MINUTES OF THE MEETING
OF
THE AUDIT COMMITTEE

July 27, 2010

A meeting of the Audit Committee was held via videoconference at SUNY-Jefferson Community College, 1220 Coffeen St., Watertown, New York, the St. Lawrence-FDR Power Project, 830 Barnhart Island Rd., Massena, New York; and 123 Main St., White Plains, New York at approximately 10:00 a.m.

The following Members of the Audit Committee were present:

Trustee D. Patrick Curley, Chairperson
Trustee Eugene L. Nicandri

Vice Chairman Jonathan Foster was excused from attending.

Also in attendance were:

Gil Quiniones	*Chief Operating Officer*
Terryl Brown	*Executive Vice President and General Counsel*
Elizabeth McCarthy	*Executive Vice President and Chief Financial Officer*
Thomas Davis	*Vice President – Energy Risk and Assessment*
Lesly Pardo	*Vice President – Internal Audit*
Karen Delince	*Corporate Secretary*
Denise D'Ambrosio	*Principal Attorney I*
Brian McElroy	*Treasurer*
Angela Graves	*Deputy Corporate Secretary*
Thomas Concadoro	*Director – Accounting*
Michael Saltzman	*Director – Media Relations*
Dennis Eccleston	*Chief Information Officer*
Mary Jean Frank	*Associate Corporate Secretary*
Lorna Johnson	*Assistant Corporate Secretary*
Sheila Baughman	*Senior Secretary, Corporate Secretary's Office*
Ken Deon	*Managing Partner, KPMG*
Chris Halstead	*Manager, KPMG*

1. **Approval of the Minutes of the Regular Meeting of February 23, 2010 and the Special Meeting of March 23, 2010**

The minutes of the Committee's Regular Meeting of February 23, 2010 (with a spelling correction noted by Trustee Curley) and Special Meeting of March 23, 2010 were adopted.

2. KPMG Management Letter

Mr. Thomas Concadoro provided an overview of the KPMG Management Letter prepared in connection with its audit of the Authority's 2009 Financial Statements. The Management Letter made the following recommendations:

- The Authority should require a formal response from each business unit regarding the appropriateness of SAP user access and implement a formal annual review process for Ceridian user access. Management response: IT will request a formal acknowledgement from each business unit as to the adequacy of SAP access, whether or not any changes are required. IT will also request in writing an annual review of Ceridian user accounts. The request will be made to the payroll manager to acknowledge in writing that Ceridian access is appropriate as required by work assignment.

- The Authority should evaluate the potential benefit of implementing an automated system to review segregation of duties within SAP. Management response: The Authority will initiate an effort (to be completed by September 30, 2010) to review and redesign SAP security roles by function. Once complete, the Authority will evaluate the cost vs. benefit of using an automated tool to review segregation of duties within SAP.

- The Authority should continue with its current initiative to revisit its ERM policies and procedures and make the required updates and improvements using leading industry practices. Management response: This year, the Authority will initiate and complete an updated and more comprehensive ERM Policy that will embody elements of leading energy risk management practices. The initiative will also supplement the ERM Policy by updating and enhancing the detailed and supplemental information provided by the Authority's existing risk management procedures. The ERM Policy will reference or incorporate the procedure documents.

- The Authority should implement a formal review of its service organizations' SAS 70 reports to verify that it can rely on the controls of the third party and document the mapping of the service organizations' users consideration controls outlined in each SAS 70 report. Management response: The Authority will implement a formal review of the SAS 70 reports in 2010.

  In response to a question from Committee Chairman Curley, Mr. Ken Deon explained that KPMG looked at the Authority's internal controls in designing audit procedures for the financial statements, but that it did not express an opinion on the effectiveness of the Authority's internal controls. He explained that such an opinion is only required for a public company that is subject to Securities and Exchange Commission oversight. Responding to a question from Ms. Elizabeth McCarthy, Mr. Deon said that KPMG is required to communicate material weakness and significant deficiencies in the Authority's internal controls to management and the Audit Committee and they had found none during their audit.

July __, 2010

Board of Trustees
New York Power Authority:

We have audited the financial statements of the New York Power Authority (the Authority), for the year ended December 31, 2009, and have issued our report thereon dated March 12, 2010. In planning and performing our audit of the financial statements of the Authority, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial statement audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, we considered the Authority's internal control over financial reporting (internal control) as a basis for designing our auditing procedures 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.

During our audit we noted certain matters involving internal control and other operational matters that are presented for your consideration. These comments and recommendations, all of which have been discussed with the appropriate members of management, are intended to improve internal control or result in other operating efficiencies and are summarized on the attached schedule of observations.

Our audit procedures are designed primarily to enable us to form an opinion on the financial statements, and therefore may not bring to light all weaknesses in policies or procedures that may exist. We aim, however, to use our knowledge of the Authority's organization gained during our work to make comments and suggestions that we hope will be useful to you.

We would be pleased to discuss these comments and recommendations with you at any time.

The Authority's written responses to our comments and recommendations have not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

This communication is intended solely for the information and use of management, the Board of Trustees, others within the organization, the New York State Authority Budget Office and the Office of the State Comptroller, and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

New York Power Authority

Management Letter

For the Year Ended December 31, 2009

Schedule of Observations

Information System Access and Security

Background

The Authority utilizes SAP as its information technology application to manage a majority of its business functions, including accounts payable, billing and revenue collection and material and parts inventory and financial reporting. Additionally, the Authority has outsourced its payroll processing to Ceridian.

Observation

The Authority has implemented a formal process to perform an annual review of SAP user access based on individuals' roles and responsibilities, whereby a detail of individuals and their related user access in SAP is provided to each business unit for their review and update. No formal response is required if all user access is correct per the user listings provided.

We observed that the Authority does not perform an annual review of Ceridian user access based on individuals' roles and responsibilities. This is due to the limited amount of access granted to the user group. There were approximately 20 users with Ceridian access as of year-end.

Recommendation

We recommend the Authority require a formal response from each business unit regarding the appropriateness of SAP user access and implement a formal annual review process for Ceridian user access.

Management Response

The Authority's Information Technology department (IT) will request a formal acknowledgement from each business unit as to the adequacy of SAP access, whether or not any changes are required.

IT will also request in writing an annual review of Ceridian user accounts. The request will be made to the payroll manager to acknowledge in writing the Ceridian access is appropriate as required by work assignment.

Schedule of Observations

Segregation of Duties within SAP

Background

The Authority utilizes SAP as its information technology application to manage a majority of its business functions, including accounts payable, billing and revenue collection and material and parts inventory and financial reporting. Our audit procedures noted the Authority performs a manual segregation of duties analyses of SAP user access on a periodic basis.

Observation

Given the number of SAP users and multiple locations, the Authority does not currently have an automated system in place to verify the segregation of duties within the SAP application. An automated tool will provide for a more efficient and consistent process for segregation of duties reviews.

Recommendation

We recommend management evaluate the potential benefit of implementing an automated system to review segregation of duties within SAP.

Management Response

The Authority will initiate an effort to review and redesign SAP security roles by function which will be completed by September 30, 2010. Once complete, we will evaluate the cost versus benefit of using an automated tool to review segregation of duties within SAP.

New York Power Authority

Management Letter

For the Year Ended December 31, 2009

Schedule of Observations

Energy Risk Management Process

Background

The Authority uses financial derivative instruments to manage the impact of energy and fuel price changes on its net income and cash flows. In order to manage the risks inherent with derivative instruments the Authority has developed a formal Energy Risk Management Policy ("the ERM Policy" or "policy") which has been reviewed and approved by the Board of Trustees. The ERM Policy is supplemented by eight energy risk management procedures including those for counterparty credit management, trading delegation, hedge confirmation and standards of conduct for personnel subject to the ERM policy.

Observation

We note that the ERM Policy has not been updated since January 21, 2006. Since then, the composition and purpose of the Energy Risk Management Committee (the Committee) has changed. These changes have not been formally documented as an update to the Policy.

Also, there have been a number of Trustee authorizations over the past five years enhancing counterparty credit management and updating hedge transactions limits for Authority personnel. We note that the ERM Policy and associated procedures have not been systematically revised to incorporate these changes.

In addition, we compared the Authority's policies and procedures to leading practices in the industry and developed the following observations: 1) the ERM Policy and procedures lack certain elements and level of detail found in leading practice energy risk management policies, and 2) the Authority is carrying out a number of energy risk management practices that need to be better articulated and detailed as part of the ERM Policy and procedures.

Missing elements from the ERM Policy and procedures include:

- Revision history – The policy and procedures should contain a revision history that states the date of the revision and the change(s) made;
- Model Risk Management – To the extent models are used to manage or value positions, the policy and procedures should include documentation of model controls;
- Approved Trading Locations – To the extent that certain individuals are authorized to conduct after-hours trading (e.g., to secure additional fuel), these activities should be addressed in the policy and procedures;
- Approved Media for Trading – To the extent that media other than telephones can be used to transact deals, approved media should be addressed in the policy and procedures;
- An Energy Risk Management Committee Charter should be developed and included as an attachment to the ERM Policy;
- The ERM Policy should be reviewed and reauthorized annually by a designated member of Senior Management; and

Schedule of Observations

– All personnel subject to the policy should be required to read the policy at least annually and sign a document stating they have read the policy. Currently, NYPA's energy traders have this requirement.

Ongoing risk management activities that need to be more formally incorporated or more aptly detailed in the ERM Policy and its procedures include:

– Transaction documentation requirements,

– Deal confirmation requirements,

– Market transactions: authorized traders; position, transaction, and tenor limits; and authorized instruments.

Recommendation

We recommend that the Authority continue with its current initiative to revisit its ERM policies and procedures and make the required updates and improvements using leading industry practices.

Management Response

The Authority will initiate and complete in 2010 an updated and more comprehensive ERM Policy that will embody elements of leading energy risk management practices. The initiative will also supplement the ERM Policy by updating and enhancing the detailed and supplemental information provided by NYPA's existing risk management procedures. The ERM Policy will reference or incorporate the procedure documents.

New York Power Authority

Management Letter

For the Year Ended December 31, 2009

Schedule of Observations

Service Organizations

Background

The Authority relies on a number of service organizations to process transactions on their behalf including payroll, health insurance claims, dental claims, workers' compensation claims, custodian banking services and energy purchase and sales transactions. The Authority relies upon data from these service organizations in its daily operations and for financial reporting purposes. As such, these service organizations have Statement of Auditing Standards No. 70 Audits of Services Organization (SAS 70) Type II reports completed each year in order to demonstrate to the Authority and their other clients that they have adequate internal controls in place which the Authority can rely on in conducting the Authority's operations and financial reporting.

SAS 70 reports also outline certain controls that users of the report should have in place to properly process transaction between the entity and the service organization, these are called user control considerations and are outlined in each SAS 70 report.

Observation

Although the Authority obtains these SAS 70 reports each year, we noted that no formal review is performed of the reports to determine if key controls at the service organizations are operating effectively and if there are any other issues that may impact the Authority's operations and financial reporting processes. Further, management does not formally map the key service organizations' recommended user consideration controls to the Authority's own internal controls.

The absence of a formalized review of the SAS 70 reports and unmapped user control considerations may increase the risk that a control deficiency may exist between the Authority and the service organization that goes undetected and unmitigated and/or there are gaps in the control structure between the Authority and their service organizations.

Recommendation

We recommend that the Authority implement a formal review of its service organizations' SAS 70 reports to verify that it can rely on the controls of the third party and document the mapping of the service organizations' users consideration controls outlined in each SAS 70 report.

