MINUTES OF THE MEETING
OF
THE AUDIT COMMITTEE

March 14, 2011

A meeting of the Audit Committee was held via videoconference at the Authority's offices at 501 Seventh Avenue, New York, New York, 123 Main Street, White Plains, New York and 95 Perry Street, Buffalo, New York at approximately 4:00 p.m.

The following Members of the Audit Committee were present:

Trustee D. Patrick Curley, Chairperson
Vice Chairman Jonathan Foster
Trustee Eugene L. Nicandri
Trustee Mark O'Luck

Also in attendance were:

Gil Quiniones	*Chief Operating Officer*
Judith McCarthy	*First Deputy General Counsel*
Elizabeth McCarthy	*Executive Vice President and Chief Financial Officer*
Donald Russak	*Senior Vice President – Corporate Planning and Finance*
Joan Tursi	*Senior Vice President – Corporate Support Services*
Joseph Gryzlo	*Vice President – Labor Relations & Chief Ethics & Compliance Officer*
Patricia Leto	*Vice President – Procurement*
Lesly Pardo	*Vice President – Internal Audit*
Karen Pasquale	*Vice President Enterprise Shared Services*
Karen Delince	*Corporate Secretary*
Brian McElroy	*Treasurer*
Thomas Concadoro	*Vice President & Controller*
Rod Mullin	*Director – Fuel Planning and Operations*
Michael Saltzman	*Director – Media Relations*
Dennis Eccleston	*Chief Information Officer*
Shannon Sramek	*Senior Investment Analyst*
Louise Nestler	*Assistant Ethics Officer*
Lorna Johnson	*Assistant Corporate Secretary*
Sheila Baughman	*Senior Secretary, Corporate Secretary's Office*
Ken Deon	*Managing Partner, KPMG*
Jamie Cote	*Senior Manager, KPMG*

Introduction

On behalf of the Committee, Chairman D. Patrick Curley welcomed Ms. Judith McCarthy, First Deputy General Counsel, to the meeting.

1. 2011 Internal Audit Plan

Mr. Lesly Pardo presented an overview of the 2011 Internal Audit Plan to the Board. He said that the plan is based on the results of the risk assessment survey and management input and provided the following highlights:

- The Plan will focus on the high risk areas as identified by the risk assessment
- 35 audits have been scheduled, covering all Authority Business Units
- 9 audits will be conducted at the facilities
- Key audits include Energy Hedging, Fuel Operations, Customer Load Forecasting, SENY Revenues, Energy Management System and Energy Services Program; 2 operational audits have also been scheduled at St. Lawrence and Blenheim-Gilboa Projects
- Assistance to KPMG in their audit of NYPA's Financial Statements
- Economic Development Job Commitments audits
- Vendor Contract audits
- Support to Ethics office

Mr. Pardo also provided an overview of the Authority's internal audit risk assessment methodology as follows:

- Meetings and interviews with business owners to obtain feedback on critical business objectives and risks
- Risk assessment performed on all auditable entities
- Based on the risk assessment performed by Internal Audit, audits are ranked from high to low in terms of their relative risk
- Based on the results of the risk assessment and management input an Audit Plan is developed
- The proposed Audit Plan is presented to the Executive Management for discussion and feedback

In response to a question from Vice Chairman Jonathan Foster, Mr. Pardo said that the draft Audit Plan was submitted to the Audit Committee for review and comment. In response to further question from Vice Chairman Foster, Mr. Pardo said that the Audits are very comprehensive; however, the Internal Audit staff was able to complete 91% of the 2010 Audit Plan. The Internal Audit division uses a team approach for the audits and believes this method to be an effective use of the division's resources.

In response to a question from Chairman Patrick Curley, Mr. Pardo said that the Energy Hedging audit focuses on the review of the Authority's Hedging Policies and procedures; assessment of the hedging transactions for compliance with the governing policies and monitoring the internal control of the policy and procedures. The Customer Load Forecasting audit focuses on the review of the accuracy of the Authority's load forecasting, for example, customer load profiling and customer load that the Authority submits to the ISO. The SENY Revenues audit focuses on the accuracy of the Authority's billing processes. In response to further question from Chairman Curley, Mr. Pardo said that, with respect to SENY revenues, if the Auditors detect significant billing errors, they would make a recommendation to correct the error and staff would make the necessary adjustment; if in the load forecasting, the Auditors would make a recommendation on how the process could be improved.

