Part C of Chapter 20 of the Laws of 2015 (Chapter 20), which became effective upon enactment on June 26, 2015, authorizes and directs the Authority, as deemed feasible and advisable by its trustees, to provide up to $6 million in additional contributions to the State's general fund, or as otherwise directed in writing by the State's director of the budget for the state fiscal year commencing April 1, 2015.

The 2016-17 Executive Budget Proposal contains a provision authorizing the Authority as deemed "feasible and advisable by its trustees" to transfer to the State treasury to the credit of the general fund $20 million for the State fiscal year commencing April 1, 2016, the proceeds of which will be utilized to support energy-related State activities.

On January 13, 2016, the Governor submitted, as part of his Executive Budget Proposal, legislation authorizing the transfer of the New York State Canal Corporation (Canal Corporation) from the New York State Thruway Authority (Thruway Authority) to the Authority. If such legislation were enacted into law in its current form, the Canal Corporation would cease to be a subsidiary of the Thruway Authority and would become a subsidiary of the Authority. The proposed legislation authorizes the Authority to transfer moneys, property and personnel to the Canal Corporation and also authorizes the Authority to issue subordinated debt for the purposes of financing the construction, reconstruction, development and improvement of the New York State Canal system. The proposed legislation provides that the transfer will be effective on January 1, 2017. However, such legislation also authorizes the Authority to reimburse the Thruway Authority for Canal System expenses for the interim period of April 1, 2016 through January 1, 2017. The Authority has not determined what the interim or long term level of the Authority's financial support to the Canal Corporation would be if the legislation were enacted in its current form. For fiscal year 2014, the Canal Corporation's operating expenses were $65.9 million and operating revenues were $2.3 million with the difference provided by the Thruway Authority or other resources. For fiscal year 2015, the Canal Corporation's capital program was budgeted at $52 million with funding expected from various sources. Certain information relating to the Canal Corporation's capital and operating expenses and budgets and the level of financial assistance provided to the Canal Corporation by the Thruway Authority is included in the Thruway Authority's audited financial statements, monthly financial reports and budgets, copies of which are available at the Thruway Authority's website: thruway.ny.gov. Such information is not incorporated in this report and the Authority assumes no responsibility for the accuracy thereof.

Temporary Asset Transfers

In addition to the authorization for voluntary contributions, as a result of budget legislation enacted in February 2009, the Authority was requested to provide temporary asset transfers to the State of funds held in reserves. Pursuant to the terms of a Memorandum of Understanding dated February 2009 (MOU) between the State, acting by and through the State's Director of Budget, and the Authority, the Authority agreed to transfer approximately $215 million associated with its Spent Nuclear Fuel Reserves (Asset B) by March 27, 2009. The Spent Nuclear Fuel Reserves are funds that had been set aside for payment to the federal government sometime in the future when the federal government accepts the spent nuclear fuel for permanent storage (see note11(b) "Nuclear Fuel Disposal". The MOU provides for the return of these funds to the Authority, subject to appropriation by the State Legislature and the other conditions described below, at the earlier of the Authority's payment obligation related to the transfer and disposal of the spent nuclear fuel or September 30, 2017. Further, the MOU provides for the Authority to transfer within 180 days of the enactment of the 2009-2010 State budget $103 million of funds set aside for future construction projects (Asset A), which amounts would be returned to the Authority, subject to appropriation by the State Legislature and the other conditions described below, at the earlier of when required for operating, capital or debt service obligations of the Authority or September 30, 2014. In February 2009, the Authority's Trustees authorized the execution of the MOU relating to the temporary transfers of Asset B ($215 million) and Asset A ($103 million) and such transfers were made in March 2009 and September 2009, respectively, following Trustee approval.

The MOU provides that the obligation of the State to return all or a portion of an amount equal to the moneys transferred by the Authority to the State is subject to annual appropriation by the State Legislature. Further, the MOU provides that as a condition to any such appropriation for the return of the moneys earlier than September 30, 2017 for the Spent Nuclear Fuel Reserves and earlier than September 30, 2014 for the construction projects, the Authority must certify that the monies available to the Authority are not sufficient to satisfy the purposes for which the reserves, which are the source of the funds for the transfer, were established.

In lieu of interest payments, the State has waived certain future payments from the Authority to the State. The waived payments include the Authority's obligation to pay until September 30, 2017 the amounts to which the State is entitled under a governmental cost recovery process for the costs of central governmental services. These payments would have been approximately $5 million per year based on current estimates but the waiver is limited to a maximum of $45 million in the aggregate during the period. Further, the obligation to make payments in support of certain State park properties and for the upkeep of State lands adjacent to the Niagara and St. Lawrence power plants is waived from April 1, 2011 to March 31, 2017. These payments would have been approximately $8 million per year but the waiver would be limited to a maximum of $43 million for the period. The present value of the waivers approximates the present value of the forgone interest income.

On April 24, 2014, the Authority and the State executed an Amendment to the MOU which provides that the State shall, subject to appropriation by the State Legislature, return the $103 million (Asset A) in five installments in the following amounts and by no later than September 30 of each of the following State fiscal years: (1) $18 million for State Fiscal Year 2014-2015; (2) $21 million for State Fiscal Year 2015-2016; (3) $21 million for State Fiscal Year 2016-2017; (4) $21 million for State Fiscal Year 2017-2018; and (5) $22 million for State Fiscal Year 2018-2019. By its terms, the Amendment to the MOU became effective when it was approved and ratified by the Authority's Board of Trustees on July 29, 2014. The Authority has received installment payments of $39 million as of December 31, 2015. The Assets A and B transfers are reported in miscellaneous receivable and other ($21 million as of both December 31, 2015 and 2014) and in other noncurrent assets ($258 million and $279 million at December 31, 2015 and December 31, 2014, respectively) in the statements of net position.

New York Energy Highway

In January 2012, the Governor of New York announced the New York Energy Highway initiative, which is envisioned as a public-private partnership to upgrade and modernize the State's electric power system. The Governor formed a task force comprised of various State officials to oversee implementation of the initiative (Task Force) which is co-chaired by the Authority's President and Chief Executive Officer. In April 2012, the Task Force issued a request for information seeking ideas and proposals in furtherance of the initiative. Approximately 85 organizations responded to the Task Force's request for information and the responses included a large number of different generation and transmission project proposals. Based on the response of all these organizations, the Energy Highway Task Force issued an action plan in October 2012. The resulting Energy Highway Blueprint, calling for public and private investments in the State's energy system of about $5.7 billion over the next five to 10 years, proposed 13 specific actions, divided among four major categories: Expand and Strengthen the System, Accelerate Construction and Repair, Support Clean Energy and Technology Innovation.

In November 2012, the New York Public Service Commission (NYPSC) announced new proceedings addressing various actions described in the Blueprint including (i) the initiation of electric transmission upgrades to move excess power from upstate to downstate (AC Transmission), (ii) the creation of a contingency plan to prepare for a large generator retirement (Generation Retirement Contingency Plan) and (iii) the expansion of natural gas delivery to homeowners and businesses in New York State.

In response to the request for information and the Generation Retirement Contingency Plan and AC Transmission proceedings, the New York Transmission Owners (NYTOs), comprised of the State's largest private utilities, LIPA, and the Authority, indicated that they were exploring the creation of a new Statewide transmission entity (NY Transco) to pursue development, construction, operation, and ownership of new transmission projects. The NYTOs proposed to the Task Force and to the NYPSC several transmission projects that could be undertaken by a NY Transco entity. Participation of the Authority in the NY Transco would be contingent on the enactment of legislation by the State that enables the Authority to participate. As of the 2015 legislative session, which ended in June 2015, such enabling legislation has not been passed. On November 24, 2014, affiliates of the NYTOs formed a transmission entity (Four-Party Transco) that does not include LIPA or the Authority but would permit their participation should the necessary enabling legislation be passed.

In its November 4, 2013 Generation Retirement Contingency Plan Order, the NYPSC selected three transmission projects (TOTS projects) to be built by Consolidated Edison, New York State Electric and Gas (NYSEG) and the Authority. The NYPSC also requested that the NYTOs seek Federal Energy Regulatory Commission (FERC) approval for the three TOTS projects. On December 4, 2014, the NYTOs on behalf of themselves and the Four-Party Transco filed applications at FERC to permit the transfer of certain transmission assets to the Four-Party Transco. The Four-Party Transco also filed an application for cost allocation and recovery for five projects, including the three TOTS projects. Though the Authority and other interested parties contested the proposed cost allocation methodology, the parties engaged in a settlement process and on November 5, 2015, the Four-Party Transco filed an uncontested settlement to resolve the cost allocation methodology for the three TOTS projects, which is pending final approval before FERC. The Authority, which is co-developing one of the TOTS projects with NYSEG, has filed its own proposal at FERC to recover the costs of its portion of that TOTS project. The Authority proposed the same cost allocation methodology that the parties agreed upon in the Four-Party Transco settlement filed at FERC.

Build Smart NY Initiative

On December 28, 2012, the Governor of New York issued Executive Order No. 88 (EO 88) directing state agencies collectively to reduce energy consumption in state-owned and managed buildings by 20 percent within seven years – an initiative designed to produce significant savings for New York taxpayers, generate jobs, and significantly reduce greenhouse gas emissions. To meet this initiative, the Governor launched Build Smart NY, a plan to strategically implement EO 88 by accelerating priority improvements in energy performance. The Authority has offered to provide $450 million in low-cost financing for this initiative for state owned buildings and an additional $350 million for towns and municipalities. Such low-cost financing would be funded by proceeds of the Authority's commercial paper or another form of debt. The Authority's costs of financing would be recovered from the energy efficiency customers in this program. The Authority has established a central management and implementation team which designed implementation guidelines milestones and data collection and analysis systems to support the program. The team conducts routine outreach and meetings with affected state agencies and has commenced the implementation phase of the Build Smart NY program. As of December 31, 2015, the Authority has in aggregate provided approximately $204 million in financing for energy efficiency projects at State agencies and authorities covered by EO 88.

Energy Efficiency Market Acceleration Program

In June 2012, the Authority's Trustees authorized up to $30 million in funding over five years for an energy efficiency market acceleration program involving energy efficiency research, demonstration projects, and market development. As of December 31, 2015, the Authority's Trustees have approved the award of contracts with a cumulative value of up to approximately $26 million.

Reforming the Energy Vision

In April 2014, the PSC commenced a proceeding to reform the State's energy industry and regulatory practices. According to the PSC, this initiative, called Reforming the Energy Vision ("REV"), will lead to regulatory changes that promote more efficient use of energy; deeper penetration of renewable energy resources such as wind and solar; and wider deployment of smaller power sources located closer to the customer load, including micro grids capable of meeting the regular demands of a community of consumers, on-site power supplies, and energy storage. REV also aims to promote greater use of advanced energy management products to enhance demand elasticity and efficiencies. The PSC order instituting the proceeding designated two tracks for the REV with track one focused on developing distributed resource markets and track two focused on reforming utility ratemaking practices.

The PSC has identified six core policy objectives for REV relating to enhanced customer knowledge and tools to support effective management of total energy bills, market animation and leverage of customer contributions, system-wide efficiency, fuels and resource diversity, system reliability and resiliency, and reduction of carbon emissions. A PSC "Staff Report and Proposal" released in April 2014 set forth a vision for how to accomplish the PSC's objectives. This report and additional information on REV, including the Order Adopting Regulatory Policy Framework and Implementation Plan issued and effective February 26, 2015 (Track 1) and the Staff White Paper on Ratemaking and Utility Business Models issued on July 28, 2015, are available at http://www.dps.ny.gov/. No statement on that website is incorporated by reference herein. The PSC has several ongoing proceedings related to Track 1 and Track 2 of REV that the Authority is following.

While the PSC does not have jurisdiction over rates for power generated or transmitted by the Authority, the reforms and innovations contemplated in the REV initiative are expected by the PSC to be done in conjunction with certain independent but related actions of the Authority, and will impact electricity rates for energy efficiency project customers. As a result, the Authority monitors the REV initiative closely and expects to evaluate any regulatory reforms that are ultimately implemented and their impact on project implementation and suitability for adoption by the Authority and its customers.

Retirement of Generation Resources

Recently announced and future retirement of generation resources may impact the Authority's resources, both positively and negatively. The reduction in the amount of generation capacity available to the system that results from generator retirement will, all other things being equal, increase the unit price paid for capacity from the Authority's resources. Retirement of resources also can affect power flows and the ability to fully access the energy available from the Authority's assets. For example, the retirements of coal-fired generation stations at Dunkirk and Huntley, New York could limit the amount of energy that the transmission system in the vicinity of the Authority's Niagara Project can accommodate, thus preventing the full use of this asset.

Recognizing the potential for such retirements and the impact they could have on the operation of the Niagara Project and the ability to access renewable power from Ontario, Canada, on July 20, 2015 the PSC issued an order that granted requests from the Authority and National Grid to establish a Public Policy Requirement driving the need for transmission additions to, among other things, enable the Authority to fully operate 2700 MW of generation from the Authority's Niagara and Lewiston Pump-Generating Plant and ensure that, under emergency conditions, no less than 1000 MW of import capacity will be available from Ontario. This order is the first step in a competitive solicitation process that will procure, pursuant to procedures established in FERC's Order 1000, transmission enhancements sufficient to meet the need identified by the PSC. The Authority has been developing a proposal for meeting this need, which it will submit in the competitive process required under FERC Order 1000. On December 31, 2015, the Authority and New York State Electric & Gas Corp. (NYSEG) submitted a joint proposal to the New York Independent System Operator (NYISO) for consideration of a potential transmission solution. The NYISO will review and provide comment on potential solutions - in accordance with the NYISO tariff and requirements of FERC Order 1000.

Contacting the Authority

This financial report is designed to provide our customers and other interested parties with a general overview of the Authority's finances. If you have any questions about this report or need additional financial information, contact the New York Power Authority, 123 Main Street, White Plains, New York 10601-3107.

KPMG
KPMG LLP
345 Park Avenue
New York, NY 10154-0102

Independent Auditors' Report

The Board of Trustees
Power Authority of the State of New York:

Report on the Financial Statements

We have audited the accompanying financial statements of the Power Authority of the State of New York (the Authority), which comprise the statements of net position as of December 31, 2015 and 2014, and the related statements of revenues, expenses, and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion on the Financial Statements

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of December 31, 2015 and 2014, and its changes in net position, and cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

KPMG

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the information in the Management's Discussion and Analysis and Required Supplementary Information section be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 29, 2016 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

KPMG LLP

New York, NY
March 29, 2016

NEW YORK POWER AUTHORITY

Statements of Net Position

(In millions)

	December 31, 2015	December 31, 2014
Assets and Deferred Outflows		
Current Assets:		
Cash and cash equivalents	$ 67	$ 78
Investment in securities	1,270	1,258
Receivables - customers	153	188
Materials and supplies, at average cost:		
Plant and general	82	91
Fuel	36	49
Miscellaneous receivables and other	146	261
Total current assets	1,754	1,925
Noncurrent Assets:		
Restricted funds:		
Cash and cash equivalents	19	18
Investment in securities	1,495	1,486
Total restricted assets	1,514	1,504
Capital funds:		
Cash and cash equivalents	6	1
Investment in securities	29	36
Total capital funds	35	37
Capital Assets:		
Capital assets not being depreciated	588	421
Capital assets, net of accumulated depreciation	4,190	4,310
Total capital assets	4,778	4,731
Other Noncurrent Assets:		
Receivable - New York State	258	279
Other long-term assets	1,196	1,031
Total other noncurrent assets	1,454	1,310
Total noncurrent assets	7,781	7,582
Total assets	9,535	9,507
Deferred outflows:		
Accumulated decrease in fair value of hedging derivatives	10	17
Pensions (Note 9)	30	–
Total assets and deferred outflows	$ 9,575	$ 9,524

(Continued)

NEW YORK POWER AUTHORITY

Statements of Net Position

(In millions)

Liabilities, Deferred Inflows and Net Position	December 31, 2015	December 31, 2014
Current liabilities:		
Accounts payable and accrued liabilities	$ 363	$ 334
Short-term debt	528	466
Long-term debt due within one year	181	90
Capital lease obligation due within one year	20	16
Risk management activities - derivatives	4	21
Total current liabilities	1,096	927
Noncurrent liabilities:		
Long-term debt:		
Senior:		
Revenue bonds	845	902
Adjustable rate tender notes	–	86
Subordinated:		
Subordinated Notes, Series 2012	21	23
Commercial paper	5	44
Total long-term debt	871	1,055
Other noncurrent liabilities:		
Capital lease obligation	1,169	1,189
Liability to decommission divested nuclear facilities	1,430	1,415
Disposal of spent nuclear fuel	217	217
Relicensing	270	279
Risk management activities - derivatives	15	16
Other long-term liabilities	138	149
Total other noncurrent liabilities	3,239	3,265
Total noncurrent liabilities	4,110	4,320
Total liabilities	5,206	5,247
Deferred inflows:		
Cost of removal obligation	299	286
Accumulated increase in fair value of hedging	10	–
Pensions (Note 9)	1	–
Net position:		
Net investment in capital assets	2,070	1,992
Restricted	23	25
Unrestricted	1,966	1,974
Total net position	4,059	3,991
Total liabilities, deferred inflows and net position	$ 9,575	$ 9,524

See accompanying notes to the financial statements.