Management Response

We agree and will implement a formal review of the SAS 70 reports in 2010.

3. **Interim Results for the Six Months Ended June 30, 2010**

Mr. Thomas Concadoro presented the highlights of the Authority's financial statements for the first six months of the year:

- Net income through June 30 was $81 million, $13 million less than at June 30, 2009. The Poletti shutdown in January, as well as lower water flows at the hydro plants, accounted for much of the decrease in the Authority's operating revenues. This was offset by lower purchased-power and fuel costs, primarily due to lower prices. Non-operating expenses had a significant impact on the bottom line due to higher voluntary contributions to New York State.

In response to a question from Committee Chairman Curley, Mr. Concadoro said that all of the money transferred to the State Treasury in 2010 has been in the form of direct contributions and not loans.

The interim financial statements need to be filed by September 30 with banking and rating agencies, but will probably be filed even sooner than that. Highlights from the footnotes to the financial statements included:

- The Authority uses financial derivative instruments to manage the impact of interest rate, energy price and fuel cost changes on its earnings and cash flows. In June 2008, GASB issued GAS No. 53, Accounting and Financial Reporting for Derivative Instruments, which establishes accounting and reporting requirements for derivative instruments and which is effective for the Authority's 2010 calendar year. The adoption of GAS No. 53 did not have a significant impact on the Authority's financial results.

- The Power for Jobs and Energy Cost Savings Benefits Programs were scheduled to expire on May 15, 2010; they were extended to June 2, 2010, when they expired. There are several legislative proposals to replace the programs, none of which have been enacted into law. The Authority made a voluntary contribution of $12.5 million to the State Treasury in March 2010 to support the Power for Jobs Program, bringing the total of such voluntary contributions to $461.5 million.

- By legislation signed into law on May 25, 2010, the Authority, as deemed feasible and advisable by its Trustees, was authorized to make a voluntary contribution to the State for State Fiscal Year 2010-11 in the amount of $65 million. In June 2010, the Authority's Trustees approved the payment of a voluntary contribution of $40 million to the State. As of June 30, 2010, the payment had not yet been made and thus is not reflected as a contribution to the State in the statement of revenues, expenses and changes in net assets as of June 30, 2010. The Authority's Trustees have not yet acted on the remaining $25 million voluntary contribution.

- Temporary retirement incentive legislation was enacted into law in June. Part A of the incentive targets employees who are at least 50 years old with a minimum of 10 years of service to receive an additional month of pension credit (not to exceed 36 months) for each year of eligible service, while Part B enables public employees to retire without penalty at 55 years of age with a minimum of 25 years of service. The footnotes will be updated for the Trustees' authorization at a Special Meeting on July 22 for the Authority to participate in Part B for all eligible Authority employees and Part A for certain employees at the Charles Poletti Power Project.

- As of June 30, 2010, no further action had been taken to increase the rates for certain Authority hydropower customers; the Authority's Trustees had deferred an increase scheduled to take place on May 1, 2009 at their March 2009 meeting.

Summary Statement of Net Revenues
($'s in millions)

	YTD June 2010	YTD June 2009	Variance Favorable (Unfavorable)	
Operating Revenues	1,223	1,270	(47)	Reflects lower market-based sales ($74) partially offset be higher customer revenues ($27). Market based sales were lower due to lower volumes (Niagara, Poletti) partially offset by higher sales for the SCCP's. Average prices on market-based sales were 11% lower in 2010.
Operating Expenses:				
Fuel	115	183	68	Decrease due to lower fossil production (19%, due to Poletti shutdown) combined with lower 2010 natural gas prices
Purchased power	439	470	31	Lower costs due to lower average prices on purchases (18%) and no purchases to support Power for Jobs after 6/2/10
Operations & Maintenance(1)	199	209	10	Reduction in maintenance spending at fossil plants due to discontinued operations at Poletti and less emergent maintenance for the SCPP's
Wheeling	240	183	(57)	Primarily due to higher delivery service rates charged by Con Ed in 2010 due to rate increase (passed through to customers)
Depreciation	83	81	(2)	
	1,076	1,126	50	
Operating Income	**147**	**144**	**3**	
Investment Income	85	67	18	Reflects unrealized gain on investments in 2010 ($12m) due to lower market interest rates compared to unrealized loss in 2009 ($9m)
Interest expense	44	47		
Contribution to State	107	70	(37)	Higher voluntary contribution based on legislation & Board authorization (2010 excludes $ 40m authorized by Board in June)
Net income	**81**	**94**	**(13)**	

Note(1) - For this presentation, O & M includes the following captions from NYPA's internal financial statements:
a) Site O&M and direct charges, b) administrative expenses and c) other expenses

NEW YORK POWER AUTHORITY

FINANCIAL STATEMENTS

JUNE 30, 2010

(Unaudited)

The accompanying Financial Statements are the responsibility of the Authority's management and reflect all appropriate estimates and all known liabilities. These unaudited financial statements should be read in conjunction with the financial statements and notes contained in the Authority's December 31, 2009 Annual Report.

Elizabeth McCarthy
Executive Vice President and Chief Financial Officer

New York Power Authority

Balance Sheets

June 30, 2010 and 2009

(in milions)

(Unaudited)

Assets		**2010**	**2009**
Current Assets	Cash and cash equivalents	$114	$102
	Investment in securities, at fair value	831	701
	Interest receivable on investments	5	5
	Receivables - customers	225	209
	Materials and supplies, at average cost:		
	Plant and general	85	82
	Fuel	18	29
	Risk management assets	69	87
	Prepayments, miscellaneous receivables and other	136	159
		1,483	1,374
Restricted Funds	Cash and cash equivalents	20	21
	Investment in securities, at fair value	1,023	926
		1,043	947
Capital Funds	Cash and cash equivalents	9	2
	Investment in securities, at fair value	169	197
		178	199
Utility Plant	Capital assets not being depreciated	308	286
	Capital assets, net of accumulated depreciation	3,377	3,418
		3,685	3,704
Other Noncurrent Assets	Unamortized debt expense	16	17
	Receivable - New York State	318	215
	Notes receivable - nuclear plant sale	85	98
	Deferred charges, long-term receivables and other	617	482
		1,036	812
	Total Assets	$7,425	$7,036
Liabilities and Net Assets			
Current Liabilities	Accounts payable and accrued liabilities	$449	$438
	Short-term debt	297	259
	Long-term debt due within one year	104	126
		850	823
Long-term debt	Senior:		
	Revenue bonds	1,152	1,194
	Adjustable rate tender notes	123	131
	Subordinated:		
	Commercial paper	284	340
		1,559	1,665
Other Noncurrent Liabilities	Nuclear plant decommissioning	951	846
	Disposal of spent nuclear fuel	216	216
	Deferred revenues and other	948	825
		2,115	1,887
Net Assets		2,901	2,661
	Total Liabilities and Net Assets	$7,425	$7,036

See accompanying notes to the financial statements.

New York Power Authority

Statements of Revenues, Expenses, and Changes in Net Assets

Six Months ended June 30, 2010 and 2009

(in millions)

(Unaudited)

Statements of Net Income		**2010**	**2009**
Operating Revenues	Power Sales	$906	$1,011
	Transmission charges	77	76
	Wheeling charges	240	183
	Total Operating Revenues	1,223	1,270
Operating Expenses	Operations and Maintenance	199	209
	Fuel oil and gas	115	183
	Purchased power	439	470
	Wheeling	240	183
	Depreciation	83	81
	Total Operating Expenses	1,076	1,126
	Net Operating Income	147	144
Nonoperating revenues	Investment income	30	16
	Other	55	51
	Total nonoperating revenues	85	67
Nonoperating expenses	Contribution to NY State	107	70
	Interest on long-term debt	38	41
	Interest-other	10	11
	Interest capitalized	(2)	(3)
	Amortization of debt discount and expense	(2)	(2)
	Total nonoperating expenses	151	117
	Net Income	$81	$94

Statements of Net Assets			
	Net Assets at January 1	$2,820	$2,567
	Net Income	81	94
	Net Assets at June 30	$2,901	$2,661

See accompanying notes to the financial statements.

NEW YORK POWER AUTHORITY

Statements of Cash Flows

Six Months ended June 30, 2010 and 2009

(in millions)

(Unaudited)

		2010	2009
Cash Flows From Operating Activities	Received from customers for the sale of power, transmission and wheeling	1,179	1,280
	Paid to suppliers and employees for:		
	Operations and maintenance	(215)	(202)
	Purchased power	(436)	(474)
	Fuel, oil and gas	(119)	(197)
	Wheeling of power by other utilities	(224)	(183)
	Net cash provided by operating activities	185	224
Cash Flows form Capital and Related Financing	Earnings received on construction fund investments	2	3
	Sale of commercial paper	2	2
	Repayment of notes	(7)	(6)
	Repayment of commercial paper	(73)	(49)
	Construction and acquisition of utility plant:		
	Gross additions to utility plant	(44)	(54)
	Interest paid, net	(37)	(41)
	Net cash used in capital and related financing activities	(157)	(145)
Cash Flow From Noncapital-Related Financing Activities	Energy conservation program payments received from participants	81	57
	Energy conservation program costs	(75)	(46)
	Sale of commercial paper	87	46
	Repayment of commercial paper	(79)	(60)
	Interest paid on commercial paper	(1)	(1)
	Payment to New York State	(120)	(119)
	Loan to New York State	-	(215)
	Entergy VSA	72	72
	Net cash used in non-capital-related activities	(35)	(266)
Cash Flows From Investing Activities	Earnings received on investments	15	23
	Purchase of investment securities	(2,077)	(2,834)
	Sale of investment securities	2,095	3,092
	Net cash provided by investing activities	33	281
	Net increase in cash	26	94
	Cash and cash equivalents, January 1	**117**	**31**
	Cash and cash equivalents, June 30	**143**	**125**
Reconciliation to Net Cash Provided by Operating activities	Net Operating Income	147	144
	Adjustments to reconcile net revenues to net cash provided by operating activities		
	Provision for depreciation	83	81
	Net decrease in prepayments and other	1	43
	Net increase in receivables and inventory	(31)	(22)
	Net decrease in accounts payable and accrued liabilities	(15)	(22)
	Net cash provided by operating activities	185	224

NEW YORK POWER AUTHORITY
NOTES to FINANCIAL STATEMENTS
JUNE 30, 2010 and 2009
(Unaudited)

A. *General*

The Authority's financial statements should be read in conjunction with the financial statements and the notes to the financial statements included in the Authority's Annual Report for the year ended December 31, 2009 and the notes to the December 31, 2009 financial statements are incorporated by reference herein. Such notes are supplemented below. Certain information and footnote disclosures that are normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted. The results for the six months ended June 30, 2010 are not necessarily indicative of the results of the entire fiscal year ending December 31, 2010. Certain amounts previously reported have been reclassified to conform to the current presentation.

The Power Authority of the State of New York (Authority) is a corporate municipal instrumentality and political subdivision of the State of New York (State) created by the Legislature of the State in 1931, and is authorized to help provide a continuous and adequate supply of dependable electricity to the people of the State. 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 the sale of bonds and notes to private investors and pays the related debt service principally with revenues from the generation and transmission of electricity. The Authority's Trustees are appointed by the Governor of the State, with the advice and consent of the State Senate, generally to serve five-year terms. Income of the Authority and properties acquired by it for its projects are exempt from taxation.