In response to a question from Trustee Nicandri, Mr. Pardo said that his suggestion regarding the Law Department's expenditures has been included in the 2011 Audit Plan.

2. Internal Audit Activity Report

Mr. Lesly Pardo presented an overview of Internal Audit's activity for the year 2010. He provided the following highlights:

- As of December 31, 2010, 32 audits had been completed and 3 audits were in progress. These audits have since been completed in January 2011
- All audits in the revised Audit Plan have been completed
- 27 audit reports have been issued
- 70 recommendations were made to improve internal controls/operational efficiency

Mr. Pardo ended by stating that all of the recommendations in the audit reports had been accepted by management and the accepted recommendations are being actively tracked. The Internal Audit staff received full cooperation and support from management and was able to meet or exceed its performance goals for 2010.

3. <u>Approval of the Minutes of the Regular Meeting of October 26, 2010.</u>

The minutes of the Committee's Regular Meeting of October 26, 2010 were adopted.

4. Year-end 2010 Financial Statements

Mr. Thomas Concadoro presented highlights of the Authority's financial statements for the year ended 2010 as follows:

- The Authority had net income of $181 million, a decrease of $72 million from 2009. The most significant factor was the increase in non- operating expenses by $71 million primarily due to higher voluntary contributions to NY State (increase from $70 million in 2009 to $147 million in 2010).

- Operating income for 2010 ($279 million) was slightly lower than 2009(2.5%). Lower fuel and higher purchased power expenses resulted from changes in resources used to serve the SENY customers due to the retirement of the Poletti plant. Cost variations were substantially offset by customer revenues.

- Net generation was 12% lower than 2009. This includes decreases at Niagara & St. Lawrence (lower water flows) and at the fossil facilities due to the closure of Poletti.

- Due to economic conditions, the Authority extended the discount program for the North Country (using released power from ALCOA). This discount will continue until the Alcoa plant comes back on line in 2011. There was an additional deferral of a hydro rate increase in 2010.

  In response to a question from Vice Chairman Foster, Mr. Concadoro said that staff is in the process of evaluating a rate increase, which was postponed through the end of 2010, and would get back to the Board with a recommendation. In response to further question from Vice Chairman Foster, Ms. Elizabeth McCarthy said that the lower rate remains in effect; however, staff will be providing a recommendation in this regard to the Board at a future date.

- PFJ and ECSB programs are being extended by legislation until May 15, 2011.

- Footnotes include updates to voluntary contribution amounts, including 2010 payments of $147 million in voluntary contributions ($107 million in March and $40 million in June). It also disclosed $25 million paid in January 2011 and that the State's executive budget includes $100 million for state fiscal year 2011/12 ($40 million to be paid in June 2011 and the remainder in January 1012).

  In response to a question from Chairman Curley, Mr. Concadoro said that the 2010 and 2011 payments are contributions, subject to the Board's approval, as opposed to a long-term loan.

  In response to a comment by Trustee Nicandri, Ms. Elizabeth McCarthy said that the funds transferred to the state, as referenced in the MOU between the State and the Authority, are scheduled to be returned to the Authority in 2014 and 2017 and are reported on the Authority's Balance Sheet as Long-Term Receivables.

  In response to a suggestion from Vice Chairman Foster, Mr. Concadoro said that staff would make the following change to the financial statements:

  Page 29, second paragraph, replace the word "ensure" with the word "encourage."

The financial statement footnotes include reformatted and expanded disclosures regarding risk management and derivative activities in accordance with Government Accounting Standards Board Statement No. 53 ("GASB 53"), the accounting and financial reporting for derivative instruments.

Fair values reflect an increase in unrealized losses ($ 112 million) primarily in medium term hedging positions taken to support NYC Government customers (recoverable from customers through rates)

In response to a question from Vice Chairman Foster, Mr. Concadoro said that the 2010 – 2011 contribution to the Employees Retirement System has been set at 16% of payroll. In response to a question from Trustee Nicandri, Ms. McCarthy said that, based on the most recent information she had, the retirement system was fully funded.