NEW YORK POWER AUTHORITY

Statements of Revenues, Expenses and Changes in Net Position

(In millions)

	Year Ended December 31, 2015	Year Ended December 31, 2014
Operating revenues:		
Power sales	$ 1,866	$ 2,396
Transmission charges	160	165
Wheeling charges	599	614
Total operating revenues	2,625	3,175
Operating Expenses:		
Purchased power	689	996
Fuel oil and gas	236	361
Wheeling	599	614
Operations	415	442
Maintenance	154	120
Depreciation	237	232
Total operating expenses	2,330	2,765
Operating income	295	410
Nonoperating revenues and expenses:		
Nonoperating revenues:		
Investment income	14	21
Other	11	94
Total nonoperating revenues	25	115
Nonoperating expenses		
Contribution to New York State	90	90
Interest on long-term debt	55	59
Interest - other	116	116
Interest capitalized	(12)	(9)
Amortization of debt premium	(3)	(3)
Total nonoperating expenses	246	253
Net income and change in net position	74	272
Net position, January 1	3,991	3,719
Cumulative effect of change in accounting principle (Note 9)	(6)	–
Net position, January 1, as restated	3,985	3,719
Net position, December 31	$ 4,059	$ 3,991

See accompanying notes to the financial statements.

NEW YORK POWER AUTHORITY

Statements of Cash Flows

(In millions)

	Year Ended December 31, 2015	2014
Cash flows from operating activities:		
Received from customers for the sale of power, transmission and wheeling	$ 2,600	$ 3,143
Disbursements for:		
Purchased power	(705)	(981)
Fuel, oil and gas	(234)	(419)
Wheeling of power by other utilities	(602)	(616)
Operations and maintenance	(625)	(615)
Net cash provided by operating activities	434	512
Cash flows from capital and related financing activities:		
Gross additions to capital assets	(238)	(186)
Issuance of 2015 Series Bonds	69	–
Redemption of Series 2006 A Revenue Bonds	(88)	–
Repayment of bonds	(40)	(51)
Repayment of notes	(10)	(10)
Repayment of commercial paper	(26)	(32)
Interest paid, net	(54)	(58)
Net cash used in capital and related financing activities	(387)	(337)
Cash flows from noncapital–related financing activities:		
Energy conservation program payments received from participants	91	109
Energy conservation program costs	(166)	(185)
Issuance of commercial paper	142	139
Repayment of commercial paper	(80)	(124)
Interest paid on commercial paper	(4)	(3)
Transmission line interconnection costs	(69)	(73)
Contributions to OPEB trust fund	(14)	(17)
Contributions to New York State	(90)	(90)
Payment received from New York State	21	18
Payments received from value sharing agreement	71	72
Payments received from notes receivable	20	20
Payment for fuel reserve – NYS initiative	–	(10)
NYISO collateral	14	(14)
Payments received from nuclear relicensing	3	–
Net cash used in noncapital-related financing activities	(61)	(158)
Cash flows from investing activities:		
Earnings received on investments	20	21
Purchase of investment securities	(5,878)	(5,297)
Sale of investment securities	5,867	5,323
Net cash provided by investing activities	9	47
Net increase (decrease) in cash	(5)	64
Cash and cash equivalents, January 1	97	33
Cash and cash equivalents, December 31	$ 92	$ 97
Reconciliation to net cash provided by operating activities:		
Operating income	$ 295	$ 410
Adjustments to reconcile operating income to net cash provided by operating activities:		
Change in assets, deferred outflows, liabilities and deferred inflows:		
Provision for depreciation	237	232
Net increase in prepayments and other	(50)	(20)
Net decrease (increase) in receivables and inventory	48	(57)
Net decrease in accounts payable and accrued liabilities	(96)	(53)
Net cash provided by operating activities	$ 434	$ 512

See accompanying notes to the financial statements.

(1) General

The Power Authority of the State of New York (the Authority), doing business as The New York Power Authority, is a corporate municipal instrumentality and political subdivision of the State of New York (State) created in 1931 by Title 1 of Article 5 of the Public Authorities Law, Chapter 43-A of the Consolidated Laws of the State, as amended (Power Authority Act or Act).

The Authority's mission is to power the economic growth and competitiveness of New York State by providing customers with low-cost, clean, reliable power and the innovative energy infrastructure and services they value. The Authority's financial performance goal is to have the resources necessary to achieve its mission, to maximize opportunities to serve its customers better and to preserve its strong credit rating.

The Authority is authorized by the Power Authority Act to help provide a continuous and adequate supply of dependable electricity to the people of the State. The Authority generates, transmits and sells electricity principally at wholesale. The Authority's primary customers are municipal and investor-owned utilities, rural electric cooperatives, high load factor industries and other businesses located throughout New York State, various public corporations located in Southeastern New York within the metropolitan area of New York City (SENY Governmental Customers), and certain out-of-state customers.

To provide electric service, the Authority owns and operates five major generating facilities, eleven small gas-fired electric generating facilities, and four small hydroelectric facilities in addition to a number of transmission lines, including major 765-kV and 345-kV transmission facilities. The Authority's five major generating facilities consist of two large hydroelectric facilities (Niagara and St. Lawrence-FDR), a large pumped-storage hydroelectric facility (Blenheim-Gilboa), the combined cycle electric generating plant located in Queens, New York (500-MW Plant) and the Richard M. Flynn combined cycle plant located on Long Island (Flynn). To provide additional electric generation capacity to the Authority's NYC Governmental Customers, the Authority entered into a long-term electricity supply agreement with Astoria Energy II LLC in 2008 for the purchase of the output of an Astoria, Queens based natural-gas fueled 550-MW generating plant, which entered service in the summer of 2011.

The Authority acts through a Board of Trustees. The Authority's Trustees are appointed by the Governor of the State of New York, with the advice and consent of the State Senate. The Authority is a fiscally independent public corporation that does not receive State funds or tax revenues or credits. It generally finances construction of new projects through a combination of internally generated funds and sales of bonds and notes to investors and pays related debt service with revenues from the generation and transmission of electricity. Accordingly, the financial condition of the Authority is not controlled by or dependent on the State or any political subdivision of the State. Under the criteria set forth in Governmental Accounting Standards Board (GASB) the Authority considers its relationship to the State to be that of a related organization.

Income of the Authority and properties acquired by it for its projects are exempt from taxation. However, the Authority is authorized by the Act to enter into agreements to make payments in lieu of taxes with respect to property acquired for any project where such payments are based solely on the value of the real property without regard to any improvement thereon by the Authority and where no bonds to pay any costs of such project were issued prior to January 1, 1972.

The ''Public Authorities Accountability Act of 2005'' (''PAAA'') was signed into law in January 2006 and its various provisions address public authority reporting, governance, budgeting, oversight, and auditing matters, among other things. Additional public authority reforms were made by Chapter 506 of the Laws of 2009 (Chapter 506) which took effect on March 1, 2010. For example, Chapter 506 provided for (i) the creation of an "Authorities Budget Office" to provide oversight and other functions regarding public authorities, including the Authority; (ii) enhanced reporting requirements for public authorities, including the Authority; (iii) additional governance responsibilities for the boards of public authorities, including the Authority; (iv) New York State

Comptroller review and approval of certain contracts of public authorities, including the Authority; (v) restrictions on property disposal by public authorities, including the Authority; and (vi) State Senate approval of certain authorities' chief executive officers, including the Authority.

(2) Summary of Significant Accounting Policies

The Authority's significant accounting policies include the following:

(a) Basis of Reporting

The Authority complies with all applicable pronouncements of the Governmental Accounting Standards Board (GASB). In accordance with GAS No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements,* the Authority applies all authoritative pronouncements applicable to nongovernmental entities (i.e., Accounting Standards Codification (ASC) of the Financial Accounting Standards Board) that do not conflict with GASB pronouncements. The operations of the Authority are presented as an enterprise fund following the accrual basis of accounting in order to recognize the flow of economic resources. Accordingly, revenues are recognized in the period in which they are earned and expenses are recognized in the period in which they are incurred.

(b) Regulatory Accounting

The Authority's Board of Trustees has broad rate setting authority for its power sales agreements with customers. The sale of transmission service over the Authority's facilities is provided pursuant to New York Independent System Operator (NYISO) tariffs and under contracts that pre-dated existence of the NYISO. The Authority files its transmission system revenue requirement with the Federal Energy Regulatory Commission (FERC) for inclusion in the NYISO's open access tariff.

The Authority accounts for the financial effects of the rate regulated portion of its operations in accordance with the provisions of ASC Topic 980, *Regulated Operations.* These provisions recognize the economic ability of regulators, through the ratemaking process, to create future economic benefits and obligations affecting rate-regulated entities. Accordingly, the Authority records these future economic benefits and obligations as regulatory assets and regulatory liabilities, respectively. Regulatory assets represent probable future revenues associated with previously incurred costs that are expected to be recovered from customers. Regulatory liabilities represent amounts that are collected from customers through the ratemaking process associated with costs to be incurred in future periods. Based on the action of the Board of Trustees, the Authority believes the future collection of the costs held over through regulatory assets is probable. For regulatory assets see note 2(l) "Other Long-Term Assets" of the notes to the financial statements.

(c) Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(d) Capital Assets

Capital assets are recorded at original cost and consist of amounts expended for labor, materials, services and indirect costs to license, construct, acquire, complete and place in operation the projects of the

Authority. Interest on amounts borrowed to finance construction of the Authority's projects is charged to the project prior to completion. Borrowed funds for a specific construction project are deposited in a capital fund account. Earnings on fund investments are held in this fund to be used for construction. Earnings on unexpended funds are credited to the cost of the related project (construction work in progress) until completion of that project. Construction work in progress costs are reduced by revenues received for power produced (net of expenditures incurred in operating the projects) prior to the date of completion. The costs of current repairs are charged to operating expense, and renewals and betterments are capitalized. The cost of capital assets retired less salvage is charged to accumulated depreciation. Depreciation of capital assets is generally provided on a straight-line basis over the estimated lives of the various classes of capital assets.

The related depreciation provisions at December 31, 2015 and 2014 expressed as a percentage of average depreciable capital assets on an annual basis are:

	Average depreciation rate	
	2015	**2014**
Type of plant:		
Production:		
Hydro	2.0%	2.0%
Gas turbine/combined cycle	3.1	3.2
Transmission	2.5	2.4
General	3.5	3.5
	2.8%	2.8%

(e) Asset Retirement and Cost of Removal Obligations

The Authority applies the applicable provisions of ASC Topic 410, *Asset Retirement and Environmental Obligations,* which requires an entity to record a liability at fair value to recognize legal obligations for asset retirements in the period incurred and to capitalize the cost by increasing the carrying amount of the related long-lived asset. The Authority determined that it had legal liabilities for the retirement of certain Small Clean Power Plants (SCPPs) in New York City and, accordingly, has recorded a liability for the retirement of these assets. In connection with these legal obligations, the Authority has also recognized a liability for the remediation of certain contaminated soils discovered during the construction process.

ASC Topic 410 does not apply to asset retirement obligations involving pollution remediation obligations that are within the scope of GAS No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. The Authority applies GAS No. 49 which, upon the occurrence of any one of five specified obligating events, requires an entity to estimate the components of expected pollution remediation outlays and determine whether outlays for those components should be accrued as a liability or, if appropriate, capitalized when goods and services are acquired. The Authority had no liabilities recorded related to GAS No. 49 at December 31, 2015 or 2014.

In addition to asset retirement obligations, the Authority has other cost of removal obligations that are being collected from customers and accounted for under the provisions of ASC Topic 980. These cost of removal obligations are reflected in deferred inflows of resources in the statements of net position.

Asset retirement obligations (ARO) amounts included in other noncurrent liabilities and cost of removal obligation amounts included in deferred inflows are as follows:

	ARO amounts	Cost of removal obligation
	(In millions)	
Balance – December 31, 2014	$ 52	$ 286
Depreciation Expense	–	11
Other expense	1	2
Balance – December 31, 2015	$ 53	$ 299

(f) Long Lived Assets

The Authority applies GAS No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, which states that asset impairments are generally recognized only when the service utility of an asset is reduced or physically impaired.

GAS No. 42 states that asset impairment is a significant, unexpected decline in the service utility of a capital asset. The service utility of a capital asset is the usable capacity that at acquisition was expected to be used to provide service, as distinguished from the level of utilization which is the portion of the usable capacity currently being used. Decreases in utilization and existence of or increases in surplus capacity that are not associated with a decline in service utility are not considered to be impairments. The Authority did not incur any impairments in either 2015 or 2014.

(g) Cash, Cash Equivalents and Investments

Cash includes cash and cash equivalents and short-term investments with maturities, when purchased, of three months or less. The Authority accounts for investments at their fair value. Fair value is determined using quoted market prices. Investment income includes changes in the fair value of these investments. Realized and unrealized gains and losses on investments are recognized as investment income in accordance with GAS No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*.

(h) Derivative Instruments

The Authority uses financial derivative instruments to manage the impact of interest rate, energy and capacity price and fuel cost changes on its earnings and cash flows. The Authority recognizes the fair value of all financial derivative instruments as either an asset or liability on its statements of net position with the offsetting gains or losses recognized in earnings or deferred charges. The Authority applies GAS No. 53, *Accounting and Financial Reporting for Derivative Instruments*, which establishes accounting and reporting requirements for derivative instruments (see note 8 "Risk Management and Hedging Activities" of the notes to the financial statements).

(i) Accounts Receivable

Accounts receivable are classified as current assets and are reported net of an allowance for uncollectible amounts.

(j) Materials and Supply Inventory

Material and supplies are valued at weighted average cost and are charged to expense during the period in which the material or supplies are used.

(k) Debt Refinancing Charges

Debt refinancing charges, representing the difference between the reacquisition price and the net carrying value of the debt refinanced, are amortized using the interest method over the life of the new debt or the old debt, whichever is shorter, in accordance with GAS No. 23, *Accounting and Financial Reporting for Refundings of Debt Reported by Proprietary Activities.*

(l) Other Long- Term Assets

Other long-term assets at December 31, 2015 and 2014 consist of the following:

	December 31,	
	2015	2014
	(In millions)	
Other long-term assets:		
Regulatory assets (a):		
Recoverable electricity supply market costs	$ 232	$ 183
Risk management activities	19	20
Other regulatory assets	29	32
Total regulatory assets	280	235
Energy efficiency program costs (b)	302	215
Other long-term receivables	234	245
Transmission line interconnection costs	288	233
Other	92	103
Total other long-term assets	$ 1,196	$ 1,031

(a) Regulatory assets reflect previously incurred costs that are expected to be recovered from customers through the ratemaking process.

(b) Energy efficiency program costs will be recovered from certain customers through the terms of contracts.

(m) Compensated Absences

The Authority accrues the cost of unused sick leave which is payable upon the retirement of its employees. The Authority has accrued $32 million and $33 million at December 31, 2015 and 2014 in other non-current liabilities on the statements of net position. The current year's cost is accounted for as a current operating expense in the statements of revenues, expenses, and changes in net position.

(n) Net Position

Net Position represents the difference between assets plus deferred outflows and liabilities plus deferred inflows and is classified into three components:

a. Net investment in capital assets – This consists of capital assets, net of depreciation reduced by related outstanding debt and accounts. This indicates that these assets are not accessible for other purposes.

b. Restricted – This represents restricted assets reduced by related liabilities and deferred inflows of resources that are not accessible for general use because their use is subject to restrictions enforceable by third parties.

c. Unrestricted – This represents the net amount of assets, deferred outflows of resources, liabilities and deferred inflows of resources that are not included in the components noted above and that are available for general use.

(o) New York Independent System Operator (NYISO)

The Authority is a member and a customer of the New York Independent System Operator (NYISO). The NYISO schedules the use of the bulk transmission system in the State, which normally includes all the Authority's transmission facilities, and collects ancillary services, losses and congestion fees from customers. In addition, the Authority dispatches power from its generating facilities in conjunction with the NYISO. The NYISO coordinates the reliable dispatch of power and operates a market for the sale of electricity and ancillary services within the State.

Based upon the Authority's scheduled customer power needs and available electricity generated by the Authority's operating assets, the Authority buys and sells energy in an electricity market operated by the NYISO. A significant amount of the Authority's energy and capacity revenues result from sales of the Authority's generation into the NYISO market. A significant amount of the Authority's operating expenses consist of various NYISO purchased power charges in combination with generation related fuel expenses.

(p) Operating Revenues

The customers served by the Authority and the rates paid by such customers vary with the NYPA facilities designated to serve such loads. These customers are served under contracts and tariffs approved by the Trustees.

The principal operating revenues are generated from the sale, transmission, and wheeling of power. Revenues are recorded when power is delivered or service is provided. Customers' meters are read, and bills are rendered, monthly. Wheeling charges are for costs the Authority incurred for the transmission and/or delivery of power and energy to customers over transmission lines owned by other utilities. Sales to the Authority's five (5) largest customers operating in the State accounted for approximately 47% and 48% of the Authority's operating revenues in 2015 and 2014, respectively.