Accounting Policies

Reference is made to "Summary of Significant Accounting Policies" in Note (2) to the Authority's December 31, 2009 Financial Statements.

The Authority is subject to the provisions of ASC Topic 980, Regulated Operations (FAS No. 71, Accounting for the Effects of Certain Types of Regulation). These provisions recognize the economic ability of regulators, through the ratemaking process, to create future economic benefits and obligations affecting rate-regulated companies. 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 probable future reductions in revenues associated with amounts that are expected to be refunded to customers through the ratemaking process. Based upon the Authority's evaluation of the criteria in the standard and the effect of competition on its ability to recover its cost, the Authority believes the provisions of ASC Topic 980 continue to apply. The Authority estimates that the impact would not be material if the Authority had been unable to continue to apply this standard as of June 30, 2010.

The Authority uses financial derivative instruments to manage the impact of interest rate, energy price and fuel cost changes on its earnings and cash flows. In June 2008, the GASB issued GAS No. 53, Accounting and Financial Reporting for Derivative Instruments, which establishes accounting and reporting requirements for derivative instruments and which is effective for the Authority's 2010 calendar year. The adoption of GAS No. 53 did not have a significant impact on the Authority's financial results.

NOTES to FINANCIAL STATEMENTS
JUNE 30, 2010 and 2009
(Unaudited)

B. Investments

The Authority's investments, which comply with the New York State Comptroller's investment guidelines for public authorities, have been 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 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 is also authorized to enter into repurchase agreements for the purchase and sale of authorized investments. Designated custodians hold all investments in the name of the Authority. Securities that are the subject of repurchase agreements must have a market value at least equal to the cost of the investment, and the agreements are limited to a maximum fixed term of five business days. Governmental Accounting Standards Board Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools," requires that investments be reported in the balance sheet at fair value and that realized and unrealized gains and losses on investments be recorded as investment income.

C. Capital Assets

Capital assets are stated 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. Depreciation of capital assets is generally provided on a straight-line basis over the estimated useful lives of the various classes of capital assets. Capital assets net of accumulated depreciation at June 30, 2010 and 2009 were:

(in Millions)	June	
Type of Plant	2010	2009
Production:		
Steam	1	0
Hydro	1,133	1,108
Gas Turbine/Combined Cycle	802	840
Transmission	872	898
General	716	728
	3,524	3,574
Construction work in progress	161	130
	3,685	**3,704**

D. Debt

Revenue Bonds

Revenue Bonds Outstanding, June 30:

	($ in millions) June 30 2010	2009
Principal amount outstanding	$1,173	$1,211
Add: Unamortized premium	26	30
Less: Deferred refinancing costs	8	10
	1,191	1,231
Less: Due within one year	39	37
	$1,152	$1,194

The Revenue Bonds outstanding at June 30, 2010, have an average interest rate of 5.18%, and mature in the years 2010 to 2047. As of June 30, 2009, the average interest rate was 5.16%. These rates do not reflect the effect of the Authority's risk management and hedging activities discussed in note (E).

Adjustable Rate Tender Notes

The Adjustable Rate Tender Notes (ART Notes) were issued pursuant to a resolution adopted April 30, 1985 (subsequently amended). The ART Notes had an average interest rate of 0.26% effective March 1, 2010 through September 1, 2010 and are scheduled to mature from 2011 to 2020. The holders may tender the ART Notes to the Authority on any adjustment date. These rates do not reflect the effect of the Authority's risk management and hedging activities discussed in note (E).

The Authority has a revolving credit agreement (RCA) with The Bank of Nova Scotia to provide a supporting line of credit for the purpose of repaying, redeeming or purchasing the ART Notes. The amount of the RCA tracks the outstanding principle of the ART Notes and the RCA terminates on September 1, 2015.

Commercial Paper

Under the Commercial Paper Note Resolution adopted June 28, 1994, as subsequently amended and restated, the Authority may issue a separate series of notes (CP 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); $450 million (Series 2); $350 million (Series 3); and $220 million (Series 4). It is the Authority's intention to remarket the Series 2 and 3 CP Notes as they mature with their ultimate retirement dates planned to range from 2010 to 2025. There were no Series 4 Notes outstanding as of June 30, 2010. Under the Extendible Municipal Commercial Paper Note Resolution, adopted December 17, 2002, as subsequently amended and restated, the Authority may issue a series of notes, designated Series 1 (EMCP Notes) maturing not more than 270 days from the original date of issue, up to a maximum amount outstanding at any time of $200 million.

NOTES to FINANCIAL STATEMENTS
JUNE 30, 2010 and 2009
(Unaudited)

Long-Term CP Notes outstanding, June 30:	($ in millions) 2010	2009
Series 1 –EMCP	$146	$85
Series 2 CP Notes- Tax Exempt	129	267
Series 3 CP Notes- Taxable	67	69
	342	421
Less: Due within one year	58	81
	$284	$340

The Authority has a revolving line of credit with a syndicate of banks under which the Authority may borrow up to $575 million in aggregate principal amount outstanding at any time for certain purposes, including the repayment of the Series 1, the Series 2, and the Series 3 CP Notes.

Short-term Debt
Short term debt outstanding, consisted of Series 1 CP Notes, at June 30, 2010 and 2009. The Authority issues Series 1 CP Notes to finance energy services programs and for other corporate purposes. In August 2007, the Authority purchased a 5.9 % interest rate cap on $300 million of Series 1 CP Notes, with a termination date of August 15, 2010.

E. Risk Management and Hedging Activities
The Authority purchases insurance coverage for its operations, and in certain instances, is self-insured. Property insurance purchase 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 purchase 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 three 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 its health, dental and workers' compensation insurance programs. In addition, the Authority pursues subrogation claims against any entities that cause damage to its property.

In addition to insurance, which is described above, another aspect of the Authority's risk management program is to manage the impacts of interest rate, energy and fuel market fluctuations on its earnings, cash flows and market values of assets and liabilities. To achieve its objectives the Authority's Trustees have authorized the use of various interest rate, energy, and fuel hedging derivative instruments that are considered financial derivatives under GAS 53 "Accounting and Financial Reporting for Derivative Instruments".

The fair values of all Authority derivative instruments, as defined by GAS 53, are reported in current and non-current assets or liabilities on the balance sheet. Changes in the fair values of designated hedging derivative instruments are deferred in other current and non-current assets or liabilities and classified as deferred cash in-flows and out-flows. The fair values of derivative instruments supporting renewable energy programs for Southeast New York Governmental customers, are deferred in other current and noncurrent assets and liabilities as regulatory assets or liabilities as recoverable from customers under contractual agreements. All settlement payments or receipts are charged or credited to the hedge related operating or non-operating expenses in the statement of revenues, expenses and changes in net assets in the period incurred.

The fair value of interest rate swap contracts takes into consideration the prevailing interest rate environment and the specific terms and conditions of each contract. The fair values were estimated using the zero-coupon discounting method. The fair value for energy, renewable energy and natural gas transportation contracts are determined by the monthly market prices over the lifetime of each outstanding contract using the latest end-of-trading-month forward prices published by Platts or derived from pricing models based upon Platts' prices.

The Authority's policy regarding the creditworthiness of counterparties for interest rate derivative contracts is set forth in the General Resolution Authorizing Revenue Obligations (as amended and supplemented up to the present time, the Bond Resolution). The policy requires that counterparties achieve at least the third highest rating category for each appropriate rating agency maintaining a rating for qualified swap providers.

It is the Authority's policy to evaluate counterparties to commodity derivative contracts considering the market segment, financial ratios, agency and market implied ratings and other factors. In addition for certain counterparties the Authority may require a two way credit support agreement that may require collateral such as parental guarantees, letters of credit or margin calls.

The Authority anticipates the recovery or distribution of net settlements of derivative contracts (net liquidations in case of NYMEX future contracts) through customer rates or specific contractual agreements with customers.

Based upon the fair values as of June 30, 2010 the Authority's individual or aggregate exposure to derivative contract counterparty credit risk is not significant.

The following table shows the fair value and net settlement amounts of derivatives contracts as June 30, 2010 and 2009 respectively:

NOTES to FINANCIAL STATEMENTS
JUNE 30, 2010 and 2009
(Unaudited)

Description Hedge/ Investment		Fair Value Balance June 30 2010	Net Settlements Jan 1, 2010 thru June 30, 2010	Fair Value Balance June 30 2009	Net Settlements Jan 1, 2009 thru June 30, 2009	Type of Hedge or Transaction	Accounting for changes in Fair Value	Notional Amount June 30 2010	Unit of Measure
				(in millions)					
Interest rate contracts (1)	$	(25.2)	(5.8)	(25.1)	(5.0)	Interest Rates Cash Flow	Deferred cash in-flows and out-flows	558	millions of $
Energy Contracts (2)		(192.7)	(38.1)	(51.1)	(50.6)	Energy Swaps Cash Flow	Deferred cash in-flows and out-flows	15,814,645	MWh
Renewable Energy Contracts (3)		(38.1)	(2.3)	(37.9)		Non-Hedge Energy Swaps	Deferred Regulatory Asset	1,353,782	MWh
Fuel and Related Contracts (4)		—	—	(35.7)	(40.5)	Futures/Swaps Cash Flow	Deferred cash in-flows and out-flows	—	mmbtu
Totals	$	(256.0)	(46.2)	(149.8)	(96.1)				

(1) The Authority uses interest rate swaps and caps to hedge interest rate risks. The Authority entered into forward interest rate swaps to fix rates on long-term obligations initially issued to refinance $126.6 million of Series 1998 B Revenue Bonds required to be tendered in the years 2002 (the 2002 Swaps) at a fixed rate of 5.123% through February 16, 2015. The Authority entered into a forward interest rate swap to fix the interest rates at 3.7585% on $130.5 million of its Adjustable Rate Tender Notes through September 1, 2016. The Authority purchased an interest rate cap with the objective of limiting exposure to rising interest rates relating to $300 million of its Series 1 CP Notes at 5.9% through August 15, 2010.

(2) The Authority uses purchase and sale agreements in conjunction with short-term and long-term energy contracts for differences (swaps) to (a) fix the cost of energy in the NYISO electric market to meet forecasted load requirements and (b) fix the revenue stream for sales in the NYISO electric market from production of its operating facilities.

(3) The Authority entered into long-term forward energy swaps and purchase agreements for a portion of the generation of the counterparties' wind-farm-power-generating facilities between 2008 and 2017 to assist specific governmental customers in the acquisition of environmental attributes to satisfy certain New York State renewable energy mandates.

(4) The Authority uses NYMEX natural gas futures contracts and natural gas (transportation) basis swaps, in conjunction with the sale of energy swaps, to fix the margin between the prices of purchases of natural gas to operate the 500 MW facility and sales of energy in the NYISO electric market.

F. *Power for Jobs*

In 1997, legislation was enacted into New York law which authorized the Power for Jobs (PFJ) Program to make low-cost electric power available to businesses, small businesses, and not-for-profit organizations. Under the PFJ Program, the New York State Economic Development Power Allocation Board (EDPAB) recommends for Authority approval allocations to eligible recipients of power from power purchased by the Authority. If the Authority decides to not make power available to an entity whose allocation has been recommended by EDPAB, the Authority must explain the reasons for such denial. The PFJ Program power is sold to the local utilities of the eligible recipients pursuant to sale for resale agreements at rates which are based on the cost of the competitive procurement (or alternative acquisition) power plus a charge for the transmission of such power.