In response to a question from Vice Chairman Foster, Ms. McCarthy said that, the following adjustment will be made to the "Notes" section on page 70, titled "Wind and Solar initiatives," as follows:

First paragraph, delete last sentence and add the sentence "Evaluation of responses is currently ongoing."

Second paragraph, delete wording in last sentence referencing anticipated recommendation to the Trustees in first quarter 2011 and add the sentence "Evaluation of responses is currently ongoing."

The Committee members agreed to the changes.

On motion made and seconded the following resolution, subject to the aforementioned changes, was unanimously adopted.

WHEREAS, the Executive Vice President and Chief Financial Officer and Controller have prepared, reviewed and submitted for consideration of the Audit Committee the attached financial statements for the year ending 2010; and

WHEREAS, the Audit Committee has itself reviewed the attached financial statements;

NOW THEREFORE BE IT RESOLVED, That the Audit Committee recommend that the Authority's Trustees approve the financial statements for the year ended December 31, 2010.

5. Summary of 2010 Annual Audit of Financial Statements

Mr. Ken Deon, Managing Partner at KPMG, presented an overview of the 2010 Audit results. He said that as of February 18, 2011, KPMG completed all scheduled Authority audits for 2010 and outlined the Audit results which were consistent with KPMG's 2010 Audit Plan. Mr. Deon also gave a summary of KPMG's responsibilities in conducting the audit in accordance with the generally accepted auditing standards.

Mr. Jamie Cote, Senior Partner at KPMG, discussed the significant accounting policies of the Authority as disclosed in the financial statements; significant judgments and estimates used by management in the preparation of the financial statements; key audit risks and issues; involvement of specialists and consideration of fraud risks. Mr. Cote ended by stating that KPMG would not be issuing a management letter for the year 2010 since they had no recommendations.

In response to a question from Trustee Eugene Nicandri, Mr. Deon said that the Audit report is for the year 2010 and that the Audit period is from January 1, 2010 through December 31, 2010. In response to a further question from Trustee Nicandri, Mr. Deon said that there were no matters arising from the 2010 Audit that require the Audit Committee to take any action; the Committee should continue its monitoring of the Authority's accounting activities.

In response to a question from Chairman Patrick Curley, Mr. Deon said that KPMG maintained a professional relationship with the Authority's senior management throughout the Audit. The auditors maintained their objectivity and focused on making sure that there were no conflicts of interests or independence issues in performing the Audit. He continued that, throughout the Audit, the auditors provided senior management with suggestions and observations. Also, as part of the audit process, the auditors suggested changes to the financial statements. He ended by saying that during the 2010 Audit, the Authority's staff coordinated closely with KPMG's auditors in the implementation of Government Accounting Standards Board Statement No. 53 ("GASB 53"), the accounting and financial reporting for derivative instruments.

In response to further question from Trustee Nicandri, Mr. Deon said that the auditors had meetings with staff from the Information Technology ("IT") department responsible for the implementation of the suggestions based on the auditors' prior year's management letter. The Auditors reviewed documentation provided by the IT staff, and, after discussions between staff and the Auditors, the Auditors concluded that the Authority had addressed their recommendations.

6. <u>Motion to Conduct an Executive Session</u>

Mr. Chairman, I move that the Authority conduct an executive session pursuant to the Public Officers Law of the State of New York section §105 to discuss matters leading to the appointment, employment, promotion, demotion, discipline, suspension, dismissal or removal of a particular person or corporation. On motion made and seconded, an Executive Session was held.

7. <u>Motion to Resume Meeting in Open Session</u>

Mr. Chairman, I move to resume the meeting in Open Session. On motion made and seconded, the meeting resumed in Open Session.

8. Next Meeting

The next regular meeting of the Audit Committee will be determined.

On motion made and seconded, the meeting was adjourned at approximately 5:30 p.m.