In addition to contractual sales to customers, the Authority also sells power into an electricity market operated by the NYISO. These sales are affected by market prices and are not subject to rate regulation by the Authority's Board of Trustees or other regulatory bodies. Accordingly, the Authority does not apply the provisions of ASC Topic 980 to these transactions.

(q) Operating Expenses

The Authority's operating expenses include fuel, operations and maintenance, depreciation, purchased power costs, and other expenses related to the sale of power. Energy costs are charged to expense as incurred.

Purchased power costs include capacity, energy and ancillary service purchases made in the wholesale market on behalf of its customers (except for those made through previously approved purchased power agreements). Wheeling expenses are based on contractual and/or tariff rates of the service provider and are recovered through pass-through provisions in customer contracts.

(r) Pension Plans

Effective January 1, 2015, the Authority adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, which requires governments that provide defined benefit pension plans, to recognize their long term obligation for pension benefits as a liability. Statement No.68 also establishes new note disclosures and required supplementary information. Also effective January 1, 2015, the Authority adopted, GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, which addresses the transition provisions of Statement No. 68.

The Authority is a cost-sharing employer that participates in the New York State and Local Employees' Retirement System (NYSLERS), which is a cost-sharing multiple-employer plan in which the participating government employers pool their assets and their obligations to provide defined benefit pensions. The plan assets of this type of plan can be used to pay the pensions of the retirees of any participating employer. The amounts reported by the Authority for its proportionate share of the net pension liability, pension expense and deferred outflows and deferred inflows have been provided by the New York State and Local Employees' Retirement System to employers participating in the NYSLERS in accordance with Statement No. 68, and have been determined on the same basis as reported by the NYSLERS.

See Note 9 "Pension Plans, Other Postemployment Benefits, Deferred Compensation and Savings" of the notes to the financial statements.

(s) New Accounting Pronouncements

In February 2015, the GASB issued Statement of Governmental Accounting Standards No. 72 (Statement No. 72), *Fair Value Measurement and Application*, which primarily clarifies and expands on GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools* and Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. Statement No. 72 is effective for fiscal years beginning after June 15, 2015. Statement No. 72 provides guidance for determining a fair value measurement for financial reporting purposes. Statement No. 72 also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements and the standard establishes a 3-level hierarchy of fair value that is disclosed in the footnotes, based on the presence or absence of observable market inputs.

In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which is effective for fiscal years beginning after June 15, 2017. This statement requires governments that provide other postemployment benefits (OPEB) to their employees to recognize their unfunded accrued other postemployment benefits (OPEB) obligation on the face of their financial statements.

The Authority is evaluating the impact on its financial statements of Statement No. 72, and Statement No. 75.

(3) Bond Resolution

On February 24, 1998, the Authority adopted its "General Resolution Authorizing Revenue Obligations" (as amended and supplemented up to the present time, the Bond Resolution). The Bond Resolution covers all of the Authority's projects, which it defines as any project, facility, system, equipment or material related to or necessary or desirable in connection with the generation, production, transportation, transmission, distribution, delivery, storage, conservation, purchase or use of energy or fuel, whether owned jointly or singly by the Authority, including any output in which the Authority has an interest authorized by the Act or by other applicable State statutory provisions, provided, however, that the term "Project" shall not include any Separately

Financed Project as that term is defined in the Bond Resolution. The Authority has covenanted with bondholders under the Bond Resolution that at all times the Authority shall maintain rates, fees or charges, and any contracts entered into by the Authority for the sale, transmission, or distribution of power shall contain rates, fees or charges sufficient together with other monies available therefor (including the anticipated receipt of proceeds of sale of Obligations, as defined in the Bond Resolution, issued under the Bond Resolution or other bonds, notes or other obligations or evidences of indebtedness of the Authority that will be used to pay the principal of Obligations issued under the Bond Resolution in anticipation of such receipt, but not including any anticipated or actual proceeds from the sale of any Project), to meet the financial requirements of the Bond Resolution. Revenues of the Authority (after deductions for operating expenses and reserves, including reserves for working capital, operating expenses or compliance purposes) are applied first to the payment of, or accumulation as a reserve for payment of, interest on and the principal or redemption price of Obligations issued under the Bond Resolution and the payment of Parity Debt issued under the Bond Resolution.

The Bond Resolution also provides for withdrawal for any lawful corporate purpose as determined by the Authority, including but not limited to the retirement of Obligations issued under the Bond Resolution, from amounts in the Operating Fund in excess of the operating expenses, debt service on Obligations and Parity Debt issued under the Bond Resolution, and subordinated debt service requirements.

(4) Cash and Investments

Investment of the Authority's funds is administered in accordance with the applicable provisions of the Bond Resolution and with the Authority's investment guidelines. These guidelines comply with the New York State Comptroller's investment guidelines for public authorities and were adopted pursuant to Section 2925 of the New York Public Authorities Law.

(a) Credit Risk

The Authority's investments are restricted to (a) collateralized certificates of deposit, (b) direct obligations of or obligations guaranteed by the United States of America or the State of New York, (c) obligations issued or guaranteed by certain specified federal agencies and any agency controlled by or supervised by and acting as an instrumentality of the United States government, and (d) obligations of any state or any political subdivision thereof or any agency, instrumentality or local government unit of any such state or political subdivision which is rated in any of the three highest long-term rating categories, or the highest short-term rating category, by nationally recognized rating agencies. The Authority's investments in the debt securities of Federal National Mortgage Association (FNMA), Federal Home Loan Bank (FHLB), Federal Farm Credit Bank (FFCB) and Federal Home Loan Mortgage Corp. (FHLMC) were rated Aaa by Moody's Investors Services (Moody's), AAA by Fitch Ratings (Fitch) and AA+ by Standard & Poor's (S&P).

(b) Interest Rate Risk

Securities that are the subject of repurchase agreements must have a market value at least equal to the cost of the investment. The agreements are limited to a maximum fixed term of five business days and may not exceed the greater of 5% of the investment portfolio or $100 million. The Authority has no other policies limiting investment maturities.

(c) Concentration of Credit Risk

There is no limit on the amount that the Authority may invest in any one issuer; however, investments in authorized certificates of deposit shall not exceed 25% of the Authority's invested funds. At December 31, 2015, the Authority's total investment portfolio of $2,886 million included investments of $463 million (16%), $330 million (11%), $308 million (11%) and $90 million (3%) and $67 million (2%) in securities of FNMA, FHLMC, FHLB and FFCB and other various municipal debt securities, respectively.

At December 31, 2014, the Authority's total investment portfolio of $2,877 million included investments of $515 million (18%), $352 million (12%), $233 million (8%) and $69 million (2%) and $87 million (3%) in securities of FNMA, FHLMC, FHLB and FFCB and other various municipal debt securities, respectively.

(d) Decommissioning Fund

The Decommissioning Trust Fund is managed by external investment portfolio managers. Under the Decommissioning Agreements (see note 11(c) "Nuclear Plant Decommissioning" of notes to the financial statements), the Authority will make no further contributions to the Decommissioning Funds. The Authority's decommissioning responsibility will not exceed the amounts in each of the Decommissioning Funds. Therefore, the Authority's obligation is not affected by various risks which include credit risk, interest rate risk, and concentration of credit risk. In addition, the Decommissioning Trust Fund is not held within the Trust Estate of the Bond Resolution and therefore is administered under separate investment guidelines from those of the Authority or New York State.

(e) Other

All investments are held by designated custodians in the name of the Authority. At December 31, 2015 and 2014, the Authority had $50 million and $70 million of investments in repurchase agreements, respectively. The bank balances at December 31, 2015 and 2014 were $50 million and $34 million, respectively, of which $49 million and $33 million, respectively, were uninsured, but were collateralized by assets held by the bank in the name of the Authority.

Cash and Investments of the Authority at December 31, 2015 and 2014 are as follows:

December 31, 2015	Total	Total restricted	Restricted: Decommiss-ioning Trust Fund	Restricted: WNYEDF, POCR, projects and other	Restricted: ART note debt reserve	Capital fund	Unrestricted
			(In millions)				
Cash and investments:							
Cash and cash equivalents	$ 92	19	—	19	—	6	67
U.S. government:							
Treasury Notes	105	—	—	—	—	—	105
GNMA	1	—	—	—	—	—	1
	106	—	—	—	—	—	106
Other debt securities:							
FNMA	463	17	—	2	15	—	446
FHLMC	330	5	—	—	5	—	325
FHLB	308	43	—	43	—	28	237
FFCB	90	—	—	—	—	—	90
All other	67	—	—	—	—	1	66
	1,258	65	—	45	20	29	1,164
Portfolio Manager	1,430	1,430	1,430	—	—	—	—
Total investments	2,794	1,495	1,430	45	20	29	1,270
Total cash and investments	$ 2,886	1,514	1,430	64	20	35	1,337
Summary of maturities (years):							
0 – 1	$ 495	70	—	64	6	34	391
1 – 5	959	14	—	—	14	—	945
5 – 10	—	—	—	—	—	—	—
10+	2	—	—	—	—	1	1
Portfolio manager	1,430	1,430	1,430	—	—	—	—
	$ 2,886	1,514	1,430	64	20	35	1,337

Petroleum Overcharge Restitution (POCR) Funds and Clean Air for Schools (CAS) Projects Funds – Legislation enacted into State law from 1995 to 2002, 2007 and 2008 authorized the Authority to utilize petroleum overcharge restitution (POCR) funds and other State funds (Other State Funds), to be made available to the Authority by the State pursuant to the legislation, for a variety of energy-related purposes, with certain funding limitations. The legislation also states that the Authority "shall transfer" equivalent amounts of money to the State prior to dates specified in the legislation. The use of POCR funds is subject to comprehensive Federal regulations and judicial orders, including restrictions on the type of projects that can be financed with POCR funds, the use of funds recovered from such projects and the use of interest and income generated by such funds and projects. Pursuant to the legislation, the Authority is utilizing POCR funds and the Other State Funds to implement various energy services programs that have received all necessary approvals.

The disbursements of the POCR funds and the Other State Funds to the Authority, and the Authority's transfers to the State totaling $60.9 million, took place from 1996 to 2009. The POCR funds are included in restricted funds in the statements of net position. The funds are held in a separate escrow account until they are utilized.

The New York State Clean Water/Clean Air Bond Act of 1996 made available $125 million for Clean Air for Schools Projects (CAS Projects) for elementary, middle and secondary schools, with the Authority authorized to undertake implementation of the CAS Projects program. The CAS Projects are designed to improve air quality for schools and include, but are not limited to, projects that replace coal-fired furnaces and heating systems with furnaces and systems fueled with oil or gas. As of December 31, 2015, the Authority has completed the CAS Projects program.

As of December 31, 2015, restricted funds include the POCR fund ($10 million), the Lower Manhattan Energy Independence Initiative fund ($6 million) and the Fish & Wildlife Habitat Enhancement fund related to the Niagara relicensing costs ($13 million), the Western New York Economic Development Fund ($29 million) – see note 12(a) "Recharge New York Power Program" – and other ($6 million).

			Restricted				
December 31, 2014	**Total**	**Total restricted**	**Decommiss-ioning Trust Fund**	**WNYEDF, POCR, CAS projects and other**	**ART note debt reserve**	**Capital fund**	**Unrestricted**
				(In millions)			
Cash and investments:							
Cash and cash equivalents	$ 97	18	—	18	—	1	78
U.S. government:							
Treasury Notes	105	—	—	—	—	—	105
GNMA	4	—	—	—	—	—	4
	109	—	—	—	—	—	109
Other debt securities:							
FNMA	515	34	—	19	15	12	469
FHLMC	352	—	—	—	—	16	336
FHLB	233	33	—	33	—	5	195
FFCB	69	—	—	—	—	—	69
All other	87	4	—	—	4	3	80
	1,256	71	—	52	19	36	1,149
Portfolio Manager	1,415	1,415	1,415	—	—	—	—
Total investments	2,780	1,486	1,415	52	19	36	1,258
Total cash and investments	$ 2,877	1,504	1,415	70	19	37	1,336
Summary of maturities (years):							
0 – 1	$ 409	74	—	70	4	34	301
1 – 5	1,030	15	—	—	15	—	1,015
5 – 10	15	—	—	—	—	—	15
10+	8	—	—	—	—	3	5
Portfolio manager	1,415	1,415	1,415	—	—	—	—
	$ 2,877	1,504	1,415	70	19	37	1,336

As of December 31, 2014, restricted funds include the POCR fund ($11 million), the CAS Projects fund ($2 million), the Lower Manhattan Energy Independence Initiative fund ($6 million) and the Fish & Wildlife Habitat Enhancement fund related to the Niagara relicensing costs ($14 million), the Western New York Economic Development Fund ($33 million) – see note 12(a) “Recharge New York Power Program” – and other ($4 million).

(5) Capital Assets

The following schedule summarizes the capital assets activity of the Authority for the year ended December 31, 2015.

	Beginning balance	Additions	Retirements/ Transfers	Ending balance
		(In millions)		
Capital assets, not being depreciated:				
Land	$ 160	—	—	160
Construction in progress	261	275	(108)	428
Total capital assets not being depreciated	421	275	(108)	588
Capital assets, being depreciated:				
Production – Hydro	1,963	40	(3)	2,000
Production – Gas turbine/combined cycle	2,420	7	—	2,427
Transmission	1,985	17	—	2,002
General	1,204	42	(1)	1,245
Total capital assets being depreciated	7,572	106	(4)	7,674
Less accumulated depreciation for:				
Production – Hydro	740	33	(3)	770
Production – Gas turbine/combined cycle	881	103	—	984
Transmission	1,139	47	—	1,186
General	502	43	(1)	544
Total accumulated depreciation	3,262	226	(4)	3,484
Net value of capital assets, being depreciated	4,310	(120)	—	4,190
Net value of all capital assets	$ 4,731	155	(108)	4,778

The following schedule summarizes the capital assets activity of the Authority for the year ended December 31, 2014.

		Beginning balance	Additions	Retirements/ Transfers	Ending balance
			(In millions)		
Capital assets, not being depreciated:					
Land	$	160	—	—	160
Construction in progress		219	158	(116)	261
Total capital assets not being depreciated		379	158	(116)	421
Capital assets, being depreciated:					
Production – Hydro		1,898	68	(3)	1,963
Production – Gas turbine/combined cycle		2,419	1	—	2,420
Transmission		1,962	23	—	1,985
General		1,156	52	(4)	1,204
Total capital assets being depreciated		7,435	144	(7)	7,572
Less accumulated depreciation for:					
Production – Hydro		710	33	(3)	740
Production – Gas turbine/combined cycle		778	103	—	881
Transmission		1,089	50	—	1,139
General		466	40	(4)	502
Total accumulated depreciation		3,043	226	(7)	3,262
Net value of capital assets, being depreciated		4,392	(82)	—	4,310
Net value of all capital assets	$	4,771	76	(116)	4,731

(6) Long-Term Debt

(a) Components

	Amount 2015	Amount 2014	Interest rate	Maturity		Earliest redemption date prior to maturity
	(In millions)					
Senior debt:						
Revenue Bonds (Tax-Exempt):						
Series 2006 A Revenue Bonds:						
Serial Bonds	$ —	$ 88	N/A	N/A		N/A
Series 2007 A Revenue Bonds:						
Term Bonds	82	82	4.5% to 5.0%	11/15/2047	**	11/15/2017
Series 2007 C Revenue Bonds:						
Serial Bonds	208	237	4.0% to 5.0%	11/15/2016 to 2021		11/15/2017
Series 2011 A Revenue Bonds:						
Serial Bonds	63	65	3.0% to 5.0%	11/15/2016 to 2031	*	11/15/2021
Term Bonds	39	39	4.0% to 5.0%	11/15/2038	**	11/15/2021
Series 2015 A Revenue Bonds:						
Serial Bonds	69	—	2.0% to 5.0%	11/15/2016 to 2020		N/A
Revenue Bonds (Taxable):						
Series 2003 A Revenue Bonds:						
Term Bonds	174	180	5.230% to 5.749%	11/15/2018 to 2033	**	Any date
Series 2007 B Revenue Bonds:						
Serial Bonds	8	11	5.553% to 5.603%	11/15/2016 to 2017		Any date
Term Bonds	239	239	5.905% to 5.985%	11/15/2037 and 2043	**	Any date
	882	941				
Plus unamortized premium and discount	24	22				
Less deferred refinancing costs	6	8				
	900	955				
Less due in one year	55	53				
	$ 845	$ 902				

* $26.4 million due 2022 is non-callable.
** Bonds are subject to sinking fund provisions.

