

~~September 28, 2010~~

January 31, 2011

Exhibit "AB"

New York Power Authority
Governing Policy for Energy Risk Management

Revision Date: ~~September 28, 2010~~January 31, 2012

Superseding: Trustee Resolution & Policy of ~~January 31,~~

~~2006~~September 28, 2010

ARTICLE I. PURPOSE OF THE ENERGY RISK MANAGEMENT PROGRAM

Section 1.01 Introduction

The New York Power Authority (“NYPA “or “the Authority”) and its customers are routinely exposed to energy commodity price risk in the conduct of operations. In most cases price and volume variability impose a substantial and direct risk (or opportunity) to the goals of NYPA’s business units as well as to their competitive posture. Management of these risks is important to our success and our customers’ wellbeing. This Governing Policy for Energy Risk Management (“Policy”) sets forth the philosophy, framework, and delegation of authority necessary to govern NYPA’s activities related to its energy risk management program (“Program”).

NYPA will conduct risk management activities in a manner that supports NYPA’s mission, mitigates energy-market exposure related to price and volume variability, and prevents unauthorized financial risk, including counterparty risk. Subordinate to those goals, the objective of cost reduction and the achievement of financial goals will be pursued within the constraints stated herein and as further delineated by management. All Program objectives and activities will be conducted in accordance with this Policy. Controls and procedures to be further delineated by management shall be in conformance with this Policy.

Section 1.02 Scope and Objectives

The objectives of the program are: to identify exposures to energy price volatility as well as volumetric risk; to quantify the potential impact on the Authority’s customers and its own financial condition, including the attendant credit risks; and to monitor and mitigate those exposures where they might exceed management-determined risk tolerances while maintaining adequate flexibility to improve financial performance.

The successful management of NYPA's resources as outlined in its mission statement requires predictability in financial performance related to its core business dealings. Hedging activities will be conducted to secure more certainty in this regard. The diligent measurement and awareness of risk factors will enable both enhancement of operating decisions and improved extraction of value from physical assets, thereby enhancing financial performance.

This Policy applies to all forward¹ transactions for electrical energy, capacity, ancillary services, transmission rights, natural gas, fuel oil, traded emissions, environmental attributes and other energy-market products used for generation ~~or~~ the fulfillment of customer load obligations or related requirements. The Policy governs forward physical supplies, sales and financial derivatives that impact NYPA's risk exposures in the energy market. ~~Forward~~ ERMC delegation of transaction authority for forward transactions shall be for no more than four (4) years beyond the last day of the month in which the transaction is entered. Transactions of more than four (4) years term, as well as competitive solicitations relating to such transactions require the prior approval of the Trustees.

This Policy does not govern: spot² transactions for the purchase or sale of natural gas, natural gas transportation, fuel oil and emissions allowances, including CO₂, NO_x and SO₂, transactions with the New York Independent System Operator ("NYISO"), including the bidding of generator energy and capacity, and the scheduling of load; nor transactions related to strategic procurement.

¹ "Forward" refers to all periods beyond the current month.

² "Spot" refers to transactions for physical commodities, with delivery typically during the same month in which they are transacted. In certain cases, where transactions occur later in the month, commodity delivery may occur in the following month.

NYPA will operate under a "non-speculative" philosophy. Hedging will be conducted with a clear recognition of the hierarchy of the following risk management objectives:

1. **Match Core Business Objectives:** Secure fixed or floating price structures or related options on energy-market commodities associated with generation or load-serving requirements.

Fixed-price commitments shall not be executed for volumes in excess of high-confidence volume forecasts, including customer requirements and estimates of generating assets' supply and sales. The nature of derivative obligations shall be no more firm than the certainty of volumetric expectations, using options to secure financial rights without obligation where volumes are substantially uncertain.

2. **Mitigate Risk:** Given volatile energy markets, manage energy and energy-related product costs and revenues toward the mitigation of unfavorable results and the promotion of results within acceptable boundaries.
3. **Improve Financial Performance:** Where practical and in deference to objectives #1 and #2, reduce costs or increase revenues relative to defined targets and/or budgets by securing market positions or realigning existing hedge positions as deemed favorable.