March 14, 2011

EXHIBITS

For

March 14, 2011

Meeting Minutes

AUDIT COMMITTEE

2011 INTERNAL AUDIT PLAN

New York Power Authority
Generating more than electricity

2011 AUDIT PLAN
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2011 AUDIT PLAN SUMMARY

- 2011 Plan is based on the results of the risk assessment survey and management input.
- Focus on the high risk areas as identified by our risk assessment.
- Thirty-five (35) audits are scheduled including 25 financial/operational and 10 information technology audits covering all Business Units.
- Nine (9) financial/operational and/or information technology audits will be conducted at the facilities.
- Key audits scheduled include Energy Hedging, Fuel Operations, Customer Load Forecasting, SENY Revenues, Energy Management System, Energy Services Program, and operational audits at St. Lawrence and Blenheim-Gilboa.
- Other projects include assistance to KPMG in their audit of NYPA's Financial Statements, work on Economic Development Job Commitment audits, vendor contract audits and the usual support to the Ethics office.
- 2011 Plan will provide comprehensive audit coverage, deploying Internal Audit resources in an effective and efficient manner.
- Performance Goals
  - Completion of high risk audit areas – goal of 100%.
  - Completion of the Audit Plan – goal ≥ 90%.

2011 AUDIT PLAN
RISK ASSESSMENT METHODOLOGY

- NYPA's Strategic Plan, business activities and related control systems are examined to determine auditable entities (Audit Universe).
- Meetings and interviews with business owners were conducted to obtain feedback on critical business objectives and risks.
- A risk assessment is performed on all auditable entities based upon the following risk factors (see Appendix A on page 12 for definition of risk factors):

  -Profit and Loss Impact of the Business Function

  -Perception/Reputational Risk

  -Changes in Operations or Systems/Known Control Issues

  -Customer Impact from Process Disruption/Failure

  -Business Model Complexity/Organizational Size

  -Legal/Regulatory Compliance

  -Level of Impact on Financial Reporting

  -Strategic Alignment
- Audits are ranked from high to low in terms of the relative risk they represented based on the risk assessment performed by Internal Audit.
- Audit Plan is developed based on the results of the risk assessment and management input.
- Proposed Audit Plan is presented to Executive Management for discussion and feedback.

2011 Audit Plan

	Financial/Operational Audits	Business Unit	Description
1	Energy Hedging	Business Services/Energy Resource Management	Review NYPA's hedging policies and procedures to ensure clarity of roles and responsibilities and the existence of risk tolerances. Verify that information is provided to management in a timely and accurate manner to allow for decision-making. Ensure hedging transactions are authorized through an approved risk management strategy or in the absence of an agreed-upon strategy through the Executive Risk Committee. Confirm that the middle-office is adequately monitoring hedging activities for compliance with internal policies and procedures. Confirm that documentation exists to support adherence to GASB53.
2	Fuel Operations	Energy Resource Management	Determine the adequacy and effectiveness of controls over (1) Procurement of Fuel Oil and Natural Gas, (2) Fuel Hedging Transactions, (3) Payments to Suppliers, (4) NYMEX Transactions, and (5) Inventory Control.
3	Customer Load Forecasting	Marketing & Economic Development	Determine the adequacy and effectiveness of controls over (1) Load Profiling, (2) Load Forecasting, (3) Load Forecasting Reports, and (4) Monitoring of Load Forecast vs. Actual Consumption.
4	Customer Contracts	Marketing & Economic Development	Confirm that policies and procedures exist to clarify roles and responsibilities in NYPA's customer power contracting process. Verify that contracts were finalized only after their review and approval at an appropriate level at NYPA and by the Law Department. For a sample of recently issued contracts, review the contracts for compliance with the authorization requirements as well as for standardization of terms and conditions and incorporation of the most current tariffs. For a sample of long-term contracts, confirm that contract terms and conditions are up-to-date to protect NYPA.
5	NYPA Energy Services Program	Energy Services & Technology	Review controls and procedures over (1) Project Selection and Facility Audits, (2) Construction Authorization, (3) Procurement of Material and Installation Labor, (4) Accounting for Project Costs, (5) Program Recovery and Overhead Costs, and (6) Project Closeout.
6	SENY Revenues	Business Services	Determine the adequacy and effectiveness of controls over SENY Revenues. Review procedures and processes for processing of meter reading data and billings of SENY customers.