	Amount 2015	Amount 2014	Interest rate	Maturity		Earliest redemption date prior to maturity
	(In millions)					
Adjustable Rate Tender Notes:						
2016 Notes	$ 11	$ 21	0.14%	3/1/2016	**	Any adjustment date
2020 Notes	75	75	0.14%	3/1/2020		Same as above
	86	96				
Less due in one year	86	10				
	—	86				
Subordinate debt:						
Subordinated Notes, Series 2012	22	24	1.11% to 4.05%	2016 to 2037		N/A
Commercial Paper:						
EMCP (Series 1)	44	53	0.08%	2021		
CP (Series 2)	—	17				
	66	94				
Less due within one year	40	27				
	26	67				
Total Long-term debt	1,052	1,145				
Less due within one year	181	90				
Long-term debt, net of due in one year	$ 871	$ 1,055				

** Notes are subject to sinking fund provisions.

Interest on Series 2003 A and 2007 B Revenue Bonds and Subordinated Notes, Series 2012 is not excluded from gross income for bondholders' Federal income tax purposes.

Senior Debt

In September 2015, the Authority's Trustees authorized the issuance of up to $80 million of additional revenue bonds for the purpose of refunding certain revenue bonds. In November 2015, the Authority issued $69 million of Series 2015 A Revenue Bonds (2015 Bonds). The proceeds from the issuance of the 2015 Bonds and cash-on-hand were used to: (i) refund $74.59 million of the Authority's Series 2006 A Revenue Bonds; and (ii) pay the cost of issuance of the Series 2015 Bonds.

As indicated in note 3 of notes to the financial statements, "Bond Resolution," the Authority has pledged future revenues to service the Obligations and Parity Debt (Senior Debt) issued under the Bond Resolution. The total principal and interest remaining to be paid on the Senior Debt is $1.570 billion as of December 31, 2015. Principal and interest paid for 2015 and operating income plus depreciation were $185 million and $532 million, respectively. Principal and interest paid for 2014 and operating income plus depreciation were $113 million and $642 million, respectively.

Senior revenue bonds are subject to redemption prior to maturity in whole or in part as provided in the supplemental resolutions authorizing the issuance of each series of bonds, beginning for each series on the date indicated in the table above, at principal amount or at various redemption prices according to the date of redemption, together with accrued interest to the redemption date.

The Adjustable Rate Tender Notes (ART Notes) may be tendered to the Authority by the holders on any adjustment date. The rate adjustment dates are March 1 and September 1. The Authority had a revolving credit agreement (Agreement) with The Bank of Nova Scotia, to provide a supporting line of credit for the purpose of repaying, redeeming or purchasing the ART Notes, which terminated on September 1, 2015. In 2015, the Authority's Trustees approved the redemption of the outstanding ART Notes, on an accelerated basis in the first quarter of 2016, which were scheduled to reset at March 1, 2016. In accordance with the ART Note Resolution, a Note Debt Service Reserve account has been established in the amount of $20 million. See note 8 of notes to the financial statements for the Authority's risk management program relating to interest rates.

At December 31, 2015 and 2014, the current market value of the senior debt was approximately $1.088 billion and $1.187 billion, respectively. Market values were obtained from a third party that utilized a matrix-pricing model.

Subordinate Debt:

Subordinate Notes – In November 2012, the Authority's Trustees authorized the issuance of Subordinated Notes, Series 2012 (Subordinated Notes), in a principal amount not to exceed $30 million for the purpose of accelerating the funding for the State Parks Greenway Fund, which was established pursuant to the Niagara Relicensing Settlement entered into by the Authority and the New York State Office of Parks, Recreation & Historic Preservation. The Authority issued the Subordinated Notes on December 18, 2012 in the amount of $25 million. These Subordinated Notes are subordinate to the Series 2003 A Revenue Bonds, the Series 2007 A, B, and C Revenue Bonds, the Series 2011 A Revenue Bonds, the Series 2015 A Revenue Bonds and the Adjustable Rate Tender Notes.

Commercial Paper – Under the Extendible Municipal Commercial Paper (EMCP) Note Resolution, adopted December 17, 2002, and as subsequently amended and restated, the Authority may issue a series of notes, designated EMCP Notes, Series 1, maturing not more than 270 days from the date of issue, up to a maximum amount outstanding at any time of $200 million (EMCP Notes). It is the Authority's intent to remarket the EMCP Notes as they mature with their ultimate retirement in 2021. The Authority has the option to extend the maturity of the EMCP Notes and would exercise such right in the event there is a failed remarketing. This option serves as a substitute for a liquidity facility for the EMCP Notes.

Under the Commercial Paper Note Resolution adopted June 28, 1994, as subsequently amended and restated, the Authority may issue from time to time a separate series of notes maturing not more than 270 days from the date of issue, up to a maximum amount outstanding at any time of $400 million (Series 1 CP Notes), $450 million (Series 2 CP Notes), $350 million (Series 3 CP Notes) and $220 million (Series 4 CP Notes). See note 7 of the notes to the financial statements for Series 1, and certain Series 2 and Series 3 CP Notes designated as short-term debt. There were no Series 4 CP Notes outstanding at December 31, 2015.

The proceeds of certain Series 2 Commercial Paper Notes (CP Notes) were used to refund General Purpose Bonds and the proceeds of the EMCP Notes were used to refund Series 2 and 3 CP Notes. CP Notes and EMCP Notes have been used, and may in the future be used, for other corporate purposes. It is the Authority's intention to renew the EMCP Notes as they mature.

The Authority has a line of credit under a 2015 revolving credit agreement, (the 2015 RCA) with a syndicate of banks, to provide liquidity support for the Series 1-3 CP Notes, under which the Authority may borrow up to $600 million in aggregate principal amount outstanding at any time for certain purposes, including the repayment of the Series 1–3 CP Notes. The 2015 RCA terminates January 15, 2017, unless mutually extended by the banks and the Authority. The 2015 RCA succeeded the 2011 revolving credit agreement (2011 RCA) which expired January 20, 2015. There are no outstanding borrowings under the 2015 RCA or the 2011 RCA.

CP Notes and EMCP Notes are subordinate to the Series 2003 A Revenue Bonds, the Series 2007 A, B, and C Revenue Bonds, the Series 2011 A Revenue Bonds, the Series 2015 A Revenue Bonds and the Adjustable Rate Tender Notes.

Interest on the CP (Series 3) is taxable to holders for Federal income tax purposes.

The interest rate used to calculate future interest expense on variable rate debt is the interest rate at December 31, 2015.

Maturities and Interest Expense:	Long-Term Debt (In millions)			Capitalized Lease Obligations (In millions)		
	Principal	Interest	Total	Principal	Interest	Total
Year:						
2016	$ 181	47	228	$ 20	94	114
2017	58	45	103	25	93	118
2018	61	42	103	31	90	121
2019	64	39	103	37	88	125
2020	67	36	103	293	380	673
2021 – 2025	150	142	292	550	216	766
2026 – 2030	115	113	228	233	15	248
2031 – 2035	127	76	203	—	—	—
2036 – 2040	83	47	130	—	—	—
2044 – 2045	87	24	111	—	—	—
2046 – 2050	41	3	44	—	—	—
	1,034	614	1,648	1,189	976	2,165
Plus unamortized bond premium	24	—	24	—	—	—
Less deferred refinancing cost	6	—	6	—	—	—
	$ 1,052	614	1,666	$ 1,189	976	2,165

(b) Terms by Which Interest Rates Change for Variable Rate Debt

Adjustable Rate Tender Notes

In accordance with the Adjustable Rate Tender Note Resolution adopted April 30, 1985, as amended up to the present time (Note Resolution), the Authority may designate a rate period of different duration, effective on any rate adjustment date. The Authority and the remarketing agent appointed under the Note Resolution determine the rate for each rate period which, in the agent's opinion, is the minimum rate necessary to remarket the notes at par.

CP Notes and EMCP Notes (Long-Term Portion)

The Authority determines the rate for each rate period which is the minimum rate necessary to remarket the notes at par in the Dealer's opinion. If the Authority exercises its option to extend the maturity of the EMCP Notes, the reset rate will be the higher of (SIFMA + E) or F, where SIFMA is the Securities Industry and Financial Markets Association Municipal Swap Index, which is calculated weekly, and where "E" and "F" are fixed percentage rates expressed in basis points (each basis point being 1/100 of one percent) and yields, respectively, that are determined based on the Authority's debt ratings subject to a cap rate of 12%. As of December 31, 2015, the reset rate would have been 7.0%.

(c) Changes in Noncurrent Liabilities

Changes in the Authority's noncurrent liabilities for the year ended December 31, 2015 are comprised of the following:

	Beginning balance	Additions	Maturities/ refundings and other	Ending balance	Due within one year
			(In millions)		
Senior debt:					
Revenue bonds	$ 941	69	128	882	55
Adjustable rate tender notes	96	—	10	86	86
Subtotal	1,037	69	138	968	141
Subordinate debt:					
Subordinated Notes, Series 2012	24	—	2	22	1
Commercial paper	70	—	26	44	39
Subtotal	94	—	28	66	40
Net unamortized discounts/ premiums and deferred losses	14	7	3	18	—
Total debt, net of unamortized discounts/ premiums/ deferred losses	$ 1,145	76	169	1,052	181
Other noncurrent liabilities:					
Capitalized lease obligation	$ 1,189	—	20	1,169	20
Nuclear decommissioning	1,415	15	—	1,430	—
Disposal of nuclear fuel	217	—	—	217	—
Relicensing	279	20	29	270	—
Other	165	30	42	153	—
Total other noncurrent liabilities	$ 3,265	65	91	3,239	20

Changes in the Authority's long-term liabilities for the year ended December 31, 2014 are comprised of the following:

	Beginning balance	Additions	Maturities/ refundings and other	Ending balance	Due within one year
			(In millions)		
Senior debt:					
Revenue bonds	$ 992	—	51	941	53
Adjustable rate tender notes	106	—	10	96	10
Subtotal	1,098	—	61	1,037	63
Subordinate debt:					
Subordinated Notes, Series 2012	24	—	—	24	1
Commercial paper	102	—	32	70	26
Subtotal	126	—	32	94	27
Net unamortized discounts/ premiums and deferred losses	17	—	3	14	—
Total debt, net of unamortized discounts/ premiums/ deferred losses	$ 1,241	—	96	1,145	90
Other noncurrent liabilities:					
Capitalized lease obligation	$ 1,205	—	16	1,189	16
Nuclear decommissioning	1,300	115	—	1,415	—
Disposal of nuclear fuel	216	1	—	217	—
Relicensing	277	45	43	279	—
Other	174	37	46	165	—
Total other noncurrent liabilities	$ 3,172	198	105	3,265	16

(7) Short-Term Debt

CP Notes (short-term portion) outstanding was as follows:

	December 31,			
	2015		2014	
	Availability	Outstanding	Availability	Outstanding
	(In millions)			
CP Notes (Series 1)	$ 60	$ 340	$ 92	$ 308
CP Notes (Series 2) (a)	276	174	290	143
CP Notes (Series 3)	336	14	335	15

(a) Availability includes long-term CP Notes (Series 2) of $17 million outstanding at December 31, 2014 (see note 6 of notes to the financial statements).

Under the Commercial Paper Note Resolution adopted June 28, 1994, as subsequently amended and restated, the Authority may issue from time to time a separate series of notes maturing not more than 270 days from the date of issue, up to a maximum amount outstanding at any time of $400 million (Series 1 CP Notes), $450 million (Series 2 CP Notes), $350 million (Series 3 CP Notes) and $220 million (Series 4 CP Notes). See note 6 "Long-term Debt – Subordinated Debt–Commercial Paper" of notes to the financial statements for Series 2 CP Notes designated as long-term debt. It had been and shall be the intent of the Authority to use the proceeds of the Series 1 CP Notes and certain Series 2 and Series 3 CP Notes to finance the Authority's current and future energy efficiency programs and for other corporate purposes.

The changes in short-term debt are as follows:

	Beginning balance	Increases	Decreases	Ending balance
	(In millions)			
Year:				
2015	$ 466	142	80	528
2014	$ 452	138	124	466

(8) Risk Management and Hedging Activities

Overview

The Authority purchases insurance coverage for its operations, and in certain instances, is self-insured. Property insurance protects the various real and personal property owned by the Authority and the property of others while in the care, custody and control of the Authority for which the Authority may be held liable. Liability insurance protects the Authority from third-party liability related to its operations, including general liability, automobile, aircraft, marine and various bonds. Insured losses by the Authority did not exceed coverage for any of the four preceding fiscal years. The Authority self-insures a certain amount of its general liability coverage and the physical damage claims for its owned and leased vehicles. The Authority is also self-insured for portions of its medical, dental and workers' compensation insurance programs. The Authority pursues subrogation claims as appropriate against any entities that cause damage to its property.

Another aspect of the Authority's risk management program is to manage risk and related volatility on its earnings and cash flows associated with electric energy prices, fuel prices, electric capacity prices and interest rates. Through its participation in the NYISO and other commodity markets, the Authority is subject to electric energy price, fuel price and electric capacity price risks that impact the revenue and purchased power streams of its facilities and customer market areas. Such volatility can potentially have adverse effects on the Authority's financial condition. To mitigate potential adverse effects and to moderate cost impacts to its customers (many of the Authority's customer contracts provide for the complete or partial pass-through of these costs), the Authority hedges market risks through the use of financial derivative instruments and/or physical forward contracts. Hedges are transacted by the Authority to mitigate volatility in the cost of energy or related products needed to meet customer needs; to mitigate risk related to the price of energy and related products sold by the Authority; to mitigate risk related to margins (electric sales versus fuel use) where the Authority owns generation or other capacity; and mitigation of geographic cost differentials of energy procured or sold for transmission or transportation to an ultimate location. Commodities to be hedged include, but are not limited to, natural gas, natural gas basis, electric energy, electric capacity and congestion costs associated with the transmission of electricity.

To achieve the Authority's risk management program objectives, the Authority's Trustees have authorized the use of various interest rate, energy, and fuel derivative instruments for hedging purposes that are considered derivatives under GAS No. 53, *Accounting and Financial Reporting for Derivative Instruments* (GAS No. 53).

The fair values of all Authority derivative instruments, as defined by GAS No. 53, are reported in current and noncurrent assets or liabilities on the statements of net position as risk management activities. For designated hedging derivative instruments, changes in the fair values are deferred and classified as deferred outflows or deferred inflows on the statements of net position. For renewable energy derivative instruments, designated as investment derivative instruments, changes in fair value are deferred as regulatory assets or liabilities, as they are recoverable from customers by contractual agreements. The fair value of interest rate swaps take into consideration the prevailing interest rate environment and the specific terms and conditions of each swap. The fair values were estimated using the zero-coupon discounting method. The fair value for over-the-counter and exchange-traded energy, renewable energy natural gas, natural gas transportation and capacity derivative instruments are determined by the latest end-of-trading-month forward prices over the lifetime of each outstanding derivative instrument using the prices published by Platts or internal pricing models or derived from pricing models for option and/or option-based derivative instruments using the underlying price, time to expiry and observed volatilities based upon Platts published prices and other variables.

Derivative Instruments

The following table shows the fair value of outstanding derivative instruments for 2015 and 2014:

Derivative instrument description		Fair value balance December 31, 2014		Net change in fair value		Fair value balance December 31, 2015	Type of hedge or transaction	Financial statement classification for changes in fair value	Notional amount December 31, 2015	Volume
						($ in millions)				
Interest rate swaps	$	(5)	$	2	$	(3)	Investment	Regulatory Asset	86.0	USD
Energy/Electric:										
Swaps		2		8		10	Cash Flow	Deferred inflow	(3,849,855)	MWh
Swaps		(10)		1		(9)	Cash Flow	Deferred outflow	505,425	MWh
Renewable energy swaps		(20)		4		(16)	Investment	Regulatory Asset	363,762	MWh
Energy capacity futures		5		(6)		(1)	Cash Flow	Deferred outflow	(17,070,000)	KWm
Fuel futures/swaps		(9)		9		—	Cash Flow	Deferred outflow	—	MMBtu
Totals	$	(37)	$	18	$	(19)				

Interest rate swaps – The Authority had outstanding forward interest rate swaps intended to fix rates on long-term obligations initially issued to refinance revenue bonds that were required to be tendered in the year 2002 (the 2002 Swaps). Based upon the terms of these forward interest rate swaps, the Authority would pay interest calculated at a fixed rate of 5.123% to the counterparties through February 15, 2015. In return, the counterparties would paid interest to the Authority based upon the Securities Industry and Financial Markets Association municipal swap index (SIFMA Index) on the established reset dates. The 2002 swaps terminated on February 15, 2015. Net settlement payments were $0.1 million and $1.0 million in 2015 and 2014, respectively.

In addition, the Authority had a forward interest rate swap intended to fix the interest rates on the Authority's Adjustable Rate Tender Notes (ART Notes) for the period September 1, 2006 to September 1, 2016. Based upon the terms of the forward interest rate swap, the Authority would pay interest calculated at a fixed rate of 3.7585% on the outstanding notional amount. In return, the counterparty would pay interest to the Authority based upon 67% of the six-month LIBOR established on the reset dates that coincide with the ART Notes interest rate reset dates. Net settlement payments were $2.3 and $3.5 million in 2015 and 2014, respectively. In 2015, the Authority's Trustees approved the redemption of the outstanding ART Notes, on an accelerated basis in the first quarter of 2016, which were scheduled to reset at the March 1, 2016. This action by the Authority resulted in the related forward interest rate swap becoming ineffective as of December 31, 2015. At December 31, 2015, the fair value of the forward interest rate swap was recorded as a regulatory asset since recoverability through future revenues is probable. These swaps were terminated on March 1, 2016 with a settlement payment of $2.6 million, which included a scheduled payment due March 1 of $1.4 million.