ARTICLE II. ENERGY RISK MANAGEMENT POLICY

Section 2.01 Delegation of Authorities

a) Board of Trustees

This Policy has been established by the Board of Trustees ("Trustees") and the Trustees must approve any amendments to this Policy.

b) Executive Risk Management Committee

Subject to Paragraph (c) below, an Executive Risk Management Committee ("ERMC") is established by this Policy as management's controlling authority with respect to energy market

risk and hedging activities; the ERMC shall be governed by the provisions herein.

- The ERMC shall consist of five (5) members, including four (4) members appointed from NYPA’s executive corps by the CEO;
- It shall be chaired by the Chief Financial Officer (“CFO”); or, in the absence of the “CFO”, another member delegated this responsibility by the “CFO”;
- A quorum shall consist of any three (3) members including the chair;
- Actions of the ERMC shall be authorized by an affirmative vote of a simple majority of appointed members.

The “ERMC” is hereby charged with the following responsibilities, and necessary authorities are conveyed accordingly:

1. To ensure that all energy market hedging activities are conducted in accordance with this Policy;
2. To establish management procedures (“Procedures”) for the administration of the Program, including:
 - Hedge strategy formulation and execution protocols
 - Permissible risk-mitigation products and instruments
 - Transaction limits
 - Organizational roles and separations
 - Approval hierarchies
 - Contract procedures
 - Credit and collateral management procedures
 - Risk quantification and monitoring procedures
 - Other controls and procedures as deemed necessary for the orderly conduct of the Program;
3. To establish risk tolerances related to price and volume variability and their potential impact on financial results for NYPA and its customers; and
4. To provide directives and guidance to NYPA management regarding all aspects of the Program.

c) Chief Financial Officer

The Chief Financial Officer (“CFO”) is ultimately responsible for the financial integrity of NYPA and, accordingly, no delegation of authority to the ERMC is intended to impair the CFO’s ability to protect such financial integrity. Under normal circumstances it is expected that tolerances and other Program issues will be determined by the ERMC, but in the event of unusual circumstances

the CFO may act, as deemed necessary in his or her discretion, to preserve financial viability. In the event of such circumstances the Trustees shall be notified expeditiously of the conditions and resolution associated with such action.

Section 2.02: Separation of Duties

The ERMC, in formulating Procedures, shall provide for separation of duties in a manner that assures checks and balances among three distinct organizational functions delineated below:

1. Front Office – responsible for the execution of hedge strategy and transactions,
2. Middle Office – responsible for risk and compliance monitoring
3. Back Office – responsible for deal confirmations, cash management and accounting.

In fulfilling its role, the Back Office shall independently obtain primary documentation from counterparties with respect to deal confirmations and shall not depend solely on information provided by internal sources.

Also, in accordance with its independent role, the Office of Internal Audit shall conduct periodic reviews of the Program of a scope and on a schedule of its choosing.

Section 2.03 Activities

Permissible transactions for purposes of risk management shall be restricted to products and instruments specified by the ERMC and deployed for the following applications:

- i. Mitigating risk related to the cost of energy or related products to be procured for normal business purposes.
- ii. Mitigating risk related to the price of energy and related products sold by NYPA.
- iii. Mitigating risk related to margins where NYPA owns generation or other capacity.
- iv. Mitigating risk related to the locational cost differentials of energy and fuel procured or sold for transmission or transportation to an ultimate location.
- v. Mitigating risk related to customer contract obligations related to energy markets.
- vi. Mitigating risk of excessive out-of-the-money settlements associated with hedge transactions.

Section 2.04 Reporting

Maintenance of timely reports is critical to an orderly Program. At a minimum, the Program shall maintain a record of transactions; volumes and values of hedged and floating positions, both physical and financial; the linking of financial hedges with physical volumes; and quantification of the company's exposure to market volatility. These and other records shall be maintained in accordance with directives of the ERMC.

Quarterly, the CFO shall provide to the Trustees a report regarding Procedures established under the Program, as well as Program results and a summary of compliance status for the period.