2011 Audit Plan

	Financial/Operational Audits	Business Unit	Description
7	Power for Jobs/EDP Revenues	Business Services	Review controls, procedures and processes over Customer Billing, Customer Consumption Review Procedures and processing of changes to customer accounts.
8	NYISO Generation Settlements	Energy Resource Management	Review controls, procedures and processes over Energy Settlements with the NYISO, reporting of generator and tie-line meter data to the NYISO, NYISO rebills and recording of generator energy settlements in SAP.
9	Environmental, Health and Safety Audit Programs	Power Supply	Confirm the resolution of prior audit issues. Verify that audit programs are up-to-date and have been properly reviewed/approved. Confirm that audit programs incorporate applicable legal/regulatory risks. Confirm that contracted auditors have adequate credentials/backgrounds to conduct the work/provide expertise in both auditing and EH&S related matters. Confirm that NYPA personnel oversee the contract audit service providers to verify both the appropriateness of expenditures as well as the quality of the work product.
10	Engineering Support Services	Power Supply	Confirm that policies and procedures exist to support NERC compliance (non-reliability) processes. Verify compliance with internal policies and procedures including communications protocols with NERC. For a sample of compliance requirements, confirm evidence of compliance exists including timeliness of submission of legal/regulatory requirements.
11	Investments/Investment System	Business Services	Review policies, procedures and controls over the Investment System, purchase and sale of investments and investment income. Verify compliance with established Investment Policies.
12	Records Management	Enterprise Shared Services	Confirm that NYPA-wide policies and procedures exist to clarify roles and responsibilities for the management of NYPA's records. Confirm that retention schedules are up-to-date and are being implemented in accordance with NYPA's policies and procedures. Confirm that the legal hold process is being implemented in accordance with Law Department written directives. Confirm that prior audit recommendations have been implemented.

2011 Audit Plan

	Financial/Operational Audits	Business Unit	Description
13	Headquarters Accounts Payable	Business Services	Review procedures, processes and controls over the processing of vendor invoices, payment processing, wire transfers and access controls over SAP.
14	Energy Services – Solar Projects	Energy Services & Technology	Review procedures, processes and controls over (1) project selection, (2) project authorization, (3) project costs, and (4) program recovery and overhead.
15	Medical & Dental Benefits	Corporate Human Resources	Determine the adequacy and effectiveness of controls over (1) employee enrollment, employees' contributions and payroll deductions, (2) payments to third-party administrator, Health Maintenance Organizations and insurance carriers, (3) compliance with Health Insurance Portability and Accountability Law, and (4) monitoring and review of paid claims.
16	Maintenance Resource Management Program	Power Supply	Leveraging previous regional and functional operations and maintenance audits, evaluate how consistently the application is being utilized. Review end-user support for maintaining/utilizing the system. Review end-user reporting for timeliness, completeness and accuracy.
17	Central Region O&M	Power Supply	Confirm that controls remain adequate and effective as they relate to plant reliability, efficiency and effectiveness. Evaluate processes and procedures for the planning, monitoring and controlling of operating and maintenance expenses including outside contractor costs. Confirm compliance with NERC dam safety requirements. Review emergency response plan(s) to ensure that it is up-to-date and tested.
18	Northern Region O&M	Power Supply	Confirm that controls remain adequate and effective as they relate to plant reliability, efficiency and effectiveness. Identify all locally managed technology (hardware & software) and confirm that system administration, change control and physical security are adequate and working effectively. Evaluate processes and procedures for the planning, monitoring and controlling of operating and maintenance expenses including outside contractor costs. Confirm compliance with NERC dam safety requirements. Review emergency response plan(s) to ensure that it is up-to-date and tested.

2011 Audit Plan

	Financial/Operational Audits	Business Unit	Description
19	Revenue Requirements	Business Services	Confirm that policies and procedures exist to support NYPA's determination of revenue requirements for its various asset classes. Confirm the accuracy and completeness of inputs used in determining NYPA's revenue requirements. Confirm the existence and appropriate implementation of quality control procedures to ensure the reasonableness of revenue requirements published by Business Services.
20	Law Department Expenditures	Law Department	Perform an analysis of all Law Department expenditures for the period 1/1/09 through the date of the audit. Review actual vs. budgeted expenditures. For a sample of expenditures, confirm proper authorization. Confirm that the Law Department has implemented procedures to monitor contractor performance.
21	Transmission O&M Follow-up	Power Supply	Confirm implementation of actions agreed to by management during prior audit. Perform an analytical review of per diem and overtime expenditures to determine any trends. Based on the trending analysis, review per diem and overtime expenditures for proper authorization and compliance with applicable Power Supply procedures.
22	Purchasing/Warehousing – Niagara	Enterprise Shared Services	Review processes and controls associated with purchasing and warehousing activities at the Niagara Power Project. Verify compliance with established NYPA policies and procedures.
23	Headquarters Procurement – Outline Agreements	Enterprise Shared Services	Determine the extent of compliance with required procurement policies and procedures. Assess the adequacy and effectiveness of controls over Outline Agreements and Release of Funds against Outline Agreements.
24	Niagara Finance & Administration	Business Services	Review procedures, processes and controls over budget monitoring, accounts payable, payroll and travel and living expenses.
25	NYISO Ancillary Services Charges	Energy Resource Management	Review controls, procedures and processes over Ancillary Service Charge Settlements, reconciliation of Ancillary Service Billing Mwh, and billing of NYISO Ancillary Service Charges to NYPA's customers.