Energy/Electric swaps – The Authority has outstanding short-term forward energy swaps to manage the cost of forecasted purchased power requirements and transmission congestion for certain business customers in through 2017. Net settlement payments were $7.6 million in 2015 and receipts were $3.9 million in 2014. In 2014, the Authority had outstanding a medium-term forward energy swap intended to fix its exposure for the cost of energy purchases in the NYISO electric market in meeting certain governmental customer load requirements through 2014. Net settlement payments were $19.4 million in 2014.

Renewable energy swaps – The Authority has outstanding long-term forward energy swaps and purchase agreements based upon a portion of the generation of the counterparties' wind-farm-power-generating facilities through 2017. The fixed price ranges from $74 to $75 per MWh and includes the purchase of the related environmental attributes. The intent of the swaps and purchase agreements is to assist certain customers in acquiring and investing in wind power and related environmental attributes to satisfy certain New York State mandates to support renewable energy. Net settlement payments were $8.1 million and $4.7 million in 2015 and 2014, respectively. The Authority anticipates the recovery of any net settlements through specific contractual agreements with customers.

Energy capacity futures – The Authority has outstanding forward installed capacity futures intended to mitigate the volatility of market prices for transaction in the NYISO markets through 2017. Net settlement receipts were $4.8 million in 2015 and payments were $0.5 million in 2014.

Fuel futures/swaps – The Authority has outstanding forward natural gas futures, which had a de minimis fair value at December 31, 2015, intended to mitigate the volatility of market prices for fuel to operate certain electrical generating facilities in 2015 and 2014 for the benefit of certain of the Authority's customers. Net settlement receipts were $3.4 million and $15.0 million in 2015 and 2014, respectively. In connection with the fuel futures and for the benefit of the Authority's customers, the Authority has outstanding natural gas transportation basis swaps to mitigate the volatility of market prices for pipeline transportation to New York City in 2015 and 2014. Net settlements payments were $6.1 million in 2015.

Other – The Authority from time to time enters into certain derivative instruments that may become ineffective as hedging instruments due to changes in the hedged item. The change in fair value of such derivative instruments is recognized as other nonoperating charges or credits in the statements of revenues, expenses and changes in net position. The fair value of these derivative instruments was insignificant to the Authority's 2015 and 2014 financial statements.

Counterparty Credit Risk

The Authority's policy regarding the creditworthiness of counterparties for interest rate derivative instruments is defined in the Bond Resolution. The policy requires that such counterparties be rated in at least the third highest rating category for each appropriate rating agency maintaining a rating for qualified swap providers at the time the derivative instrument is executed or have a guarantee from another appropriate entity or an opinion from the rating agencies that the underlying bonds or notes will not be downgraded on the derivative instrument alone. The Authority's Board of Trustees has adopted a Policy for the Use of Interest Rate Exchange Agreements which provides the overall framework for delegation of authority; allowable interest rate hedging instruments; counterparty qualifications and diversification as well as reporting standards.

The Authority also imposes thresholds, based upon agency-published credit ratings, for unsecured credit that can be extended to counterparties to the Authority's commodity derivative transactions. The thresholds are established in bilateral credit support agreements with counterparties and require collateralization of mark-to-market values in excess of the thresholds. In addition, the Authority regularly monitors each counterparty's market-implied credit ratings and financial ratios and the Authority can restrict transactions with counterparties on the basis of that monitoring, even if the applicable unsecured credit threshold is not exceeded.

Based upon the fair values as of December 31, 2015, the Authority's individual or aggregate exposure to derivative instrument counterparty credit risk is not significant.

Other Considerations

The Authority from time to time may be exposed to any of the following risks:

Basis risk – The Authority is exposed to basis risk on its pay-fixed interest rate swaps since it receives variable-rate payments on these hedging derivative instruments based upon indexes which differ from the actual interest rates the Authority pays on its variable-rate debt. The Authority remarkets its Notes at rates that approximate SIFMA and LIBOR after considering other factors such as the Authority's creditworthiness.

The Authority is exposed to other basis risk in a portion of its electrical commodity-based swaps where the electrical commodity swap payments received are based upon a reference price in a NYISO Market Zone that differs from the Zone in which the hedged electric energy load is forecasted. If the correlation between these Zones' prices should fall, the Authority may incur costs as a result of the hedging derivative instrument's inability to offset the delivery price of the related energy.

Rollover risk – Certain electrical commodity-based derivative instruments are based upon projected future customer loads or facility operations. Beyond the terms of these derivative instruments (varying from one month to 48 months) the Authority is subject to the corresponding market volatilities.

Termination risk – The Authority or its counterparties may terminate a derivative instrument agreement if the either party fails to perform under the terms of the agreement. The risk that such termination may occur at a time which may be disadvantageous to the Authority has been mitigated by including certain terms in these agreements by which the counterparty has the right to terminate only as a result of certain events, which includes a payment default by the Authority; other Authority defaults which remain uncured within a defined time-frame after notice; bankruptcy or insolvency of the Authority (or similar events); or a downgrade of the Authority's credit rating below investment grade. If at the time of termination the Authority has a liability position, related to its hedging derivative instruments, the Authority would be liable to the counterparty for a payment equal to the liability, subject to netting arrangements.

Market access risk – The Authority remarkets its CP Notes on a continuous basis. Should the market experience a disruption or dislocation, the Authority may be unable to remarket its Notes for a period of time. To mitigate this risk, the Authority has entered into liquidity facilities with highly rated banks to provide loans to support the CP Note programs. See note 6 of the notes to the financial statements.

Dodd Frank Act

On July 21, 2010, President Obama signed into law the Dodd-Frank Wall Street Reform and Consumer Protection Act (DF Act) which addresses, among other things, interest rate and energy related commodity swap transactions of the type in which the Authority engages. The requirements and processes are set forth in regulations promulgated by the Commodities Futures Trading Commission (CFTC). Pursuant to CFTC rules thus far, the Authority, as a public entity and electric utility which uses swaps solely to manage its risk, will be exempted from posting collateral beyond that of any existing credit support annexes in support of its open over-the-counter hedge positions. These CFTC rules are not anticipated to have significant impact on the Authority's liquidity and/or future risk mitigation activities. CFTC DF Act rules are still being promulgated, and the Authority will continue to monitor their potential impact on the Authority's liquidity and/or future risk mitigation activities.

(9) Pension Plans

General Information

The Authority and substantially all of the Authority's employees participate in the New York State and Local Employees' Retirement System (NYSLERS) and the Public Employees' Group Life Insurance Plan (the Plan). These are cost-sharing multiple-employer defined benefit retirement plans.

The NYSLERS uses a tier concept to distinguish membership classes (i.e. tiers 1 through 6) with tier membership based on the date an employee joins the System. The ERS is non-contributory for tiers 1 and 2 employees who joined the NYSLERS on or prior to July 27, 1976. Tiers 3 and 4 employees, who joined between July 28, 1976 and December 31, 2009 and have less than ten years of service, contribute 3% of their salary. Tier 5 employees who joined the NYSLERS on or after January 1, 2010 contribute 3 % of their salary during their entire length of service. Tier 6 employees who joined the NYSLERS on or after April 1, 2013 contribute 3% of their salary through March 31, 2013 and up to 6% thereafter, based on their annual salary, during their entire length of service. Members become vested in the plan after ten years of service and generally are eligible to receive benefits at age 55. The benefit is generally 1.67 percent of final average salary (FAS) times the number of years of service, for members who retire with less than 20 years of service, and 2 percent of FAS for members who retiree with 20 or more years of service. The NYSLERS provides an annual automatic cost of living adjustment to members or surviving spouses based on certain eligibility criteria.

The NYSLERS and the Plan provide retirement benefits as well as death and disability benefits. Obligations of employers and employees to contribute and benefits to employees are governed by the New York State Retirement and Social Security Law (NYSRSSL). As set forth in the NYSRSSL, the Comptroller of the State of New York (Comptroller) serves as sole trustee and administrative head of the NYSLERS and the Plan. The Comptroller adopts and may amend rules and regulations for the administration and transaction of the business of the NYSLERS and the Plan, and for the custody and control of their funds. Under the authority of the NYSRSSL, the Comptroller shall certify annually the rates expressed as proportions of payroll of members, which shall be used in computing the contributions required to be made by employers.

The Authority is required to contribute at an actuarially determined rate. The average contribution rate relative to payroll for the fiscal year ended March 31, 2015 was 19%. The average contribution rates relative to payroll for the fiscal years ending March 31, 2016 and 2017 have been set at approximately 17% and 15%, respectively. The required contributions for 2015, 2014 and 2013 were $25 million, $28 million and $29 million, respectively. The Authority's contributions to the NYSLERS were equal to 100% of the required contributions for each year.

The NYSLERS and the Plan issue a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the New York State and Local Employees' Retirement System, 110 State Street, Albany, NY 12244 or may be found on the internet at www.osc.state.ny.us/retire/publications/index.php.

Adoption of GASB Statement No. 68 and No. 71

The Authority, effective January 1, 2015, adopted Government Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions*. Statement No. 68 requires governments, that provide defined benefit pension plans to their employees, to recognize their long term obligation for pension benefits as a liability and to more comprehensively and comparably measure the annual costs of pension benefits. Statement No. 68 also enhances accountability and transparency through revised and new note disclosures and required supplemental information. As a result of the implementation of Statement No. 68, net position as of January 1, 2014 was decreased by $6 million and is reflected as a cumulative effect of change in accounting principle in the statements of revenues, expenses and changes in net position. In addition, the Authority recognized approximately $5 million, as deferred outflows and $1 million as deferred inflows in the statement of net position at December 31, 2015, related to this implementation (see section "Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions", herein).

Also, effective January 1, 2015, the Authority adopted GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, which is applied simultaneously with Statement No. 68. Statement No. 71 addresses the transition provisions of Statement No. 68, relating to amounts contributed by state or local government employers to a defined benefit pension plan after the measurement date of the government employer's beginning net pension liability. As a result of the implementation of Statement No. 71, the Authority recognized, as deferred outflows in the statement of net position at December 31, 2015, $25 million of contributions made subsequent to the March 31, 2015 measurement date.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At December 31, 2015, the Authority reported a liability of $20 million for its proportionate share of the net pension liability. The NYSLERS total pension liability, which was used to calculate the NYSLERS net pension liability, was determined by the NYSLERS actuarial valuation as of March 31, 2015 (measurement date). The Authority's proportion of the net pension liability was based on a projection of the Authority's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. At March 31, 2015, the Authority's proportion percentage (0.592%) of the net pension liability was unchanged from its proportion measured as of March 31, 2014.

For the year ended December 31, 2015, the Authority recognized pension expense of $18 million. At December 31, 2015, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows	Deferred Inflows
	(In millions)	
Difference between expected and actual experience	$ 1	$ –
Net difference between projected and actual earnings on investments	4	–
Net difference between employer contributions and proportionate share of contributions	–	1
Employer contributions subsequent to the measurement date	25	–
Total	$ 30	$ 1

The $25 million reported as deferred outflows of resources related to pensions resulting from the Authority's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2016. The other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense, $0.86 million annually over the next four fiscal years 2016-2019.

Actuarial Assumptions

The NYSLERS total pension liability at March 31, 2015 was determined by using the NYSLERS actuarial valuation as of April 1, 2014 with updated procedures to roll forward the NYSLERS total pension liability to March 31, 2015. The following actuarial assumptions were used for the April 1, 2014 NYSLERS actuarial valuation:

Actuarial cost method:	Entry age normal
Inflation rate:	2.7%
Salary increases:	4.9% annually
Investment rate of return, including inflation:	7.5%compounded annually, net of investment expenses
Cost of living adjustments:	1.4 % annually

The NYSLERS Annuitant mortality rates are based on April 1, 2005 – March 31, 2011 NYSLERS experience with adjustments for mortality improvements based on MP-2014. The actuarial assumptions used in the April 1, 2014 valuation are based on the results of an actuarial experience study for the period April 1, 2005 – March 31, 2010.

The NYSLERS long term expected rate of return on pension plan investments was determined using a building block method in which best estimate ranges of expected future real rates of return (expected returns net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the target asset allocation as of March 31, 2015 are summarized below.

Long Term Expected Rate of Return

Asset Type	Target Allocation	Long-term Expected Real Rate
Domestic Equity	38%	7.30%
International Equity	13	8.55
Private Equity	10	11.00
Real Estate	8	8.25
Absolute Return	3	6.75
Opportunistic Portfolio	3	8.60
Real Asset	3	8.65
Bonds and Mortgages	18	4.00
Cash	2	2.25
Inflation Indexed Bonds	2	4.00
	100%	

Discount Rate

The NYSLERS discount rate used to calculate the total pension liability was 7.5%. The projection of cash flows used to determine the discount rate assumes that contributions from plan members will be made at the current contribution rates and that contributions from employers will be made at statutorily required rates, actuarially. Based upon the assumptions, the NYSLERS fiduciary net position was projected to be available to make all projected future benefit payments of current plan members.

Therefore the long term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the Authority's proportionate share of the net pension liability calculated using the discount rate of 7.5 percent, as well as what the Authority's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.5 percent) or one percentage point higher (8.5 percent) than the current rate:

	1% Decrease	Current Assumption	1% Increase
	6.5%	7.5%	8.5%
The Authority's proportionate share of the net pension liability (asset)	$ 133 million	$ 20 million	$ (76) million

The actuary for the NYSLERS has recommended decreases in assumptions (inflation rate, salary increases, investment rate of return, cost of living adjustments) as well as the discount rate (from 7.5 % to 7.0%, reflecting the change in the investment rate of return) to be used beginning with the April 1, 2015 valuation. The April 1, 2015 valuation is used to generate employer contribution rates for fiscal year 2017 and does not impact the April 1, 2014 valuation.

(10) Other Postemployment Benefits, Deferred Compensation and Savings

(a) Other Postemployment Benefits (OPEB)

The Authority provides certain health care and life insurance benefits for eligible retired employees and their dependents under a single employer noncontributory (except for certain optional life insurance coverage) health care plan. Employees and/or their dependents become eligible for these benefits when the employee has at least 10 years of service and retires or dies while working at the Authority. Approximately 4,500 participants, including 1,700 current employees and 2,800 retired employees and/or spouses and dependents of retired employees, were eligible to receive these benefits at December 31, 2015. The Authority's post-retirement health care trust does not issue a stand-alone financial report.

The Authority has an established trust for OPEB obligations (OPEB Trust), with the trust to be held by an independent custodian. Plan members are not required to contribute to the OPEB Trust. The Authority makes ongoing annual funding to the OPEB Trust based on the annual OPEB cost in order to maintain higher funding levels. Contributions of $14 million and $17 million were made to the OPEB Trust in 2015 and 2014, respectively.

The following table shows the components of the Authority's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the Authority's net OPEB obligation.

		2015		2014
		(In millions)		
Annual OPEB cost:				
Annual required contribution (ARC):				
Normal cost	$	13	$	13
Amortization payment		25		20
Total		38		33
ARC adjustment		5		10
Interest on net OPEB obligation		(5)		(5)
Annual OPEB cost	$	38	$	38
Net OPEB obligation:				
Net OPEB (asset) obligation at beginning of fiscal year	$	(73)	$	(72)
Annual OPEB cost		38		38
Employer contribution:				
Benefit payments for retirees during the year		(24)		(22)
Trust fund contributions		(14)		(17)
Total employer contribution		(38)		(39)
Net OPEB (asset) obligation at end of fiscal year	$	(73)	$	(73)

The net OPEB asset of $73 million, which consists of $15 million current assets and $58 million noncurrent assets, is reported in miscellaneous receivables and other and other long-term assets, respectively, in the statements of net position at December 31, 2015.

The Authority's annual OPEB cost for 2015 was $38 million, which is reflected as an expense in the statements of revenues, expenses, and changes in net position. The Authority's annual OPEB cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GAS No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. As indicated herein, the Authority uses a 20-year amortization period.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits. The Authority's most recent actuarial valuation was performed as of January 1, 2014 and resulted in an actuarial accrued liability of $575 million which was funded with assets totaling $422 million indicating that the Authority's retiree health plan was 73% funded as of the valuation date. As of

December 31, 2015 and 2014, the balance in the OPEB Trust was $483 million and $467 million, respectively, and the actuarial accrued liability was $637 million and $606 million, respectively, resulting in the retirees' health plan being 76% funded in 2015 and 77% funded in 2014.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. In the 2014 actuarial valuation, the projected unit credit actuarial cost method was used with benefits attributed to full eligibility. The actuarial assumptions included a 7% investment rate of return (net of administrative expenses) and an annual healthcare cost trend rate of approximately 8% (net of administrative expenses), including inflation, declining approximately 1/4% each year to an ultimate trend rate of approximately 5%. Both the cost trend rate and the ultimate trend rate include a 3% inflation assumption. The Authority amortizes actuarial gains and losses over an open 20-year period while continuing to amortize its initial unfunded accrued liability over a closed 20-year period.