In 2004, legislation was enacted into New York law which amended the PFJ Program in regard to contracts of certain PFJ Program customers. Under the amendment, certain customer contracts terminating in 2004 and 2005 could be extended by the affected customer, or the customer could opt for "Power for Jobs electricity savings reimbursements" (PFJ Rebates) from termination until December 31, 2005. Generally, the amount of such PFJ Rebates for a particular customer is based on a comparison of the current cost of electricity to such customer with the cost of electricity under the prior Power for Jobs contract during a comparable period. Annually from 2005 to 2009, provisions of the approved State budgets extended the PFJ Program. The extension in July 2009 (1) extended the PFJ Program, including the PFJ Rebate provisions, to May 15, 2010; (2) authorized certain customers that had elected to be served by PFJ contract extensions to elect to receive PFJ Rebates instead; and (3) required the Authority to make payments to certain customers to reimburse them with regard to PFJ Program electric prices that are in excess of the electric prices of the applicable local electric utility.

The Power for Jobs Program and Energy Cost Savings Benefits Program were scheduled to expire on May 15, 2010; they were extended to June 2, 2010 (L.2010, ch. 88 discussed in note J below); and as of the date hereof, they have now expired. There are several legislative proposals pending to replace these programs with new power programs but the proposals have not yet been enacted into law.

The Power for Jobs legislation authorizes the Authority "as deemed feasible and advisable by the Trustees," to make annual "voluntary contributions." Commencing in December 2002 through June 30, 2010, the Authority made such voluntary contributions to the State in an aggregate amount of $461.5 million, including a $12.5 million payment in March 2010.

G. *Financial Assistance to the State*

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 State legislation (generally budget legislation), and (ii) satisfy the requirements of the Bond Resolution.

In light of the severe budget problems facing the State at the time, the Governor proposed and the Legislature enacted budget legislation, which among other things, authorized the Authority, as deemed "feasible and advisable by its trustees" to make voluntary contribution payments of $60 million and $119 million during the State Fiscal Year 2008 – 2009 and $107 million during State Fiscal Year 2009 – 2010. The Authority's Trustees authorized and the Authority paid the additional voluntary contributions of $60 million, $119 million and $107 in May 2008, January 2009 and March 2010, respectively. With the $119 million payment, a portion of which was related to the PFJ Program, the Authority has made voluntary contributions to the State totaling $461.5 million in connection with the PFJ Program and $237 million unrelated to the PFJ Program [2010 ($107 million), 2009 ($70 million) and 2008 ($60 million)]. The contributions to the State which are not related to the PFJ Program, were recorded as a non-operating expenses in the June 2010, 2009 and 2008 statements of revenues, expenses and changes in net assets, respectively.

By legislation signed into law on May 25, 2010 (L.2010, ch. 89), the Authority, as deemed feasible and advisable by its Trustees, was authorized to make a voluntary contribution to the State for the State Fiscal Year 2010-2011 in the amount of $65 million. In June 2010, the Authority's Trustee approved the payment of a voluntary contribution of $40 million to the State. As of June 30, 2010, this payment has not yet been made and is not reflected as a contribution to N.Y. State in the statement of revenues, expenses and changes in net assets as of June 30, 2010. The Authority's Board has not acted on the remaining $25 million voluntary contribution included in this legislation.

In addition to the authorization for the voluntary contributions, the Authority was requested to provide temporary transfers to the State of certain 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 Director of Budget of the State, 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 have 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. 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.

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 would be 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 monies 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 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 Authority has classified the transfers of Assets A and B ($318 million) as a long-term loan receivable. In lieu of interest payments, the State will waive 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 would be 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 or St. Lawrence power plants would be 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.

H. Pension Plans and Other Postemployment Benefits

Pension Plans

The Authority participates in the New York State and Local Employees Retirement System (System), a cost-sharing, multiple-public-employer defined-benefit pension plan; and also provides its retirees with Other Postemployment Benefits (OPEB). Refer to the Authority's 2009 Annual Report for further information including plan benefits, employer contributions, employee eligibility, vesting, contributions, and OPEB.

Current law requires, among other things, a minimum annual contribution by employers to the System. The objective of the law is to reduce the volatility of employer contributions by requiring employers to make a minimum contribution of 4.5% of gross salaries every year, including years in which investment performance by the fund would make a lower contribution possible.

Under this plan, the Authority's required contributions to the System were $9.6 million, $11.8 million, and $12.3 million for the System's fiscal years ended March 31, 2010, 2009 and 2008, respectively (paid on or about December 15, 2009, 2008 and 2007). The pension contribution for the System's fiscal year ending March 31, 2011 will approximate $17.0 million. There is the potential for a large increase in employer contribution rates over the next several years if the System's assumed annual rate of return of 8% is not realized.

The New York State legislature has passed a bill authorizing a temporary retirement incentive for certain State employees and other public employees. Under the legislation, public employees would be able to either retire without penalty at 55 years of age with a minimum of 25 years of service (Part B), or be targeted to receive an additional month of pension credit for each year of service not to exceed 36 months (Part A) if the employee is 50 years of age or more and has a minimum of 10 years of service. Employers have until September 1, 2010 to elect to participate in Part B and until August 31, 2010 to elect to participate in Part A. The Authority has not yet determined whether it will participate in either program.

To Be Updated

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.

Through 2006, OPEB provisions were financed on a pay-as-you-go basis and the plan was unfunded. In December 2006, the Authority's Trustees authorized staff to initiate the establishment of a trust for OPEB obligations, with the trust fund to be held by an independent custodian. Plan members are not required to contribute. For 2008 and 2007, the Authority contributed \$125 million and \$100 million, respectively. No contributions were made from January 1, 2009 to June 30, 2010. The Authority will continue to evaluate the performance of the trust fund before making decisions on additional contributions.

The Authority's OPEB costs were \$12 million for both the six months ended June 30, 2010 and June 30, 2009. The Authority's most recent actuarial valuation dated of January 1, 2008 is in the process of being updated.

I. Nuclear Plant Divestiture and Related Matters

On November 21, 2000 (Closing Date), the Authority sold its nuclear plants (Indian Point 3 [IP3] and James A. FitzPatrick [JAF]) to two subsidiaries of Entergy Corp. (collectively Entergy or the Entergy Subsidiaries) for cash and non-interest bearing notes, including a Fuel Payment Note, 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. The Authority remains liable to Entergy for the pre-1983 spent fuel obligation (see note (G), "Financial Assistance to the State" relating to a temporary transfer of such funds to the State.) As of June 30, 2010 the liability to Entergy totaled \$216 million. The Authority retained its pre-closing claim against DOE under the DOE standard contract for failure to accept spent fuel on a timely basis.

In connection with the nuclear plants' sale, each of the Entergy Subsidiaries entered into a Decommissioning Agreement with the Authority relating to responsibility for decommissioning the nuclear plant acquired by it. The Decommissioning Agreements deal with the decommissioning funds (the Decommissioning Funds) currently maintained by the Authority under a master decommissioning trust agreement (the Trust Agreement). Under the Decommissioning Agreements, the Authority will make no further contributions to the Decommissioning Funds, and unless there is an early dismantlement of a plant or a change in the tax status of a plant's Decommissioning Fund, the Authority will retain that plant's Fund until at least license expiration. The Authority's decommissioning responsibility is limited to the lesser of the Inflation Adjusted Cost Amount or the amount of the plant's Fund. 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 Fund amount.

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 contracts required that the Entergy Subsidiaries will share a certain percentage of all revenues they receive from power sales in excess of specific projected power prices for a ten-year period (2005-2014). The VSAs amended in October 2007 now require the Entergy Subsidiaries to pay the Authority a set price 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. The Authority has received the maximum annual payments relative to calendar years 2007, 2008 and 2009.

J. Other Commitments and Contingencies

County of Niagara

In May 2009, the County of Niagara, "on behalf of its residents", and several individuals commenced an Article 78 lawsuit in Niagara County Supreme Court against the Authority, its Trustees, the State of New York, and the State Comptroller. The lawsuit challenges on numerous grounds the legality of the two temporary asset transfers totaling $318 million and the two voluntary contributions totaling $226 million (except as such contributions relate to the Power for Jobs Program) that were approved as discussed above by the Authority's Trustees in January and February 2009. Among other things, the lawsuit seeks judgment providing for the return to the Authority of any such monies that have been paid; prohibiting such asset transfers and voluntary contributions in the future; directing the Authority to utilize such returned monies only for "statutorily permissible purposes"; directing the Authority to "rebate" to certain customers receiving hydropower from it some portion, to be determined, of the monies returned to the Authority; and directing that the Authority submit to an audit by the State Comptroller. No temporary or preliminary injunctive relief is sought in the petition. By decision dated October 5, 2009, the court granted a cross-motion by petitioners to amend the petition so as to remove the State Comptroller from the case. By decision dated December 23, 2009, the court denied respondents' motion to dismiss the petition and granted petitioners' motion to file a complaint and serve discovery demands. The Authority and the State moved for permission to appeal Justice Boniello's decision to the Appellate Division, Fourth Department. That motion was granted on March 5, 2010, and the Authority and the State hope to perfect that appeal shortly.

On January 25, 2010, petitioners filed their complaint and also served requests for documents, interrogatory responses, and depositions. On March 4, 2010, the Authority made a motion to dismiss the new complaint on the following grounds: (1) the new causes of action (unjust enrichment, conversion, breach of a fiduciary duty, and General Business Law § 349) fail to state a cause of action or are otherwise barred; and (2) the relief sought is identical to the relief sought under the still pending Article 78 petition. Petitioners served their opposition, along with a cross-motion seeking summary judgment on the complaint's first cause of action, on April 16, 2010. The parties appeared for oral argument on May 5, 2010. Justice Boniello reserved decision on those motions. The current motion to dismiss automatically stays discovery in this matter.

The Authority is unable to predict the outcome of this matter but believes it has meritorious defenses with respect to the claims asserted in the petition.

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 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 2009, the NYC Governmental Customers agreed to continue the "Energy Charge Adjustment with Hedging" cost recovery mechanism under which all variable costs are passed on to them. The Authority incorporated the Trustee-approved fixed costs, the variable costs determined under the Agreement's rate-setting process and the ECA set forth in the Agreement, into new rates effective for 2009 billings.

For 2010, the NYC Governmental Customers chose a market-risk hedging price option designated a modified "sharing option," and the customers and the Authority will share equally in actual non-energy related cost variations (up to $60 million) above a projected amount for the year and cost variations in excess of $60 million are borne by the Authority. In addition, if actual costs are below the projected amount, the NYC Governmental Customers and the Authority share equally in such savings after the NYC Governmental Customers receive the first $10 million in savings, in aggregate over the term of the Agreement. Under this modified sharing option, the NYC Governmental Customers agreed to absorb all variations, either positive or negative in the cost of energy supply.

The NYC Governmental Customers are committed to pay for any supply secured for them by the Authority which results from a collaborative effort.

In anticipation of the closure of the Authority's existing Poletti Project in January 2010, and in addition to its supply agreements, the Authority, in November 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 as early as the summer of 2010. In April 2008, the Authority's Trustees authorized negotiation of a long-term electricity supply contract with Astoria Generating LLC for the purchase of the output of a new 500-MW power plant to be constructed in Astoria, Queens, adjacent to its existing plant. Following approval of the NYC Governmental Customers, the Authority and Astoria Energy entered into a long-term supply contract in July 2008. The costs associated with the contract will be borne by these customers. It is anticipated that the new plant will enter into service by the summer of 2011.