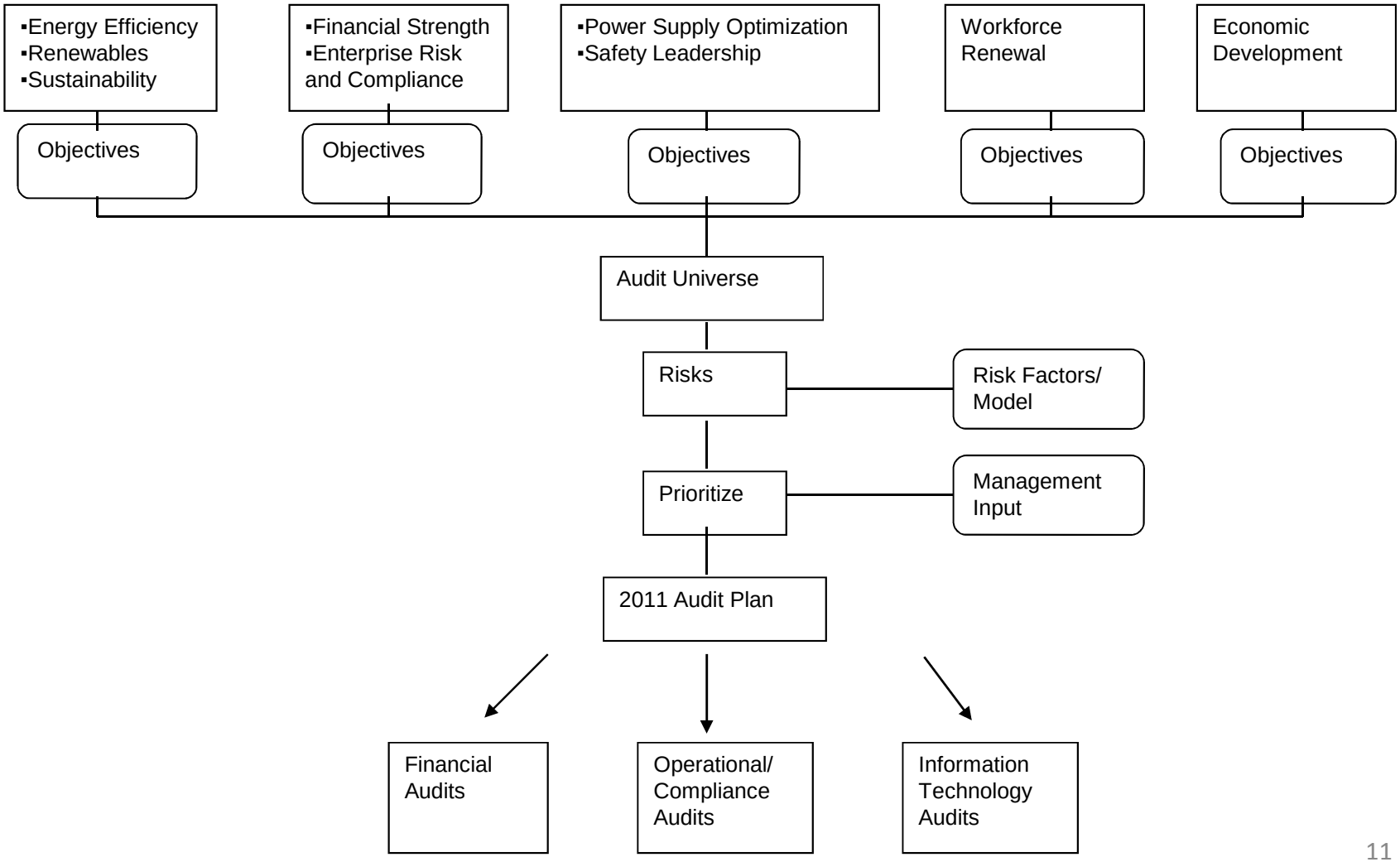
2011 Audit Plan

	Information Technology Audits	Business Unit	Description
1	Energy Management System	Power Supply	Test and evaluate the Energy Management System application controls, documentation and procedures. Review and test the interfaces with NYISO and NYPA network to determine if EMS is adequately protected from unauthorized access, use, disclosure or modification, damage or loss using best security practices.
2	SAP – Human Resources	Enterprise Shared Services/Human Resources	Review, test and evaluate input controls, processing controls, output controls and user access controls in the SAP – Human Resources application.
3	SAP – Fixed Assets	Enterprise Shared Services/ Business Services	Review, test and evaluate input controls, processing controls, output controls and user access controls in the SAP – Fixed Assets application.
4	SAP Change/Patch Management	Enterprise Shared Services	Review, test and evaluate the controls and control procedures over the changes and patches to SAP and their testing and approval by users prior to their placement in Production.
5	Information Security – SAP	Enterprise Shared Services	Review, test and evaluate controls over SAP access security and user access changes and new users. The security will include an analysis of users and segregation of duties based on their job responsibilities.
6	Intrusion Prevention & Detection	Enterprise Shared Services	Review, test and evaluate controls over the Intrusion Prevention & Detection systems and monitoring by Secure Works Security Operations Center and notification of incidents to Cyber Security in a timely manner.
7	Energy Control Center LAN	Power Supply	Review, test and evaluate the physical security and access controls of the ECC LAN. Assess the environmental controls (air conditioning, humidity, electrical including UPS and backup generators), fire protection (detection, alarms and suppression) and water detection and protection. Verify that backup and recovery procedures are effective.