(b) Deferred Compensation and Savings Plans

The Authority offers union employees and salaried employees a deferred compensation plan created in accordance with Internal Revenue Code, Section 457. This plan permits participants to defer a portion of their salaries until future years. Amounts deferred under the plan are not available to employees or beneficiaries until termination, retirement, death or unforeseeable emergency.

The Authority also offers salaried employees a savings plan created in accordance with Internal Revenue Code, Section 401(k). This plan also permits participants to defer a portion of their salaries. The Authority matches contributions of employees up to limits specified in the plan. Such matching annual contributions were approximately $2.8 million and $2.6 million for 2015 and 2014, respectively.

Both the deferred compensation plan and the savings plan have a loan feature.

Independent trustees are responsible for the administration of the 457 and 401(k) plan assets under the direction of a committee of union representatives and nonunion employees and a committee of nonunion employees, respectively. Various investment options are offered to employees in each plan. Employees are responsible for making the investment decisions relating to their savings plans.

(11) Nuclear Plant Divestiture and Related Matters

(a) Nuclear Plant Divestiture

In November 2000, the Authority sold its nuclear plants—Indian Point 3 (IP3) and James A. FitzPatrick (JAF) to two subsidiaries of Entergy Corporation (collectively Entergy or the Entergy Subsidiaries) for cash and noninterest-bearing notes totaling $967 million (subsequently reduced by closing adjustments to $956 million) maturing over a 15–year period. The present value of these payments recorded on the closing date, utilizing a discount rate of 7.5%, was $680 million.

As of December 31, 2015 and 2014, the present value of the notes receivable were:

	2015	2014
	(In millions)	
Notes receivable – nuclear plant sale	$ —	$ 19
Less due within one year	—	19
	$ —	$ —

At December 31, 2014, the current portion due within one year of this notes receivable is reported in miscellaneous receivables and other in the statements of net position.

As part of the Authority's sale of its nuclear projects to Entergy Subsidiaries in November 2000, the Authority entered into two Value Sharing Agreements (VSAs) with them. These VSAs, as amended, provide for the Entergy Subsidiaries to pay the Authority a set price ($6.59 per MWh for IP3 and $3.91 per MWh for JAF) for all MWhs metered from each plant between 2007 and 2014, with the Authority being entitled to receive annual payments up to a maximum of $72 million. Nonoperating income, in the statements of revenues, expenses, and changes in net position, for the year ended December 31, 2014 included $71 million, relating to these agreements. The payments were subject to continued ownership of the facilities by the Entergy Subsidiaries or its affiliates. The final payment under the VSA was received on January 15, 2015 in the amount of $71 million.

If the license for IP3 or JAF is extended, an amount equal to $2.5 million (per plant) per year for a maximum of 20 years would be paid to the Authority by the relevant Entergy Subsidiary for each year of life extension during which the plant operates. The original licenses for JAF and IP3 expire in 2014 and 2015, respectively. In April 2007, the Nuclear Regulatory Commission (NRC) received a license renewal application (for an additional 20 years) for IP3. On September 9, 2008, the NRC renewed the operating license of JAF for 20 years to October 17, 2034. In November 2015, Entergy announced that it will permanently shut down JAF in 2017.

(b) Nuclear Fuel Disposal

In accordance with the Nuclear Waste Policy Act of 1982, in June 1983, the Authority entered into a contract with the U.S. Department of Energy (DOE) under which DOE, commencing not later than January 31, 1998, would accept and dispose of spent nuclear fuel. In conjunction with the sale of the nuclear plants, the Authority's contract with the DOE was assigned to Entergy. The Authority remains liable to Entergy for the pre-1983 spent fuel obligation (see note 12(e)) "New York State Budget and Other Matters" relating to a temporary transfer of such funds to the State). As of December 31, 2015 and 2014, the liability to Entergy totaled $217 million in both years.

(c) Nuclear Plant Decommissioning

In connection with the Authority's sale of the nuclear plants, the Authority entered into a Decommissioning Agreement with each of the Entergy Subsidiaries relating to the responsibility for decommissioning the nuclear plants acquired (Decommissioning Agreements). The Decommissioning Agreements deal with the decommissioning funds (Decommissioning Funds), which are currently maintained by the Authority under a master decommissioning trust agreement. Under the Decommissioning Agreements, the Authority will make no further contributions to the Decommissioning Funds.

The Authority retains contractual decommissioning liability for IP3 and JAF until license expiration, a change in the tax status of the fund, or any early dismantlement of the plant, at which time the Authority will have the option of terminating its decommissioning responsibility and transferring the plant's fund to the Entergy Subsidiary owning the plant. At that time, the Authority will be entitled to be paid an amount equal to the excess of the amount in the Fund over the Inflation Adjusted Cost Amount, if any. The Inflation Adjusted Cost Amount for a plant means a fixed estimated decommissioning cost amount adjusted in accordance with the effect of increases and decreases in the NRC minimum cost estimate amounts applicable to the plant. The Authority's decommissioning responsibility is limited to the lesser of the Inflation Adjusted Cost Amount or the amount of the plant's Decommissioning Fund.

Certain provisions of the Decommissioning Agreements provide that if the relevant Entergy Subsidiary purchases, or operates, with the right to decommission, another plant at the IP3 site, then the Inflation Adjusted Cost Amount would decrease by $50 million. In September 2001, a subsidiary of Entergy purchased the Indian Point 1 and Indian Point 2 plants adjacent to IP3.

If the Authority is required to decommission IP3 or JAF pursuant to the relevant Decommissioning Agreement, an affiliate of the Entergy Subsidiaries, Entergy Nuclear, Inc. would be obligated to enter into a fixed price contract with the Authority to decommission the plant, the price being equal to the lower of the Inflation Adjusted Cost Amount or the plant's Decommissioning Fund amount.

Decommissioning Funds of $1,430 million and $1,415 million are included in restricted funds and other noncurrent liabilities in the statements of net position at December 31, 2015 and 2014, respectively.

(12) Commitments and Contingencies

(a) Power Programs

Recharge New York Power Program

Chapter 60 (Part CC) of the Laws of 2011 (Chapter 60) established the "Recharge New York Power Program" (RNYPP), administered by the Authority, which has as its central benefit up to 910 MW of low cost power comprised of up to 455 MW of hydropower from the Niagara and St. Lawrence-FDR Projects and up to 455 MW of other power procured by the Authority from other sources. The 910 MW of power is available for allocation as provided by Chapter 60 to eligible new and existing businesses and not-for-profit corporations under contracts of up to seven years. RNYPP was effective beginning July 1, 2012.

The RNYPP replaced two other programs, the Power for Jobs (PFJ) and Energy Cost Savings Benefit (ECSB) Programs, which had extended benefits of low-cost power to certain businesses, small businesses and not-for-profit organizations. Those PFJ and ECSB Program customers who were in substantial compliance with contractual commitments under the PFJ and ECSB Programs and who applied but did not receive RNYPP allocations are eligible to apply for transitional electricity discounts, as provided for in Chapter 60. This transitional electricity discounts program provides for declining levels of discounts through June 30, 2016 when the program terminates, if payment of such discounts is deemed feasible and advisable by the Authority's Trustees. In June 2012, the Authority's Trustees authorized transitional electricity discount payments of up to $9 million for the year July 1, 2012 – June 30, 2013. On February 26, 2015, the Authority's Trustees approved an additional $8 million to fund anticipated payments for the period from July 1, 2013 to June 30, 2015. As of December 31, 2015, approximately $8 million of such discounts have been paid with approximately an additional $5 million in payments remaining to be made.

The hydropower used for the RNYPP was power formerly used to provide low-cost electricity to domestic and rural customers of the three private utilities that serve upstate New York. To mitigate the impacts from the redeployment of this hydropower for the RNYPP, Chapter 60 created a "Residential Consumer Discount Program" (RCDP). The RCDP authorizes the Authority, as deemed feasible and advisable by its Trustees, to provide annual funding of $100 million for the first three years following withdrawal of the hydropower from the residential and farm customers, $70 million for the fourth year, $50 million for the fifth year, and $30 million each year thereafter, for the purpose of funding a residential consumer discount program for those customers that had formerly received the hydropower that is utilized in the RNYPP. Chapter 60 further authorizes the Authority, as deemed feasible and advisable by the Trustees, to use revenues from the sales of hydroelectric power, and such other funds of the Authority, as deemed feasible and advisable by the Trustees, to fund the RCDP. The Authority's Trustees have authorized the release of a total $400.9 million through January 2015 in support of the RCDP. The Authority supplemented the market revenues through the use of internal funds, from the August 2011 start of the program through December 31, 2015, totaling cumulatively $111 million. Operations and maintenance expenses included $63 million and $88 million of residential consumer discounts in the years ended December 31, 2015 and 2014, respectively. On January 27, 2016, the Authority's Trustees approved up to an additional $43 million to fund anticipated payments for its 2016 fiscal year.

Western New York Power Proceeds Allocation Act

Effective March 30, 2012, Chapter 58 (Part GG) of the Laws of 2012 (Chapter 58) created the Western New York Power Proceeds Act (WNYPPA). The WNYPPA authorizes the Authority, as deemed feasible and advisable by the Trustees, to deposit net earnings from the sale of unallocated Expansion Power and Replacement Power from the Authority's Niagara project into an account administered by the Authority known as the Western New York Economic Development Fund (Fund). Net earnings are defined as any excess revenues earned from such power sold into the wholesale market over the revenues that would have been received had the power been sold at the Expansion Power and Replacement Power rates. Proceeds from the Fund may be used to support eligible projects undertaken within a 30-mile radius of the Niagara power project that satisfy applicable criteria. Chapter 58 also establishes a five-member Western New York Power Allocations Board, which is appointed by the Governor. Chapter 58 also repealed Chapter 436 of the Laws of 2010 which had created a similar program that could not be effectively implemented.

The Authority's Trustees have approved the release of up to $58 million in net earnings, calculated for the period August 30, 2010 through December 31, 2015 as provided in the legislation, for deposit into the Fund. As of December 31, 2015, $41 million has been deposited into the Fund. As of December 31, 2015, the Authority has approved awards of Fund money totaling approximately $30 million to businesses that have proposed eligible projects and has made payments totaling $12 million to such businesses. Payment of these awards is contingent upon the execution of acceptable contracts between the Authority and individual awardees.

Northern New York Power Proceeds Allocation Act

Chapter 545 of the Laws of 2014 enacted the "Northern New York Power Proceeds Act" (NNYPPA). The NNYPPA authorizes the Authority, as deemed feasible and advisable by the Trustees, to deposit "net earnings" from the sale of unallocated St. Lawrence County Economic Development Power (SLCEDP) by the Authority in the wholesale energy market into an account the Authority would administer known as the Northern New York Economic Development Fund (NNY Fund), and to make awards to eligible applicants that propose eligible projects that satisfy applicable criteria. The NNYPPA also establishes a five-member Northern New York Power Allocations Board appointed by the Governor to review applications seeking NNY Fund benefits and to make recommendations to the Authority concerning benefits awards.

SLCEDP consists of up to 20 MW of hydropower from the Authority's St. Lawrence-FDR Power Project which the Authority has made available for sale to the Town of Massena Electric Department ("MED") for MED to sub-allocate for economic development purposes in accordance with a contract between the parties entered into in 2012 (Authority-MED Contract). The NNYPPA defines "net earnings" as the aggregate excess of revenues received by the Authority from the sale of energy associated with SLCEDP by the Authority in the wholesale energy market over what revenues would have been received had such energy been sold to MED on a firm basis under the terms of the Authority-MED contract. For the first 5 years after enactment, the amount of SLCEDP the Authority could use to generate net earnings may not exceed the lesser of 20 MW or the amount of SLCEDP that has not been allocated by the Authority pursuant to the Authority-MED contract. Thereafter, the amount of SLCEDP that the Authority could use for such purpose may not exceed the lesser of 10 MW or the amount of SLCEDP that has not been allocated.

On February 26, 2015, the Authority's Trustees approved the release of funds, of up to $3 million, into the NNY Fund representing "net earnings" from the sale of unallocated SLCEDP into the wholesale energy market for the period December 29, 2014 through December 31, 2015. On January 26, 2016, the Authority's Trustees approved up to an additional $5 million in funds for the period January 1, 2016 through December 31, 2016. As of December 31, 2015, $1 million has been deposited into the Fund and no awards have been made.

(b) Governmental Customers in the New York City Metropolitan Area

In 2005, the Authority and its eleven NYC Governmental Customers, including the Metropolitan Transportation Authority, the City of New York, the Port Authority of New York and New Jersey (Port Authority), the New York City Housing Authority, and the New York State Office of General Services, entered into long-term supplemental electricity supply agreements (Agreements). Under the Agreements, the NYC Governmental Customers agreed to purchase their electricity from the Authority through December 31, 2017, with the NYC Governmental Customers having the right to terminate service from the Authority at any time on three years' notice and, under certain limited conditions, on one year's notice, provided that they compensate the Authority for any above-market costs associated with certain of the resources used to supply the NYC Governmental Customers.

Under the Agreements, the Authority will modify rates annually through a formal rate case where there is a change in fixed costs to serve the NYC Governmental Customers. Except for the minimum volatility price option, changes in variable costs, which include fuel and purchased power, will be captured through contractual pricing adjustment mechanisms. Under these mechanisms, actual and projected variable costs are reconciled and all or a portion of the variance is either charged or credited to the NYC Governmental Customers. The Authority provides the customers with indicative electricity prices for the following year reflecting market-risk hedging options designated by the NYC Governmental Customers. Such market-risk hedging options include a full cost energy charge adjustment ("ECA") pass-through arrangement relating to fuel, purchased power, and NYISO-related costs (including such an arrangement with some cost hedging) and a sharing option where the customers and the Authority will share in actual cost variations as specified in the Agreements. For 2015 and 2014, the NYC Governmental Customers chose a market-risk hedging price option designated an "ECA with hedging" pricing option whereby actual cost variations in variable costs are passed through to the customers as specified above. Under the Agreements, the Authority committed to finance up to $100 million annually over the term of the Agreements for energy efficiency projects and initiatives at such governmental customers' facilities. Amounts financed may exceed $100 million if mutually agreed to by the customers and the Authority. The costs of such projects are recovered from such customers.

The Authority's other Southeastern New York (SENY) Governmental Customers are Westchester County and numerous municipalities, school districts, and other public agencies located in Westchester County (collectively, the "Westchester Governmental Customers"). The Authority has entered a supplemental electricity supply agreement with all 103 Westchester Governmental Customers. Among other things, under the agreement, an energy charge adjustment mechanism is applicable, and customers are allowed to partially terminate service from the Authority on at least two months' notice prior to the start of the NYISO capability periods. Full termination is allowed on at least one year's notice, effective no sooner than January 1 following the one year notice.

In anticipation of the closure of the Authority's Poletti plant in 2010, the Authority, in 2007, issued a nonbinding request for proposals for up to 500 MW of in-city unforced capacity and optional energy to serve the needs of its NYC Governmental Customers. This process, which included approval of the NYC Governmental Customers, resulted in a long-term electricity supply contract in 2008 between the Authority and Astoria Energy II LLC for the purchase of the output of Astoria Energy II, a new 550-MW plant, which was constructed and entered into commercial operation on July 1, 2011 in Astoria, Queens. The costs associated with the contract will be borne by these customers for the life of the Astoria Energy II contract. The Authority is accounting for and reporting this lease transaction as a capital lease in the amount of $1.189 billion as of December 31, 2015, which reflects the present value of the monthly portion of lease payments allocated to real and personal property. The balance of the monthly lease payments represents the portion of the monthly lease payment allocated to operations and maintenance costs which are recorded monthly. Fuel for the plant is provided by the Authority and the costs thereof are being recovered from the NYC Governmental Customers.

HTP Transmission Line

In 2011, the Trustees authorized Authority staff to enter into an agreement with Hudson Transmission Partners, LLC (HTP) for the purchase of capacity to meet the long-term requirements of the Authority's NYC Governmental Customers and to improve the transmission infrastructure serving New York City through the transmission rights associated with HTP's transmission line (the Line) extending from Bergen County, New Jersey in the PJM Interconnection, LLC (PJM) transmission system, to Consolidated Edison Company of New York, Inc.'s (Con Edison) West 49th Street substation in the NYISO. Specifically, the Authority executed a Firm Transmission Capacity Purchase Agreement (FTCPA) with HTP which would provide the Authority with 75% of the Line's 660 MW capacity, or 495 MW, for 20 years. The Authority's capacity payment obligations under the FTCPA began upon the Line's commencement of commercial operation, which occurred on June 3, 2013. Also upon commercial operation, the FTCPA obligates the Authority to reimburse HTP for the cost of interconnection and transmission upgrades in New York and New Jersey associated with the Line and to pay for all remaining upgrade costs as they are incurred. Under the FTCPA, the Authority is obligated to pay the costs of certain interconnection and transmission upgrades associated with the Line, which are estimated to total up to approximately $343 million. As of December 31, 2015, the Authority paid approximately $315 million of such costs related to the interconnection and transmission upgrades.