Energy Cost Savings Benefits

Legislation was enacted into law in July 2005 (Chapter 313, 2005 Laws of New York) (the 2005 Act) which amended the Act and the New York Economic Development Law (EDL) in regard to several of the Authority's economic development power programs and the creation of energy cost savings benefits to be provided to certain Authority customers. Relating to the Energy Cost Savings Benefits (ECS Benefits), the 2005 Act revises the Act and the EDL to allow up to 70 MW of relinquished Replacement Power, up to 38.6 MW of Preservation Power that might be relinquished or withdrawn in the future, and for a limited period up to an additional 20 MW of unallocated St. Lawrence-FDR Project power to be sold by the Authority into the market and to use the net earnings, along with other funds of the Authority, as deemed feasible and advisable by the Authority's Trustees, for the purpose of providing ECS Benefits. The ECS Benefits are administered by New York State Economic Development Power Allocation Board (EDPAB) and awarded based on criteria designed to promote economic development, maintain and develop jobs, and encourage new capital investment throughout New York State. Initially scheduled to expire on December 31, 2006, additional legislative enactments have extended the ECS Benefits program through June 2, 2010. As of the date hereof, the ECS Benefits program has expired, but there are several legislative proposals to replace the program, none of which has been enacted into law.

A 2006 amendment to this legislation provides that the Authority make available for allocation to customers the 70 MW of hydropower that had been utilized as a source of funding the ECS Benefits. From the inception of the ECS Benefits program through December 31, 2007, there were no ECS Benefits paid by the Authority from internal funds, as opposed to funds derived from the sale of such hydropower. For 2008, due to the general increase in energy prices, the Authority paid $20.7 million in ECS Benefits from internal funds. In 2009, following the general decline in energy prices, no ECS Benefits were paid from internal funds of the Authority, nor were any such payments from internal funds made through the June 2, 2010 expiration date of the program.

Other Developments

In response to the effects of the economic downturn on New York's manufacturing sector, the Authority's Trustees in March 2009 approved execution of an agreement with Alcoa, Inc. to provide temporary relief from certain power sales contract provisions relating to Alcoa's Massena, New York manufacturing operations, including allowing Alcoa to release back to the Authority certain hydropower allocated to it, temporary waivers of certain minimum bill and employment thresholds, and entry into arrangements with the Authority for inclusion of a portion of Alcoa's load in the NYISO's demand response programs. In addition, in May 2009, the Authority's Trustees authorized a temporary program whereby up to $10 million would be utilized to provide electric bill discounts for up to a year to businesses located in Jefferson, St. Lawrence, and Franklin counties. These counties constitute the geographic region served by the Authority's Preservation Power program. The source of the $10 million is the net margin resulting from the sale of a portion of Alcoa's currently unused Preservation Power allocation into the NYISO markets. Further, in March 2009, the Authority's Trustees (a) approved the deferral for recovery in the future of a proposed $10 million hydropower rate increase for the Authority's municipal electric and rural cooperative customers, neighboring state municipal customers, upstate investor-owned utilities, and certain other customers that was scheduled to go into effect on May 1, 2009, and (b) withdrew a proposed $5.3 million hydropower rate increase for the Authority's Replacement Power, Expansion Power, and certain other industrial customers that was scheduled to go into effect on May 1, 2009. No further action was taken regarding these rates through June 30, 2010.

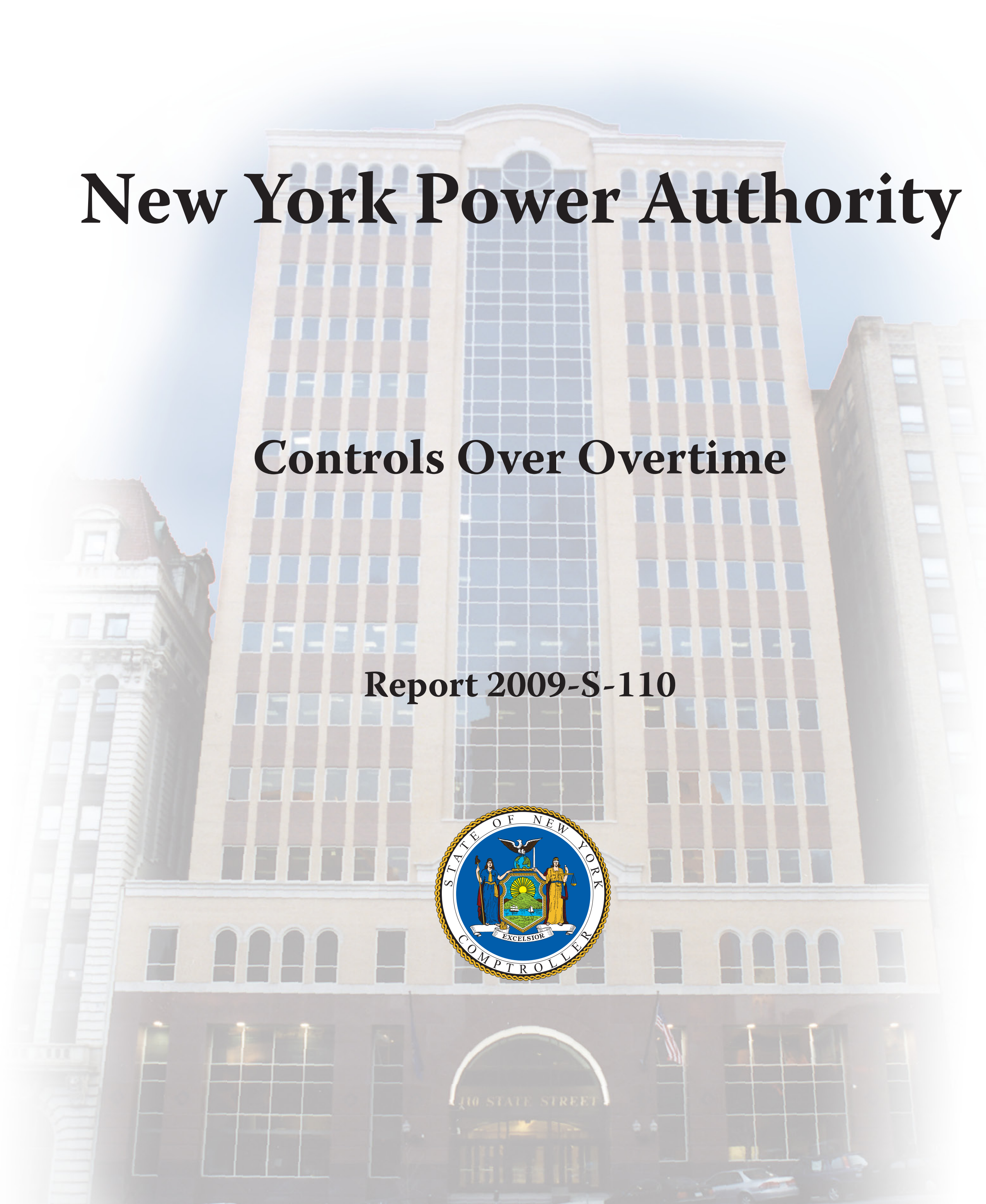
NOTES to FINANCIAL STATEMENTS
JUNE 30, 2010 and 2009
(Unaudited)

In addition to the matters described herein, 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.

4. Results of OSC Overtime Audit

The Office of the State Comptroller ("OSC") recently completed an audit of the Authority's overtime controls for the period 2007-09. The report issued as a result of the audit was positive, with the audit finding that the Authority's overtime costs were necessary and that overtime was distributed equitably, with supervisors in place to determine that the overtime work was in fact taking place. OSC did comment that they thought the Authority could reduce its overtime if it added staff and accelerated its training programs.

Division of State Government Accountability



New York Power Authority

Controls Over Overtime

Report 2009-S-110

Thomas P. DiNapoli

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State of New York
Office of the State Comptroller

Division of State Government Accountability

July 15, 2010

Michael J. Townsend
Chairman
New York Power Authority
123 Main Street
White Plains, NY 10601

Dear Chairman Townsend:

The Office of the State Comptroller is committed to helping State agencies, public authorities and local government agencies manage government resources efficiently and effectively and, by so doing, providing accountability for tax dollars spent to support government operations. The Comptroller oversees the fiscal affairs of State agencies, public authorities and local government agencies, as well as their compliance with relevant statutes and their observance of good business practices. This fiscal oversight is accomplished, in part, through our audits, which identify opportunities for improving operations. Audits can also identify strategies for reducing costs and strengthening controls that are intended to safeguard assets.

Following is a report of our audit of the New York Power Authority's *Controls Over Overtime*. This audit was performed pursuant to the State Comptroller's authority under Article X, Section 5 of the State Constitution and Section 2803 of the Public Authorities Law.

This audit's results and recommendations are resources for you to use in effectively managing your operations and in meeting the expectations of taxpayers. If you have any questions about this report, please feel free to contact us.

Respectfully submitted,

Office of the State Comptroller
Division of State Government Accountability

State of New York
Office of the State Comptroller

EXECUTIVE SUMMARY

Audit Objectives

Our objectives were to determine if the New York Power Authority's (Authority) overtime hours were necessary and if the Authority made efforts to distribute overtime equitably among its employees. Additionally, we sought to determine if overtime hours paid to employees were worked.

Audit Results - Summary

The Authority is the largest state-owned utility in the United States, operating 16 generating facilities and more than 1,400 circuit-miles of transmission lines. In 2009, the Authority employed nearly 1,900 people with payroll costs of over $154 million, of which over $10 million were overtime costs. Two hydro-electric facilities, the Niagara Power Project (Niagara) and the St. Lawrence-Franklin D. Roosevelt Power Project (St. Lawrence), have the highest amounts of overtime. These two plants incurred over 50 percent of the Authority's total overtime costs for the three calendar years 2007 through 2009. In 2009, Niagara employees worked 53,553 hours of overtime costing almost $3 million; St. Lawrence employees worked 45,350 hours of overtime costing over $2.6 million. Our audit focused on these two facilities.

We determined that overtime hours worked were necessary to maintain minimum staffing levels and to repair operating systems. However, we found that overtime costs could have been reduced if each plant's operations department had been staffed adequately. Currently, both Niagara and St. Lawrence are understaffed.

To meet the minimum staffing requirements at Niagara, the facility requires enough senior operators to fill 21 shifts each week and enough journeyman operators to fill 78 shifts each week. As of March 2010, Niagara only had enough staff to cover 20 senior operator shifts and 65 journeyman operator shifts each week; therefore, a total shortage of 14 shifts a week needed to be covered by overtime. St. Lawrence was short 12 journeyman operator shifts each week. Although both facilities operate an apprenticeship program for new operators, the length of time it takes to complete the program (from three to four years) requires proper planning to prevent staffing levels from dropping precariously low, resulting in unnecessary overtime costs.

We found that overtime hours were being distributed equitably among employees at these two facilities. The Authority's system for distributing overtime provides equal opportunity for all employees within their job titles to work overtime. While we found some employees worked more overtime than others, this was a result of personal preference rather than a result of the distribution system.

We found adequate controls in place to ensure that employees were present during scheduled and overtime shifts, performing assigned duties, and recording time accurately on their timesheets. We conducted a series of floor checks in which we found employees were present and performing their assigned duties; there was no indication of idleness.

Our report contains two recommendations to help reduce overtime costs and maintain adequate staffing levels. Authority officials agreed with our recommendations and have taken actions to implement them.