It is estimated that the revenues derived from the Authority's rights under the FTCPA will not be sufficient to fully cover the Authority's costs under the FTCPA during the initial 20-year term of the FTCPA. Depending on a number of variables, it is estimated that the Authority's under-recovery of costs under the FTCPA could be in the range of approximately $90 million to $110 million per year over the next five years of commercial operation. The Authority has a contract with Consolidated Edison Energy, Inc., an affiliate of Con Edison, to manage the Authority's transmission capacity on the Line and make economical energy transactions.

The Authority's estimated costs relating to HTP do not include Regional Transmission Enhancement Plan (RTEP) cost allocations that are being challenged at FERC, including the RTEP costs that may be allocated to HTP if other parties terminate their PJM transmission rights. The Authority's obligations under the FTCPA include payment of the RTEP charges allocated to HTP in accordance with the PJM transmission tariff. PJM's RTEP cost allocation methodology for certain upgrades, such as the Bergen-Linden Corridor and Edison Rebuild projects, is being challenged at FERC by Con Edison, the Authority and other parties. Under PJM's current methodology, HTP could be allocated approximately $121 million in future RTEP charges. Depending on a variety of other factors, including the outcome of FERC's review and whether Con Edison or other parties decide to terminate their PJM transmission rights, HTP could be allocated substantially more or less RTEP costs. Any RTEP costs relating to the Bergen-Linden Corridor and Edison Rebuild projects would be paid over a number of years once construction of the improvements commences, which is expected in 2017.

(c) Small, Clean Power Plants and 500-MW Plant

To meet capacity deficiencies and ongoing load requirements in the New York City metropolitan area that could also adversely affect the statewide electric pool, the Authority has in operation, the Small, Clean Power Plants (SCPPs), consisting of eleven natural-gas-fueled combustion-turbine electric units, each having a nameplate rating of 47 MW at six sites in New York City and one site in the service region of LIPA.

As a result of the settlement of litigation relating to certain of the SCPPs, the Authority has agreed under the settlement agreement to cease operations at one of the SCPP sites, which houses two units, under certain conditions and if the Mayor of New York City directs such cessation. No such cessation has occurred.

(d) Legal and Related Matters

St. Regis Litigation

In 1982 and again in 1989, several groups of Mohawk Indians, including a Canadian Mohawk tribe, filed lawsuits against the State, the Governor of the State, St. Lawrence and Franklin counties, the St. Lawrence Seaway Development Corporation, the Authority and others, claiming ownership to certain lands in St. Lawrence and Franklin counties and to Barnhart, Long Sault and Croil islands (St. Regis litigation). These islands are within the boundary of the Authority's St. Lawrence-FDR Project and Barnhart Island is the location of significant Project facilities. Settlement discussions were held periodically between 1992 and 1998. In 1998, the Federal government intervened on behalf of all Mohawk plaintiffs.

The parties agreed to a land claim settlement, dated February 1, 2005, which if implemented would include, among other things, the payment by the Authority of $2 million a year for 35 years to the tribal plaintiffs, the provision of up to 9 MW of low cost Authority power for use on the reservation, the transfer of two Authority-owned islands; Long Sault and Croil, and a 215 acre parcel on Massena Point to the tribal plaintiffs, and the tribal plaintiffs withdrawing any judicial challenges to the Authority's new license, as well as any claims to annual fees from the St. Lawrence FDR project.

The legislation required to effectuate the settlement was never enacted and the litigation was reactivated. In November 2006, all defendants moved to dismiss the three Mohawk complaints as well as the United States' complaint based on the lengthy delay in asserting the land claims (i.e., the laches defense).

On September 28, 2012, the U.S. Magistrate recommended dismissal of all land claims brought against the Authority by three St. Regis tribal factions as well as the Federal government. The Magistrate upheld the Authority's laches defense and also recommended dismissal on the same grounds of all claims by the same plaintiffs against the other defendants relating to all but one of the other challenged mainland parcels.

In orders dated July 2013, the Judge assigned to the case accepted the Magistrate's recommendation and granted the Authority judgment on the pleadings. The Judge accepted all but one of the Magistrate's other recommendations, which results in dismissal of all land claims against the other defendants except those relating to two mainland parcels. Barring an appeal by the plaintiffs, all claims against the Authority have been dismissed and the lawsuit against the Authority is concluded.

The State and the St. Regis Mohawk Tribe (Tribe) have been discussing a settlement of the land claims, as well as other issues between the State and the Tribe. On May 28, 2014, the State of New York, the Tribe, St. Lawrence County and the Authority executed a Memorandum of Understanding (St. Regis MOU) that outlined a framework for the possible settlement of all the St. Regis land claims. In the St. Regis MOU, the Authority endorses a negotiated settlement that, among other terms and conditions, would require the Authority to pay the Tribe $2 million a year for 35 years and provide up to 9 MW of its hydropower at preference power rates to serve the needs of the Tribe's Reservation. The St. Regis MOU would require an Act of Congress to forever extinguish all Mohawk land claims prior to such a settlement becoming effective.

Any settlement agreement, including the terms endorsed in the St. Regis MOU, would in the first instance need to be negotiated and agreed upon by all parties to the St. Regis litigation. In addition, on or before a final settlement of the litigation, all parties to the St. Regis litigation would have to agree to a settlement of all outstanding claims, including parties that did not execute the St. Regis MOU, such as the two other Mohawk groups, the federal government and Franklin County. Before any settlement becomes effective and the Authority is obligated to make any payments contemplated by the St. Regis MOU, however, federal and state legislation must be enacted which approves the settlement and extinguishes all Mohawk land claims.

Tropical Storm Irene

In August 2012, the County of Schoharie, eight towns and villages therein, and one school district ("Municipalities") initiated a lawsuit in Schoharie County Supreme Court against the Authority involving the heavy rains and widespread flooding resulting from Tropical Storm Irene's passage through the Northeast in August 2011. The Municipalities essentially alleged that they sustained property damage and lost tax revenues resulting from lowered assessed valuation of taxable real property due to the Authority's negligence in its operations at the Blenheim-Gilboa pumped-storage hydroelectric facility located on the Schoharie Creek in Schoharie County, New York. The Municipalities complaint seeks judgment "in an amount to be determined at trial with respect to each [of the ten plaintiffs] in the sum of at least $5,000,000, plus punitive damages in the sum of at least $5,000,000" as well as attorney fees. As of October 31, 2014, all of the Municipalities have discontinued their lawsuits against the Authority.

In February 2012, a private landowner filed a similar lawsuit in such court on behalf of a park campground and makes nearly the same allegations with the plaintiff seeking at least $5 million in damages, at least $5 million in punitive damages, as well as attorney's fees. In December 2012, the Authority was served with a third lawsuit by five plaintiffs arising out of Tropical Storm Irene and the Authority's operation of its Blenheim-Gilboa Pumped Storage Project. Plaintiffs previously filed timely notices of claim. The five plaintiffs include three individual landowners and two corporations. The three individual landowners own properties located in Schoharie, NY and Central Bridge, NY and are claiming damages in the aggregate amount of $1.55 million. The two corporations also own properties in Schoharie, NY and are claiming damages in the aggregate amount of $1.05 million. On October 27, 2014, the Court granted NYPA's motion to change the place of trial. The Court directed the Clerk of Court to transfer the proceedings to Albany County. Discovery is ongoing in these two remaining actions, which are joined for discovery.

While the Authority cannot presently predict the outcome of this or any related litigation, the Authority believes that it has meritorious defenses and positions with respect thereto. However, adverse decisions of a certain type in the matters discussed above could adversely affect Authority operations and revenues. While the Authority is unable to predict whether and to what extent any lawsuits will be initiated based on notices of claim or similar claims that may be filed in the future, or the outcome of any litigation, the Authority believes that it has meritorious defenses and positions with respect thereto. Conversely, adverse decisions of a certain type in the matters discussed above could adversely affect Authority operations and revenues.

Other Actions or Claims

In January 2014, one of the Sound Cable Project underwater cables was severely impacted by an anchor and /or anchor chain dropped by one or more vessels, causing the entire electrical circuit to fail and the circuit to trip. As a result of the impact to the cable, dielectric fluid was released into Long Island Sound. The Authority incurred approximately $33 million in costs arising from this incident. At December 31, 2015, the statement of net position includes approximately $15 million in other long-term assets, reflecting the cost of damages net of insurance recoveries. The Authority believes that it will be able to recover the full amount of its damages through legal proceedings, insurance coverage and contractual obligations.

In addition to the matters described above, other actions or claims against the Authority are pending for the taking of property in connection with its projects, for negligence, for personal injury (including asbestos-related injuries), in contract, and for environmental, employment and other matters. All of such other actions or claims will, in the opinion of the Authority, be disposed of within the amounts of the Authority's insurance coverage, where applicable, or the amount which the Authority has available therefore and without any material adverse effect on the business of the Authority.

(e) New York State Budget and Other Matters

Section 1011 of the Power Authority Act (Act) constitutes a pledge of the State to holders of Authority obligations not to limit or alter the rights vested in the Authority by the Act until such obligations together with the interest thereon are fully met and discharged or unless adequate provision is made by law for the protection of the holders thereof. Bills are periodically introduced into the State Legislature, which propose to limit or restrict the powers, rights and exemption from regulation that the Authority currently possesses under the Act and other applicable law or otherwise would affect the Authority's financial condition or its ability to conduct its business, activities, or operations, in the manner presently conducted or contemplated by the Authority. It is not possible to predict whether any such bills or other bills of a similar type which may be introduced in the future will be enacted.

In addition, from time to time, legislation is enacted into New York law that purports to impose financial and other obligations on the Authority, either individually or along with other public authorities or governmental entities. The applicability of such provisions to the Authority would depend upon, among other things, the nature of the obligations imposed and the applicability of the pledge of the State set forth in Section 1011 of the Act to such provisions. There can be no assurance that in the case of each such provision, the Authority will be immune from the financial obligations imposed by such provision. Examples of such legislation affecting only the Authority include legislation, discussed below and elsewhere herein, relating to the Authority's voluntary contributions to the State, the Authority's temporary transfer of funds to the State, and contributions and transfers to fund temporary and permanent programs administered by the Authority and other State entities.

Budget

The Authority is requested, from time to time, to make financial contributions or transfers of funds to the State. Any such contribution or transfer of funds must (i) be authorized by law (typically, legislation enacted in connection with the State budget), and (ii) satisfy the requirements of the Bond Resolution. The Bond Resolution requirements to withdraw moneys "free and clear of the lien and pledge created by the (Bond) Resolution" are as follows: (1) such withdrawal must be for a "lawful corporate purpose as determined by the Authority," and (2) the Authority must determine "taking into account, among other considerations, anticipated future receipt of Revenues or other moneys constituting part of the Trust Estate, that the funds to be so withdrawn are not needed" for (a) payment of reasonable and necessary operating expenses, (b) an Operating Fund reserve for working capital, emergency repairs or replacements, major renewals, or for retirement from service, decommissioning or disposal of facilities, (c) payment of, or accumulation of a reserve for payment of, interest and principal on senior debt, or (d) payment of interest and principal on subordinate debt.

In May 2011, the Authority's Trustees adopted a policy statement (Policy Statement) which relates to, among other things, voluntary contributions, transfers, or other payments to the State by the Authority after that date. The Policy Statement provides, among other things, that in deciding whether to make such contributions, transfers, or payments, the Authority shall use as a reference point the maintenance of a debt service coverage ratio of at least 2.0, in addition to making the other determinations required by the Bond Resolution. The Policy Statement may at any time be modified or eliminated at the discretion of the Authority's Trustees.

Legislation enacted into law, as part of the 2000-2001 State budget, as amended up to the present time, has authorized the Authority as deemed feasible and advisable by the trustees, to make a series of voluntary contributions into the State treasury in connection with the PFJ Program and for other purposes as well. The PFJ Program, which had been extended to June 30, 2012, has ended and was replaced by the RNYPP, as discussed above in note 12(a) "Recharge New York Power Program" of the notes to the financial statements. Cumulatively through December 31, 2012, the Authority has made voluntary contributions to the State totaling $475 million in connection with the ended PFJ Program.

In 2015 and 2014, the Authority made contributions of $90 million to the State in each year that were not related to the PFJ Program and which were recorded as nonoperating expenses in the year ended December 31, 2015 and 2014 statements of revenues, expenses and changes in net position. These contributions were authorized by the Authority's Trustees and were consistent with the related State fiscal year budgets. The 2015 contributions included $23 million that was paid to the State's General Fund and $67 million that was paid to Empire State Development Corporation (ESD). The 2014 contributions of $90 million were made in furtherance of ESD's statewide economic development initiatives. Cumulatively, between January 2008 and December 31, 2015, the Authority has made voluntary contributions to the State totaling $672 million unrelated to the PFJ program.

In addition, as part of the State's Enacted Budget for State fiscal year 2015-16, the Authority, as deemed feasible and advisable by its Trustees, is authorized and directed to consider for payment by March 31, 2016, the remaining contribution of $65 million to the State treasury to the credit of the General Fund, or as otherwise directed in writing by the Director of the Budget.

In addition to the voluntary contributions described above, Section 3 of Subpart H of Part C of Chapter 20 of the Laws of 2015 (Chapter 20), which became effective upon enactment on June 26, 2015, authorizes and directs the Authority, as deemed feasible and advisable by its trustees, to provide up to $6 million in additional contributions to the State's general fund, or as otherwise directed in writing by the State's director of the budget for the state fiscal year commencing April 1, 2015.

The 2016-17 Executive Budget contains a provision authorizing the Authority as deemed "feasible and advisable by its trustees" to transfer to the State treasury to the credit of the general fund $20 million for the State fiscal year commencing April 1, 2016, the proceeds of which will be utilized to support energy-related State activities. The Authority cannot predict what additional contributions to the State may be authorized in the future.

On January 13, 2016, the Governor submitted, as part of his Executive Budget Proposal, legislation authorizing the transfer of the New York State Canal Corporation (Canal Corporation) from the New York State Thruway Authority (Thruway Authority) to the Authority. If such legislation were enacted into law in its current form, the Canal Corporation would cease to be a subsidiary of the Thruway Authority and would become a subsidiary of the Authority. The proposed legislation authorizes the Authority to transfer moneys, property and personnel to the Canal Corporation and also authorizes the Authority to issue subordinated debt for the purposes of financing the construction, reconstruction, development and improvement of the New York State Canal system. The proposed legislation provides that the transfer will be effective on January 1, 2017. However, such legislation also authorizes the Authority to reimburse the Thruway Authority for Canal System expenses for the interim period of April 1, 2016 through January 1, 2017. The Authority has not determined what the interim or long term level of the Authority's financial support to the Canal Corporation would be if the legislation were enacted in its current form. For fiscal year 2014, the Canal Corporation's operating expenses were $65.9 million and operating revenues were $2.3 million with the difference provided by the Thruway Authority or other resources. For fiscal year 2015, the Canal Corporation's capital program was budgeted at $52 million with funding expected from various sources. Certain information relating to the Canal Corporation's capital and operating expenses and budgets and the level of financial assistance provided to the Canal Corporation by the Thruway Authority is included in the Thruway Authority's audited financial statements, monthly financial reports and budgets, copies of which are available at the Thruway Authority's website: thruway.ny.gov. Such information is not incorporated in this report and the Authority assumes no responsibility for the accuracy thereof.

Temporary Asset Transfers

In addition to the authorization for voluntary contributions, as a result of budget legislation enacted in February 2009, the Authority was requested to provide temporary asset transfers to the State of funds held in reserves. Pursuant to the terms of a Memorandum of Understanding dated February 2009 (MOU) between the State, acting by and through the State's Director of Budget, and the Authority, the Authority agreed to transfer approximately $215 million associated with its Spent Nuclear Fuel Reserves (Asset B) by March 27, 2009. The Spent Nuclear Fuel Reserves are funds that had been set aside for payment to the federal government sometime in the future when the federal government accepts the spent nuclear fuel for permanent storage (see note11(b) "Nuclear Fuel Disposal". The MOU provides for the return of these funds to the Authority, subject to appropriation by the State Legislature and the other conditions described below, at the earlier of the Authority's payment obligation related to the transfer and disposal of the spent nuclear fuel or September 30, 2017. Further, the MOU provides for the Authority to transfer within 180 days of the enactment of the 2009-2010 State budget $103 million of funds set aside for future construction projects (Asset A), which amounts would be returned to the Authority, subject to appropriation by the State Legislature and the other conditions described below, at the earlier of when required for operating, capital or debt service obligations of the Authority or September 30, 2014. In February 2009, the Authority's Trustees authorized the execution of the MOU relating to the temporary transfers of Asset B ($215 million) and Asset A ($103 million) and such transfers were made in March 2009 and September 2009, respectively, following Trustee approval.

The MOU provides that the obligation of the State to return all or a portion of an amount equal to the moneys transferred by the Authority to the State is subject to annual appropriation by the State Legislature. Further, the MOU provides that as a condition to any such appropriation for the return of the moneys earlier than September 30, 2017 for the Spent Nuclear Fuel Reserves and earlier than September 30, 2014 for the construction projects, the Authority must certify that the monies available to the Authority are not sufficient to satisfy the purposes for which the reserves, which are the source of the funds for the transfer, were established.

In lieu of interest payments, the State has waived certain future payments from the Authority to the State. The waived payments include the Authority's obligation to pay until September 30, 2017 the amounts to which the State is entitled under a governmental cost recovery process for the costs of central governmental services. These payments would have been approximately $5 million per year based on current estimates but the waiver is limited to a maximum of $45 million in the aggregate during the period. Further, the obligation to make payments in support of certain State park properties and for the upkeep of

State lands adjacent to the Niagara and St. Lawrence power plants is waived from April 1, 2011 to March 31, 2017. These payments would have been approximately $8 million per year but the waiver would be limited to a maximum of $43 million for the period. The present value of the waivers approximates the present value of the forgone interest income.

On April 24, 2014, the Authority and the State executed an Amendment to the MOU which provides that the State shall, subject to appropriation by the State Legislature, return the $103 million (Asset A) in five installments in the following amounts and by no later than September 30 of each of the following State fiscal years: (1) $18 million for State Fiscal Year 2014-2015; (2) $21 million for State Fiscal Year 2015-2016; (3) $21 million for State Fiscal Year 2016-2017; (4) $21 million for State Fiscal Year 2017-2018; and (5) $22 million for State Fiscal Year 2018-2019. By its terms, the Amendment to the MOU became effective when it was approved and ratified by the Authority's Board of Trustees on July 29, 2014. The Authority has received installment payments of $39 million as of December 31, 2015. The Assets A and B transfers are reported in miscellaneous receivable and other ($21 million as of both December 31, 2015 and 2014) and in other noncurrent assets ($258 million and $279 million at December 31, 2015 and December 31, 2014, respectively) in the statements of net position.

New York State-Upstate Fuel Reserve Initiative

In response to significant storm events that damaged fuel terminals and shut down gasoline suppliers and stations, creating gaps in the supply of gasoline for use by first responders and utility repair crews, and hampered rescue and recovery efforts, the State, in 2013, commenced a strategic fuel reserve initiative, consisting of a Downstate Strategic Gasoline Reserve and an Upstate Strategic Fuel Reserve (USFR), which are being administered by the New York State Research and Development Authority (NYSERDA). The Authority supplies power to hundreds of public and private entities throughout Upstate NY, and has an interest in seeing that safe and reliable electric service is restored and maintained in the event of a storm or other emergency, and that first responders and utility crews, including personnel who would perform repair work on Authority and other utility assets that are necessary for the transmission of power to Authority customers, can access fuels needed for rescue, recovery and restoration of utility restoration efforts. Accordingly, in October 2014, the Authority transferred $10 million to NYSERDA to support the USFR initiative.

(f) Relicensing of Niagara

By order issued March 15, 2007, FERC issued the Authority a new 50-year license for the Niagara project effective September 1, 2007. In doing so, FERC approved six relicensing settlement agreements entered into by the Authority with various public and private entities. By decision dated March 13, 2009, the U.S. Court of Appeals for the District of Columbia Circuit denied a petition for review of FERC's order filed by certain entities, thereby concluding all litigation involving FERC's issuance of the new license. In 2007, the Authority estimated that the capital cost associated with the relicensing of the Niagara project would be approximately $495 million. This estimate does not include the value of the power allocations and operation and maintenance expenses associated with several habitat and recreational elements of the settlement agreements. As of December 31, 2015, the balance in the recorded liability associated with the relicensing on the statement of net position is $297 million ($27 million in current and $270 million in other noncurrent liabilities). As of December 31, 2014, the balance in the recorded liability associated with the relicensing on the statement of net position is $301 million ($22 million in current and $279 million in other noncurrent liabilities).

In addition to internally generated funds, the Authority issued additional debt obligations in October 2007 to fund, among other things, Niagara relicensing costs. The costs associated with the relicensing of the Niagara project, including the debt issued therefore, were incorporated into the cost-based rates of the project beginning in 2007.

(g) St. Lawrence-FDR Relicensing – Local Task Force Agreement

In 2003, FERC approved a Comprehensive Relicensing Settlement Agreement ("CRSA") reached by the Authority and numerous parties and issued the Authority a new 50-year license for the St. Lawrence-FDR Project ("St. Lawrence-FDR License"). The CRSA incorporated a Relicensing Agreement between the Authority and the Local Government Task Force ("LGTF") which provided for a review of said agreement every ten years to address issues not contemplated at the time of relicensing in 2003. Following the review that began in 2013, the Authority and the LGTF entered into an agreement effective May 4, 2015 (the "LGTF Ten-Year Review Agreement") in which the Authority agreed to certain actions, including to: (1) fund an economic development strategic marketing study; (2) temporarily reduce electricity costs for certain farms and businesses; (3) initiate an energy efficiency and renewable energy program for the LGTF communities; and (4) enhance certain recreational facilities in the LGTF communities. On March 26, 2015, the Authority's Trustees authorized expenditures of up to $45.1 million for the purpose of implementing the commitments in the LGTF 10-Year Review Agreement.

(h) Regional Greenhouse Gas Initiative and Air Pollution Rule

The Regional Greenhouse Gas Initiative (the "RGGI") is a cooperative effort by Northeastern and Mid-Atlantic states, including New York, to hold carbon dioxide emission levels steady from 2009 to 2014 and then reduce such levels by 2.5% annually in the years 2015 to 2018 for a total 10% reduction. Central to this initiative is the implementation of a multi-state cap-and-trade program with a market-based emissions trading system. The program requires electricity generators to hold carbon dioxide allowances in a compliance account in a quantity that matches their total emissions of carbon dioxide for the compliance period. The Authority's Flynn plant, the SCPPs, and 500-MW Plant are subject to the RGGI requirements as is the Astoria Energy II plant. The Authority has participated in program auctions commencing in September 2008 and expects to recover RGGI costs through its power sales revenues. Beginning 2014, the number of allowances offered in the auction by RGGI cap and trade program was reduced (from allowances covering 165 million tons of carbon dioxide emissions in 2013 to 91 million tons in 2014), and will decline by 2.5% each year from 2015 through 2020. This reduction has increased the price for carbon dioxide allowances, which the Authority acquires to cover operation of its fossil-fueled power plants and the Astoria Energy II plant. The Authority is monitoring federal legislation and proposed programs that would impact RGGI.

In 2013, President Obama sent a memorandum to the Environmental Protection Agency (the "EPA") on "Power Sector Carbon Pollution Standards" (the "Presidential Memorandum") as part of the President's Climate Action Plan. The Presidential Memorandum requires the EPA to propose carbon pollution standards for power plants. On August 3, 2015, the EPA met a milestone by releasing its final Clean Power Plan Rule for existing power plants [Clean Air Act 111(d)]. The objective is to reduce by 2030 carbon pollution (carbon dioxide emissions) nationwide from the power sector (plants in operation before December 31, 2012) by 32% from 2005 levels. Under the EPA's regulations for existing sources, the State will have one year to submit its implementation plan to the EPA. The State will need to be compliant with carbon dioxide reduction starting in 2022, with the state's final goal to be met in 2030. The Authority continues to monitor developments in this area, including challenges to the EPA's implementation of the Clean Power Plan Rule.

During 2011, the EPA issued a series of rulings to establish the Cross-State Air Pollution Rule ("CSAPR"). The CSAPR establishes emission allowance budgets for sulfur dioxide and nitrogen oxides for eastern states, including New York, and requires power plants in those states to hold allowances to cover their emissions. Certain trading of allowances is authorized under the CSAPR. Following decisions by the D.C. Circuit and the U.S. Supreme Court, the EPA issued an interim final rule on November 21, 2014 to amend the compliance deadline from 2012 and 2013 to 2015 and 2016 for CSAPR's Phase 1 emissions budgets, and from 2014 to 2017 for Phase 2 emissions budgets and assurance provisions. On July 28, 2015, the

D.C. Circuit remanded part of CSAPR to the EPA for reconsideration, finding that the EPA erred in 2014 sulfur dioxide and ozone budgets for 13 states by imposing uniform emission reductions instead of assessing each upwind state's contribution (the D.C. Circuit found the result is over-control of emissions in those states based on emissions budgets). While the emissions budgets were not vacated, the DC Circuit remanded the matter for EPA to develop compliant regulations. On December 3, 2015, the EPA published Cross-State Air Pollution Rule Update for the 2008 Ozone National Ambient Air Quality Standards and requested comments by February 1, 2016. The proposal requires further reduction in summertime (ozone season) NOx emissions from power plants in 23 states, including New York. The Authority is following the development of this CSAPR update. The Authority believes it can continue to operate its fossil-fueled plants within the allocated allowances.

(i) Wind and Solar Initiatives

The Long-Island-New York City Offshore Wind Collaborative (Collaborative), which consists of the Authority, Consolidated Edison of New York, and the Long Island Power Authority (LIPA), is evaluating the potential development of between 350 MW and 700 MW of offshore wind. The Collaborative is currently planning the next steps in project evaluation. On September 15, 2011, the Authority, on behalf of the Collaborative, submitted an application to the BOEM for a commercial lease on the Outer Continental Shelf approximately 13 nautical miles off the south shore of Long Island. Pursuant to federal regulations, the federal Bureau of Ocean Energy Management (BOEM) issued a request in January 2013 to determine whether there is competitive interest in wind power development in federal waters off the coast of the Rockaway Peninsula and Long Island. Two potential competitors indicated interest in obtaining a commercial lease for possible offshore wind projects situated in the Collaborative’s proposed lease site. BOEM may administer an auction to determine an award of the commercial lease site.

In March 2012, the Authority’s Trustees authorized up to $30 million in funding over five years for a solar market acceleration program involving solar research, training, and demonstration projects. As of December 31, 2015, the Authority has approved the award of contracts with cumulative value of up to approximately $15 million.

(j) Construction Contracts and Net Operating Leases

Estimated costs to be incurred on outstanding contracts in connection with the Authority’s construction programs aggregated approximately $492 million at December 31, 2015.

Noncancelable operating leases primarily include leases on real property (office and warehousing facilities and land) utilized in the Authority’s operations. Rental expense for years ended December 31, 2015 and 2014 was $2.2 million and $1.6 million, respectively. Commitments under noncancelable operating leases are as follows:

	Total	2016	2017	2018	2019	2020	Thereafter
				(In millions)			
Operating leases	$ 3.8	0.7	0.7	0.7	0.6	0.4	0.7

(k) Other Developments

New York Energy Highway

In January 2012, the Governor of New York announced the New York Energy Highway initiative, which is envisioned as a public-private partnership to upgrade and modernize the State's electric power system. The Governor formed a task force comprised of various State officials to oversee implementation of the initiative (Task Force) which is co-chaired by the Authority's President and Chief Executive Officer. In April 2012, the Task Force issued a request for information seeking ideas and proposals in furtherance of the initiative. Approximately 85 organizations responded to the Task Force's request for information and the responses included a large number of different generation and transmission project proposals. Based on the response of all these organizations, the Energy Highway Task Force issued an action plan in October 2012. The resulting Energy Highway Blueprint, calling for public and private investments in the State's energy system of about $5.7 billion over the next five to 10 years, proposed 13 specific actions, divided among four major categories: Expand and Strengthen the System, Accelerate Construction and Repair, Support Clean Energy and Technology Innovation.

In November 2012, the New York Public Service Commission (NYPSC) announced new proceedings addressing various actions described in the Blueprint including (i) the initiation of electric transmission upgrades to move excess power from upstate to downstate (AC Transmission), (ii) the creation of a contingency plan to prepare for a large generator retirement (Generation Retirement Contingency Plan) and (iii) the expansion of natural gas delivery to homeowners and businesses in New York State.

In response to the request for information and the Generation Retirement Contingency Plan and AC Transmission proceedings, the New York Transmission Owners (NYTOs), comprised of the State's largest private utilities, LIPA, and the Authority, indicated that they were exploring the creation of a new Statewide transmission entity (NY Transco) to pursue development, construction, operation, and ownership of new transmission projects. The NYTOs proposed to the Task Force and to the NYPSC several transmission projects that could be undertaken by a NY Transco entity. Participation of the Authority in the NY Transco would be contingent on the enactment of legislation by the State that enables the Authority to participate. As of the 2015 legislative session, which ended in June 2015, such enabling legislation has not been passed. On November 24, 2014, affiliates of the NYTOs formed a transmission entity (Four-Party Transco) that does not include LIPA or the Authority but would permit their participation should the necessary enabling legislation be passed.

In its November 4, 2013 Generation Retirement Contingency Plan Order, the NYPSC selected three transmission projects (TOTS projects) to be built by Consolidated Edison, New York State Electric and Gas (NYSEG) and the Authority. The NYPSC also requested that the NYTOs seek Federal Energy Regulatory Commission (FERC) approval for the three TOTS projects. On December 4, 2014, the NYTOs on behalf of themselves and the Four-Party Transco filed applications at FERC to permit the transfer of certain transmission assets to the Four-Party Transco. The Four-Party Transco also filed an application for cost allocation and recovery for five projects, including the three TOTS projects. Though the Authority and other interested parties contested the proposed cost allocation methodology, the parties engaged in a settlement process and on November 5, 2015, the Four-Party Transco filed an uncontested settlement to resolve the cost allocation methodology for the three TOTS projects, which is pending final approval before FERC. The Authority, which is co-developing one of the TOTS projects with NYSEG, has filed its own proposal at FERC to recover the costs of its portion of that TOTS project. The Authority proposed the same cost allocation methodology that the parties agreed upon in the Four-Party Transco settlement filed at FERC.

Build Smart NY Initiative

On December 28, 2012, the Governor of New York issued Executive Order No. 88 (EO 88) directing state agencies collectively to reduce energy consumption in state-owned and managed buildings by 20 percent within seven years – an initiative designed to produce significant savings for New York taxpayers, generate jobs, and significantly reduce greenhouse gas emissions. To meet this initiative, the Governor launched Build Smart NY, a plan to strategically implement EO 88 by accelerating priority improvements in energy performance. The Authority has offered to provide $450 million in low-cost financing for this initiative for state owned buildings and an additional $350 million for towns and municipalities. Such low-cost financing would be funded by proceeds of the Authority's commercial paper or another form of debt. The Authority's costs of financing would be recovered from the energy efficiency customers in this program. The Authority has established a central management and implementation team which designed implementation guidelines milestones and data collection and analysis systems to support the program. The team conducts routine outreach and meetings with affected state agencies and has commenced the implementation phase of the Build Smart NY program. As of December 31, 2015, the Authority has in aggregate provided approximately $204 million in financing for energy efficiency projects at State agencies and authorities covered by EO 88.

Energy Efficiency Market Acceleration Program

In June 2012, the Authority's Trustees authorized up to $30 million in funding over five years for an energy efficiency market acceleration program involving energy efficiency research, demonstration projects, and market development. As of December 31, 2015, the Authority's Trustees have approved the award of contracts with a cumulative value of up to approximately $26 million.

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Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

The Board of Trustees
Power Authority of the State of New York

We have audited, in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Power Authority of the State of New York, (the Authority), which comprise the statements of net position as of December 31, 2015 and 2014, and the related statements of revenues, expenses, changes in net position and cash flows for the years then ended, and the related notes to the financial statements, and have issued our report thereon dated March 29, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements as of and for the year ended December 31, 2015, we considered the Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported herein under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

New York, NY
March 29, 2016

REQUIRED SUPPLEMENTARY INFORMATION
(UNAUDITED)

New York Power Authority

Required Supplementary Information

(Unaudited)

Schedule of Funding Progress for the Retiree Health Plan

($ in millions)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL)--- Projected Unit Credit Method (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
January 1, 2014	$ 422	$ 575	$ 153	73%	$ 145	105%
January 1, 2012	283	517	234	55	143	163
January 1, 2010	218	400	182	55	141	129

In 2007, a trust for the Authority's OPEB obligations was funded with an initial amount of $100 million. This amount was reflected as of the 1/1/08 Actuarial Valuation Date.

New York Power Authority

Required Supplementary Information

(Unaudited)

Schedules Relating to the Employees' Retirement System Pension Plan

($ in millions)

Schedule of Proportionate Share of the Net Pension Liability

As of March 31,	Proportion of the Net Pension Liability (Asset) Percentage	Proportionate Share of the Net Pension Liability (Asset)	Covered Employee Payroll	Proportionate Share of the Net Pension Liability (Asset) as a percentage of Covered Payroll	Plan Fiduciary Net Position as a percentage of the Total Pension Liability
2015	0.59%	$20	$150	13.3%	97.9%
2014	0.60	27	148	18.2	97.2

Schedule of Contributions

Year Ending December 31,	Actuarially Required Contribution	Actual Contribution	Contribution (Excess) Deficiency	Covered Employee Payroll	Contribution as a Percentage of Covered Payroll
2015	$ 25	$ 25	$ –	$ 150	17%
2014	28	28	–	148	19
2013	29	29	–	146	20
2012	27	27	–	146	19
2011	21	21	–	141	15
2010	17	17	–	145	12
2009	10	10	–	139	7
2008	12	12	–	139	9
2007	12	12	–	133	9
2006	13	13	–	131	10