This report dated July 15, 2010, is available on our website at: http://www.osc.state.ny.us
Add or update your mailing list address by contacting us at: (518) 474-3271 or
Office of the State Comptroller
Division of State Government Accountability
110 State Street, 11th Floor
Albany, NY 12236

Introduction

Background

The Authority is one of New York State's leading suppliers of electricity, operating 16 generating facilities and more than 1,400 circuit-miles of transmission lines. In 2009, the Authority had nearly 1,900 full-time and seasonal employees with payroll costs of over $154 million, including over $10 million in overtime costs. Two hydro-electric facilities, the Niagara Power Project (Niagara) and the St. Lawrence-Franklin D. Roosevelt Power Project (St. Lawrence), had the highest amounts of overtime from 2007 through 2009. These two facilities incurred over 50 percent of the Authority's total overtime costs for the three years. In 2009, Niagara employees worked 53,553 hours of overtime costing almost $3 million; St. Lawrence employees worked 45,350 hours of overtime costing over $2.6 million. We conducted a majority of our testing at these two sites.

Niagara has three main operating facilities: Robert Moses, Lewiston Pump Generating Plant (LPGP) and the Switchyard. These facilities are staffed on a full-time basis, with Robert Moses and LPGP staffed 24 hours a day, 7 days a week. The operations department is staffed 24 hours a day, 7 days a week. Niagara Maintenance department employees work Monday through Friday from 7:00 am to 3:30 pm. St. Lawrence has one main operating facility, a switchyard, seven remote substations, and transmission lines. Its operations and maintenance departments' staff work schedules similar to Niagara. Both Niagara and St. Lawrence have security coverage 24 hours a day, 7 days a week.

Each facility's operations and security departments must maintain minimum staffing levels to run the facilities safely. These levels are agreed upon by management and the unions. The operations departments' daily activities are overseen by operation supervisors, who act as shift management (they are not unionized). The plants are manned by senior and journeyman operators, all of whom are union employees. Barring emergencies, journeyman operators are not used to staff senior operator positions and vice versa. Local units of the International Brotherhood of Electrical Workers (IBEW) represent employees at both Niagara and St. Lawrence. In addition to representing employees and working with management regarding minimum staffing levels, IBEW and management have collectively established the apprenticeship program for new operators.

It takes approximately four years for a new employee to complete the apprenticeship program. Each apprentice must be proficient in 122 tasks before being promoted to a journeyman operator. Until an apprentice completes the program, he or she must have one-on-one supervision by a journeyman or senior operator. At Niagara, the tasks at each of the three main operating facilities may be completed separately. This allows apprentices to work unsupervised at a location where they have completed all tasks before they have accomplished the full apprenticeship. St. Lawrence has one main operating facility and, therefore, apprentices must complete the full apprenticeship before they are allowed to work unsupervised.

Audit Scope and Methodology

We audited the Authority for the period January 1, 2007 through April 13, 2010. To accomplish our objectives, we met with Authority officials to confirm and enhance our understanding of their practices and controls over overtime costs. In addition, we analyzed payroll data received from the Authority, conducted floor checks, reviewed union rules and regulations, and interviewed Authority staff. We conducted a majority of our testing at Niagara and St. Lawrence.

We conducted our performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

In addition to being the State Auditor, the Comptroller performs certain other constitutionally and statutorily mandated duties as the chief fiscal officer of New York State. These include operating the State's accounting system; preparing the State's financial statements; and approving State contracts, refunds, and other payments. In addition, the Comptroller appoints members to certain boards, commissions and public authorities, some of whom have minority voting rights. These duties may be considered management functions for purposes of evaluating organizational independence under generally accepted government auditing standards. In our opinion, these functions do not affect our ability to conduct independent audits of program performance.

Authority

This audit was performed pursuant to the State Comptroller's authority under Article X, Section 5 of the State Constitution and Section 2803 of the Public Authorities Law.

Reporting Requirements

A draft copy of our audit observations were provided to Authority officials for their review and comment. Their comments were considered in preparing this report and are included at the end of the report.

Within 90 days of the final release of this report, as required by Section 170 of the Executive Law, the Chairman of the Authority shall report to the Governor, the State Comptroller, and the leaders of the Legislature and fiscal committees, advising what steps were taken to implement the recommendations contained herein, and where recommendations were not implemented, the reasons therefor.

Contributors to the Report

Major contributors to this report were Frank Houston, Walter Irving, Greg Petschke, Heather Pratt, Rick Podagrosi, Kelly Evers Engel, and Andre Spar.

Audit Findings and Recommendations

Need for Overtime

Management is responsible for identifying, controlling and reducing risks that can impede an organization from accomplishing its mission. In a period of economic downturn, managing an organization's costs, including overtime, is essential. We reviewed overtime records and spoke with Authority staff and concluded that overtime was necessary to maintain minimum staffing levels and perform repairs to the operating systems. However, we found that overtime costs could have been reduced if both the Niagara and St. Lawrence operations departments had been staffed adequately.

The maintenance departments at Niagara and St. Lawrence generate most of their overtime when they need to repair units within the plant or when major overhauls/upgrades to equipment are needed. If a unit needs to be repaired, the maintenance department does a cost analysis to determine whether it is more cost effective to incur overtime to repair the broken unit or to keep the unit shut down and repair it during normal maintenance hours (i.e., Monday to Friday between 7 a.m. and 3:30 p.m.). At Niagara, the maintenance department also incurs some overtime from the operation of an ice boom on the Niagara River. This overtime is generally for a short time, though that varies with the amount of ice that accumulated over the winter. Given these situations, we found the maintenance departments incur overtime on an as-needed basis and all overtime was justified and necessary when worked. Also, we determined that hiring additional staff would not necessarily mitigate overtime in this area.

For the security departments, overtime is generated primarily to maintain minimum staffing requirements. We found the security department at Niagara had just enough Sergeants to provide minimum staffing levels. Therefore, whenever a Sergeant took leave (e.g., for training, vacations, or sick leave), the shift had to be covered by another Sergeant working overtime. However, we analyzed the amount of overtime hours worked by Niagara's Sergeants and determined it would not be cost beneficial to hire an additional Sergeant, as the overtime needs were not enough to justify an additional position.

Each week, in 2009, the operations departments at Niagara and St. Lawrence incurred an average of approximately 389 hours of overtime (208 at Niagara and 181 at St. Lawrence) costing over $25,000. This totaled over $1.3 million for the year. While we found this overtime was necessary to meet minimum staffing needs, we concluded that these overtime costs can be reduced if the two plants hired additional staff.

Each plant's operations department, which is staffed by senior and journeyman operators, must meet minimum staffing requirements to operate 24 hours a day, 7 days a week. Management stated they have reviewed the staffing requirements and these levels are necessary to keep the plants operating safely and effectively. To meet the minimum staffing requirements at Niagara, the plant requires enough senior operators to cover 21 shifts each week and enough journeyman operators to cover 78 shifts each week. As of March 2010, Niagara only had enough staff to cover 20 senior operator and 65 journeyman operator shifts each week; therefore, a total shortage of 14 shifts a week needs to be covered by overtime. St. Lawrence was short 12 journeyman operator shifts each week.

Currently, the Niagara and St. Lawrence plants have a total of 13 apprentices in their operations departments (6 apprentices at Niagara and 7 at St. Lawrence). An apprentice must receive one-on-one supervision from a journeyman or senior operator. Consequently, in most instances, apprentices cannot fill shift shortages. Plant management stated that when the current 13 apprentices finish their training programs, each site should have enough journeyman operators to meet minimum staffing levels and overtime should decrease accordingly.

However, it will take the current apprentices from one to four years to complete the program. In addition, we identified at least 11 potential vacancies that may occur within the next three years, as employees are eligible to retire. Incurring consistent levels of overtime strains the productivity of staff. Also, if levels drop further it can jeopardize the facilities' ability to meet minimum staff requirements and achieve the Authority's mission to provide clean, efficient, reliable energy with a consistent commitment to safety.

Officials stated the past administration attempted to downsize the number of operations positions by not filling vacancies as they occurred. Current management discerned the prior administration's direction was not realistic to maintain operations and began addressing the situation by filling positions. However, at that point, the number of vacancies was significant.

Officials stated they have received authorization to fill 40 additional operations and maintenance positions in 2010 and intend to tie them to positions that are likely to become vacant due to retirement. Also, management has stated they are working with the unions to adjust the length of the apprenticeship program. We recognize the current administration's efforts to remedy the staffing shortages. However, good internal controls require continuous monitoring from all levels within the organization. Without continuous monitoring and planning for potential vacancies, it is possible for staffing levels to fall below safe levels.

Distribution of Overtime

We found the Authority has implemented an equitable system for distributing overtime among employees. The Authority does not distribute overtime based on seniority, as is common in many other public authorities. Instead, overtime for security, operations and maintenance departments is distributed based on a ranking generated by the total overtime hours worked or offered to employees. The employee with the lowest ranking (i.e., the fewest overtime hours offered or worked) is offered overtime first. Rather than offering the overtime to the most senior employee continuously, this allows overtime to be distributed more equitably. While we noticed some employees worked more overtime than others, this was attributed to personal preference, rather than an inequity in the system. We reviewed overtime ranking lists and found the system is functioning as intended.

Overtime Worked by Employees

Management and supervisors should ensure that authorized overtime hours are actually worked. There are various controls in place at both St. Lawrence and Niagara to ensure employees are working assigned hours. All employees have supervisors on site for every shift worked and all employees are required to display badges upon entering and leaving each location. This enables security to monitor who enters and leaves the facility at all times. All guards must check in with their Sergeant at the beginning and end of each shift. During each shift, employees are required to complete forms, perform and record rounds, tag equipment, fill out work orders, and take various readings. Additionally, operations and maintenance employees have their time tracked and charged to specific work orders.

We found controls at Niagara and St. Lawrence were functioning as intended. We conducted floor checks at both sites, focusing on positions in which the highest overtime earners worked, and found employees were present and performing assigned functions. We did not notice idleness suggesting a lack of work for employees; rather, we noted a dedication to job performance and safety among sampled employees. We conducted floor checks across all shifts (day, evening/swing, and night). We also reviewed time records for the highest overtime-earning employees at both sites and found time was tracked to work orders as required.

Recommendations 1. Monitor staffing levels continuously to ensure sufficient staff are hired to maintain adequate staffing levels.

Communicate with union representatives and explore opportunities to shorten the time to complete the apprenticeship program.

(Authority officials agreed with our recommendations and indicated they are taking actions to implement them.)

Agency Comments

123 Main Street
White Plains, NY 10601-3170
914 681.6200

NewYorkPower Authority

June 28, 2010

Mr. Frank J. Houston
Audit Director
Office of the State Comptroller
Division of State Government Accountability
123 William Street – 21st Floor
New York, NY 10038

Dear Mr. Houston:

I write on behalf of the Power Authority of the State of New York ("Authority") in response to the draft audit report (2009-S-110) entitled "New York Power Authority Controls Over Overtime" ("Report"). The audit was conducted for the period from January 1, 2007 through April 13, 2010.

At the outset, on behalf of Authority and staff, I thank the Office of the State Comptroller ("OSC") for (i) its balanced reporting approach, (ii) OSC's recognition of the cooperation extended by Authority staff to OSC auditors during the audit, and (iii) the approach OSC took in conducting the audit which served to reduce disruptions to NYPA's operations.

We are pleased that the OSC audit found that:

- overtime hours worked were necessary to maintain minimal staffing levels and to repair operating systems;
- overtime hours were being distributed equitably among employees at the Niagara and St. Lawrence hydropower facilities;
- the Authority's system for distributing overtime provides equal opportunity for all employees within their job titles to work overtime;
- there are adequate controls in place to ensure that employees were present during scheduled and overtime shifts, performing assigned duties, and recording time accurately on timesheets; and
- employees were present and performing their assigned duties and there was no indication of idleness.

We note that the Report contains two recommendations: (1) "monitor staffing levels continuously to ensure sufficient staff are hired to maintain adequate staffing levels"; and (2) "communicate with union representatives and explore opportunities to shorten the time to complete the apprenticeship program."

The Authority agrees with the OSC's recommendations and has taken steps to implement them. On the issue of staffing, we should emphasize that the Authority's facilities are staffed to ensure that they are operated and maintained in a safe and reliable manner. In addition, staff overtime is inevitable given that the Authority operates and maintains critical energy infrastructure and related activities around the clock. As indicated in the Report, the Authority is in the process of hiring and training additional staff which should reduce overtime at the hydroelectric facilities. The Authority will report on the progress of its implementation in the 90-day status report.

We respectfully request that this response be made part of and incorporated into the final audit report.

If you have any questions, please do not hesitate to contact me at 914-681-6800.

Very truly yours,

Richard M. Kessel
President and Chief Executive Officer

RMK/tac

5. Internal Audit Activity Report

Mr. Lesly Pardo presented an overview of Internal Audit's ("IA") activity for the first half of 2010. He said that as of June 30, 14 audits had been completed, including 10 financial/internal control; 3 information technology and 1 special project. Six audits were in progress as of June 30. Approximately 54% of the audits included in the 2010 Audit Plan have been completed or are in progress. Mr. Pardo said that 7 audit reports containing 31 recommendations had been issued and that 6 reports were under review as of June 30. All of the recommendations in the audit reports had been accepted by management and the accepted recommendations are being actively tracked. Mr. Pardo also said that IA had received full cooperation and support from management and that IA staff were given full and unrestricted access to all documents, records and personnel necessary to perform their work.

IA staff also completed two special investigations conducted with Ethics Office staff. One involved an allegation brought by a North Country landowner against a St. Lawrence salaried employee that the employee had used Authority assets and intellectual property and conducted private business during Authority time. The investigation substantiated the allegation and management took disciplinary action against the employee. The other investigation involved a referral from the New York State Inspector General's Office regarding an anonymous complaint that a salaried employee was constantly using Authority e-mail and phone for personal business. The investigation found no evidence to support the allegation.

In response to a question from Trustee Nicandri, Mr. Pardo said that IA uses an external CPA firm to audit Economic Development Customer Job Reports, including Power for Jobs customers. He said that this is an ongoing process, with approximately 100 companies audited in 2009-10. Responding to another question from Trustee Nicandri, Ms. Terryl Brown said that current Power for Jobs customers will have to reapply for the program and update their employment numbers at that time. A discussion ensued about the appropriate sample number for future Power for Jobs audits and Mr. Pardo said that he would provide a description of the sample to the Audit Committee members for their review and comment.

Audit Committee

Internal Audit Activity Report

June 30, 2010

New York Power Authority
Generating more than electricity

2010 INTERNAL AUDIT PLAN
ACTIVITY REPORT
6/30/10
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2010 INTERNAL AUDIT PLAN
ACTIVITY REPORT
6/30/10
SUMMARY

- Completed 14 audits and projects including 10 financial/operational and three (3) information technology audits and one (1) special project.
- Six (6) audits in progress as of 6/30/10.
- Approximately 54% of the audits in the original Audit Plan have been completed or in progress.
- Issued seven (7) audit reports. Six (6) reports under review as of 6/30/10.
- Thirty-one (31) recommendations were made to improve internal controls/operational efficiency.
- All recommendations have been accepted by management. Accepted recommendations are being actively tracked and critical recommendations implemented are being verified.
- Completed two (2) special investigations.
- We are receiving management's full cooperation and support.

2010 INTERNAL AUDIT PLAN
ACTIVITY REPORT
6/30/10
LIST OF AUDITS COMPLETED/IN-PROGRESS

Audit Areas

Financial/Operational	**Status**
1. Financial Planning/Forecast Development	Completed
2. Fleet Operations	Completed
3. Economic Development Programs	Completed
4. Power Resource Planning and Acquisition	Completed
5. St. Lawrence Purchasing & Warehousing	Completed
6. Hydro Revenues	Completed
7. Transmission O&M	Completed
8. Headquarters ProCard	Completed
9. PAAA Compliance	Completed
10. Western Region O&M	Completed
11. NERC Reliability	In-Progress
12. Generation Resource Management	In-Progress
13. Project Management and Cost Estimation	In-Progress

Information Technology	
1. Change Control – Network	Completed
2. IT Disaster Recovery	Completed
3. NERC-CIP Compliance	Completed
4. NYPA Network Security	In-Progress
5. Telecommunications	In-Progress

2010 INTERNAL AUDIT PLAN
ACTIVITY REPORT
6/30/10
LIST OF OTHER PROJECTS

Audit Areas **Other Projects**	**Status**
1. GRC Software Implementation – The software will be used for Internal Audit planning, reporting, audit projects and workpapers.	Completed
2. Stimulus Projects – Confirm NYPA's compliance with the Recovery Act terms and conditions for ARRA funded projects.	In-Progress
3. Economic Development Customer Job Commitment Audits – Conduct audits of customer job reports to verify the number of jobs reported.	On-Going

2010 INTERNAL AUDIT PLAN
ACTIVITY REPORT
6/30/10
INVESTIGATION ACTIVITIES

Internal Audit is responsible for conducting investigations involving cases and instances of fraud, waste and abuse. Internal Audit coordinates efforts with NYPA's Ethics Office in the planning and executing of investigations.

During the first half of 2010, two investigations were completed.

1. An allegation was made by a member of the public (North Country landowner) against a St. Lawrence based salaried employee. The complaint alleges that the NYPA employee was hired to build a fence for the landowner and includes claims that the employee used NYPA assets, NYPA intellectual property and conducted personal business during NYPA time.

   Our investigation substantiated the allegation. Based upon our investigation, management brought disciplinary action against the employee.

2. NYPA's Ethics Office received a referral from the New York State Inspector General's office regarding an anonymous complaint that a salaried employee was constantly using NYPA email and phone for personal business.

   Based upon the results of our investigation, we have found no evidence to support the allegation.

2010 INTERNAL AUDIT PLAN
ACTIVITY REPORT
6/30/10
REPORT RECAP

Report Name	High-Level Audit Objectives	Observations/Findings/ Recommendations
Financial Planning/Forecast Development	Determine the adequacy and effectiveness of operating controls associated with the long range financial plan and operating forecasts. Review data quality control procedures and confirm the disclosure of assumptions used.	-Controls are in place to ensure the completeness, reliability and timeliness of Financial Plan/Operating Forecast. -The Operating Forecast Model should be fully documented. -Additional quality assurance procedures should be established and documented.
Fleet Operations	Evaluate the adequacy and effectiveness of controls over Fleet Operations and ensure compliance with established policies, procedures and applicable laws.	-Controls over Fleet Operations are effective. -Motor and Equipment Policy should be updated. -Develop procedures to collect driver's license data from NYPA employees.
Economic Development Programs	Evaluate the adequacy and effectiveness of controls designed to administer economic development programs and ensure ongoing compliance with programs' terms and conditions and related customer contracts.	-Economic Development Programs are being administered in accordance with various legislative requirements. -Business Power Allocations Policy and Procedures Manual should be updated. -Customer compliance monitoring should be enhanced. -Management reporting should be enhanced to provide decision-makers with information to better understand program performance and compliance. -Records management procedures should be updated.

2010 INTERNAL AUDIT PLAN
ACTIVITY REPORT
6/30/10
REPORT RECAP

Report Name	High-Level Audit Objectives	Observations/Findings/ Recommendations
Power Resource Planning and Acquisition	Evaluate processes and controls over the acquisition of electric energy, capacity and renewable resources. Confirm compliance with NYPA policies and procedures for the issuance of RFPs and approval of projects.	-Overall controls are working effectively. -A formal interim resource plan should be established. -Additional controls are needed over the bid handling process. -Formal procedures should be established for all key processes and controls.
St. Lawrence Purchasing & Warehousing	Evaluate processes and controls associated with purchasing and warehousing activities at the St. Lawrence Power Project. Verify compliance with established policies and procedures.	-Stock purchase requisitions should be processed in accordance with Expenditure Authorization Procedures. -Supervisory review of purchasing transactions should be documented. -A review of the inventory to identify obsolete or surplus materials should be performed.
Hydro Revenues	Determine the adequacy and effectiveness of controls over Niagara/St. Lawrence revenues. Determine that customers are billed accurately and in accordance with authorized rates.	-Controls over customer billings are adequate. -Spreadsheet controls should be implemented. -Formal procedures for the preparation of hydro billing data and supervisory review should be established.

2010 INTERNAL AUDIT PLAN
ACTIVITY REPORT
6/30/10
REPORT RECAP

Report Name	High-Level Audit Objectives	Observations/Findings/ Recommendations
Headquarters ProCard System	Verify compliance with Procurement Credit Card Policy and review processes and controls over (1) ProCard purchases, (2) Approval of ProCard purchases, (3) Monitoring of ProCard purchases, and (4) Records Retention.	-Credit cardholders were substantially in compliance with Procurement Credit Card Policy. -Record Retention procedures should be followed.

6. <u>Updated Internal Audit Policy</u>

Mr. Pardo presented proposed amendments to the Authority's Internal Audit policy.

On motion made and seconded, the amendments to the policy were unanimously approved.

Amendments to Internal Audit Corporate Policy 5-1 (Internal Audit)

Corporate Policy 5-1, Internal Audit Program has been updated. The most significant of these amendments include:

- Internal Audit's responsibilities for conducting special investigations involving cases of fraud, waste and abuse were added. This function was transferred to Internal Audit in 2009.
- Internal Audit's corporate compliance responsibilities were removed. Corporate Compliance was transferred to the Law Department in 2008.

SUBJECT: INTERNAL AUDIT PROGRAM

1.0 SCOPE

This policy establishes the Internal Audit Program for the performance of internal control, operational, information technology and management audits at corporate offices, operating plants, construction sites and/or contractor offices, to provide NYPA management at all levels and the Audit Committee of the Board of Trustees with objective assurance and consulting services designed to add value and improve the organization's internal control structure and operations, and for planning, executing, and directing all fraud prevention/detection internal audit activities within the organization, including the execution of special investigations involving cases and instances of fraud, waste and abuse..

2.0 IMPLEMENTATION

This policy shall be adhered to by the staff of all Authority Business Units and Departments. Implementing procedures shall be prepared as necessary to provide appropriate guidance in meeting the management controls described. Recommendations for changes to this policy or a new corporate policy shall be processed in accordance with CP 1-1 "Corporate Policy Program Administration".

3.0 MANAGEMENT CONTROLS

3.1 Definitions

3.1.1 Internal Audit

Internal Auditing is an independent, objective assurance and consulting activity, involving an internal control system, designed to add value by improving the internal control environment and the Authority's operations. It helps the organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate, test and improve the effectiveness of risk management, internal controls and the governance processes.

General

3.2.1 Internal Audit is responsible to the Audit Committee of the Board of Trustees which shall have oversight responsibility over the activities and results of the Division. As such, Internal Audit will have maximum independence from any area or activity audited or reviewed and evaluated.

3.2.2 Internal Control System

The Internal Control System is a process for self-evaluative review and assessment, effected by the Authority's Board of Trustees, management, employees and contractors. The process is designed to provide reasonable assurance for the achievement of Authority goals and objectives in the following categories:

a) Safeguard of Authority assets
b) Effectiveness and efficiency of operations
c) Reliability of financial reporting and
d) Compliance with applicable laws and regulations.

This definition reflects certain fundamental concepts: (1) internal control is a *process* (2) internal control is effected by *people,* (3) internal control can be expected to provide only *reasonable assurance,* not absolute assurance, to the Authority's management and board, and (4) internal control is geared to the achievement of goals and objectives in one or more separate but overlapping categories.

The Internal Control System consists of the following interrelated components which are derived from the way the Authority operates and which are integrated with its management process.

a) Control Environment - The core of the Authority is its people - their individual attributes, including integrity, ethical values and competence - and the environment, established by Senior Management, in which they operate.

b) Risk Assessment - The Authority establishes mechanisms to identify, analyze and manage risks in achieving Authority goals and objectives. These mechanisms are integrated with the production, transmission, marketing, finance and other activities so that the organization is operating in concert.

c) Control Activities - Control policies and procedures are established and executed to help ensure that the actions identified by senior management to accomplish the organizations goals and objectives are implemented effectively.

d) Information and Communication – Technological and communication systems that enable Authority personnel to capture and exchange information needed to conduct, manage and control its operations.

e) Monitoring - The Internal Control process is monitored and modifications are made as necessary.

Senior Management creates a working environment that fosters the integrity, ethical values and competence necessary for implementing a strong Internal Control System.

3.2.3 Internal Audit Program

The Internal Audit Program involves the performance of independent evaluations and tests of the effectiveness and efficiency of the Authority's activities and systems of internal control. All Authority activities and functions are subject to potential review by the Division. These evaluations may result in recommendations for improvements in processes, procedures and internal accounting, operating and administrative controls. Any recommended corrective action that, in the judgment of Internal Audit , does not receive adequate attention will be escalated to an appropriate level of management for resolution. The escalation process may involve successive levels of management and may include the Audit Committee and Trustees in the event a significant issue is not satisfactorily resolved. Management of the audited organization shall be notified of intent to escalate a particular issue and will be encouraged to participate.

The Vice President - Internal Audit is delegated the authority and organizational freedom to perform internal audits of and special investigations involving Business Units, Operating Projects, Facilities, Functional Activities, Support Groups and Construction and Maintenance Projects. The Vice President - Internal Audit is also delegated the authority, when requested, to provide Consulting services and to report thereon in an appropriate fashion.

.

3.3 Responsibilities

3.3.1

The Vice President - Internal Audit develops a flexible annual audit plan using an appropriate risk-based methodology, including any risks or control concerns identified by management and submit that plan to the Audit Committee for review and approval. . The Vice President - Internal Audit will:

a) Manage the Internal Audit function in conformance with the International Standards for the Professional Practice of Internal Auditing, including the Code of Ethics.
b) Maintain a professional audit staff or utilize external audit services to obtain sufficient knowledge , skills, experience and professional certifications to execute the purpose and responsibilities specified within this policy.
c) Execute the annual audit plan, including as appropriate, any special projects requested by management and the Audit Committee.
d) Conduct and assist in the review and investigation involving cases and instances of fraud, waste and abuse.

e) Assure that Division staff use its full, free and unrestricted access to all records, personnel and physical properties within the Authority in an ethical manner as to avoid undue interruption of normal operations. Information obtained during the course of audit activities will be held with appropriate confidentiality and employee privacy will be maintained.

f) Provide the Board of Trustees, through the Audit Committee, with periodic reports (oral and written) on the overall activities, use of resources, and results of audits and evaluations, including recommended courses of corrective action as may be appropriate.

g) Communicate to management (and the Audit Committee as necessary) any information disclosed during the course of Internal Audit and assignments which would have an impact on the decision making process.

h) Implement a periodic and ongoing quality assurance and improvement program as recommended by the Institute of Internal Auditors.

i) Coordinate activities with the External Auditor and other control and monitoring functions within NYPA (Enterprise Risk, Corporate Compliance) for the purpose of providing optimal assurance coverage to the organization at an efficient cost.

3.3.2 The Internal Control Officer primarily coordinates all Business Units and Departments of the Authority in implementing and maintaining cost effective internal controls. Senior Management has designated the Vice President - Controller as the Internal Control Officer as required by the Governmental Accountability, Audit and Internal Control Act of 1987.

3.3.3 Business Unit and Department Heads, Vice Presidents, Regional Managers and Department Managers shall implement, maintain and document an effective Internal Control System. They shall take an active part in the internal audit process within their areas and provide assistance to Internal Audit as requested.

3.3.4 All Authority employees shall maintain the integrity of the Internal Control System in performance of their day-to-day activities.

4.0 REFERENCES

4.1 CP 1-1 Corporate Policy Program Administration

____
President and Chief Executive Officer

SUBJECT: <u>INTERNAL AUDIT PROGRAM</u>

1.0 SCOPE

This policy establishes the Internal Audit Program for the performance of internal control, operational, information technology and management audits at corporate offices, operating plants, construction sites and/or contractor offices, to provide NYPA management at all levels and the Audit Committee of the Board of Trustees with objective assurance and consulting services designed to add value and improve the organization's internal control structure and operations, and for planning, executing, and directing all fraud prevention/detection internal audit activities within the organization, including the execution of special investigations involving cases and instances of fraud, waste and abuse.

2.0 IMPLEMENTATION

This policy shall be adhered to by the staff of all Authority Business Units and Departments. Implementing procedures shall be prepared as necessary to provide appropriate guidance in meeting the management controls described. Recommendations for changes to this policy or a new corporate policy shall be processed in accordance with CP 1-1 "Corporate Policy Program Administration".

3.0 MANAGEMENT CONTROLS

3.1 <u>Definitions</u>

3.1.1 Internal Audit

Internal Auditing is an independent, objective assurance and consulting activity, involving an internal control system, designed to add value by improving the internal control environment and the Authority's operations. It helps the organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate, test and improve the effectiveness of risk management, internal controls and the governance processes.

3.2 <u>General</u>

3.2.1 Internal Audit is responsible to the Audit Committee of the Board of Trustees which shall have oversight responsibility over the activities and results of the Division. As such, Internal Audit will have maximum independence from any area or activity audited or reviewed and evaluated.

3.2.2 Internal Control System

The Internal Control System is a process for self-evaluative review and assessment, effected by the Authority's Board of Trustees, management, employees and contractors. The process is designed to provide reasonable assurance for the achievement of Authority goals and objectives in the following categories:

a) Safeguard of Authority assets
b) Effectiveness and efficiency of operations
c) Reliability of financial reporting and
d) Compliance with applicable laws and regulations.

This definition reflects certain fundamental concepts: (1) internal control is a *process* (2) internal control is effected by *people,* (3) internal control can be expected to provide only *reasonable assurance,* not absolute assurance, to the Authority's management and board, and (4) internal control is geared to the achievement of goals and objectives in one or more separate but overlapping categories.

The Internal Control System consists of the following interrelated components which are derived from the way the Authority operates and which are integrated with its management process.

a) Control Environment - The core of the Authority is its people - their individual attributes, including integrity, ethical values and competence - and the environment, established by Senior Management, in which they operate.

b) Risk Assessment - The Authority establishes mechanisms to identify, analyze and manage risks in achieving Authority goals and objectives. These mechanisms are integrated with the production, transmission, marketing, finance and other activities so that the organization is operating in concert.

c) Control Activities - Control policies and procedures are established and executed to help ensure that the actions identified by senior management to accomplish the organizations goals and objectives are implemented effectively.

d) Information and Communication – Technological and communication systems that enable Authority personnel to capture and exchange information needed to conduct, manage and control its operations.

e) Monitoring - The Internal Control process is monitored and modifications are made as necessary.

Senior Management creates a working environment that fosters the integrity, ethical values and competence necessary for implementing a strong Internal Control System.

3.2.3 Internal Audit Program

The Internal Audit Program involves the performance of independent evaluations and tests of the effectiveness and efficiency of the Authority's activities and systems of internal control. All Authority activities and functions are subject to potential review by the Division. These evaluations may result in recommendations for improvements in processes, procedures and internal accounting, operating and administrative controls. Any recommended corrective action that, in the judgment of Internal Audit , does not receive adequate attention will be escalated to an appropriate level of management for resolution. The escalation process may involve successive levels of management and may include the Audit Committee and Trustees in the event a significant issue is not satisfactorily resolved. Management of the audited organization shall be notified of intent to escalate a particular issue and will be encouraged to participate.

The Vice President - Internal Audit is delegated the authority and organizational freedom to perform internal audits of and special investigations involving Business Units, Operating Projects, Facilities, Functional Activities, Support Groups and Construction and Maintenance Projects. The Vice President - Internal Audit is also delegated the authority, when requested, to provide Consulting services and to report thereon in an appropriate fashion.

3.3 Responsibilities

The Vice President - Internal Audit develops a flexible annual audit plan using an appropriate risk-based methodology, including any risks or control concerns identified by management and submit that plan to the Audit Committee for review and approval. The Vice President - Internal Audit will:

a) Manage the Internal Audit function in conformance with the International Standards for the Professional Practice of Internal Auditing, including the Code of Ethics.

b) Maintain a professional audit staff or utilize external audit services to obtain sufficient knowledge, skills, experience and professional certifications to execute the purpose and responsibilities specified within this policy.

c) Execute the annual audit plan, including as appropriate, any special projects requested by management and the Audit Committee.

d) Conduct and assist in the review and investigation involving cases and instances of fraud, waste and abuse.

e) Assure that Division staff use its full, free and unrestricted access to all records, personnel and physical properties within the Authority in an ethical manner as to avoid undue interruption of normal operations. Information obtained during the course of audit activities will be held with appropriate confidentiality and employee privacy will be maintained.

f) Provide the Board of Trustees, through the Audit Committee, with periodic reports (oral and written) on the overall activities, use of resources, and results of audits and evaluations, including recommended courses of corrective action as may be appropriate.

g) Communicate to management (and the Audit Committee as necessary) any information disclosed during the course of Internal Audit and assignments which would have an impact on the decision making process.

h) Implement a periodic and ongoing quality assurance and improvement program as recommended by the Institute of Internal Auditors.

i) Coordinate activities with the External Auditor and other control and monitoring functions within NYPA (Enterprise Risk, Corporate Compliance) for the purpose of providing optimal assurance coverage to the organization at an efficient cost.

3.3.1 The Internal Control Officer primarily coordinates all Business Units and Departments of the Authority in implementing and maintaining cost effective internal controls. Senior Management has designated the Vice President - Controller as the Internal Control Officer as required by the Governmental Accountability, Audit and Internal Control Act of 1987.

3.3.2 Business Unit and Department Heads, Vice Presidents, Regional Managers and Department Managers shall implement, maintain and document an effective Internal Control System. They shall take an active part in the internal audit process within their areas and provide assistance to Internal Audit as requested.

3.3.3 All Authority employees shall maintain the integrity of the Internal Control System in performance of their day-to-day activities.

4.0 REFERENCES

4.1 CP 1-1 Corporate Policy Program Administration

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President and Chief Executive Officer

7. Next Meeting

Chairman Curley and Trustees Nicandri agreed that the next regular meeting of the Committee would be held immediately following the 9:00 a.m. Governance Committee on Tuesday, October 26, 2010.

On motion made and seconded, the meeting was adjourned at approximately 11:40 a.m.