8	Internet/Intranet Security	Enterprise Shared Services	Review, test and evaluate internet/intranet security and the firewall policy, rules and procedures. Verify that controls and procedures are operating effectively and only authorized Cyber Security administrators have update access to the firewalls.

2011 Audit Plan

	Information Technology Audits	Business Unit	Description
9	Database Administration	Enterprise Shared Services	Review, test and evaluate the controls over change requests and the implementation of database changes, database upgrades and database configurations. Verify that controls allow only authorized access to databases and production data.
10	Niagara LAN	Power Supply	Review, test and evaluate the physical security and access controls of the Niagara LAN. Assess the environmental controls (air conditioning, humidity, electrical including UPS and backup generators), fire protection (detection, alarms and suppression) and water detection and protection. Verify that backup and recovery procedures are effective.

2011 Audit Plan
Planning Process
Strategic Result Areas



Annual Audit Planning Tool: Risk Rating Factors (Utilize in the ranking & prioritization of potential audits) Appendix A

These eight factors are utilized in the ranking & prioritization of potential audits. The highest combined score warrants the area to be on the current year's audit plan.

1. P&L Impact of the Business Function:
   - ☐ 4 Low P&L Impact or Capital Allocation (< 1% income)
   - ☐ 8 Moderate P&L Impact or Capital Allocation (>1%, <5% income)
   - ☑ 12 High P&L Impact or Capital Allocation (>5% income)

2. Changes in Operations or Systems / Known Control Issues:
   - ☐ 2 Minor Business Changes or Reported Control Issues
   - ☐ 4 Moderate Changes (Business Restructuring; Major System Release; High/KeyTurnover) or Reported Control Issues
   - ☑ 6 Significant Changes (New Mission-Critical Systems; In/Out-Sourcing of Process) or Reported Control Issues

3. Customer Impact from Process Disruption/Failure:
   - ☐ 4 Minor – Slight Delays or disruption in delivery services to customers
   - ☐ 8 Moderate – Significant Delays or short term Inability of delivery services to customers
   - ☐ 12 Significant – Broken Promises or Inability to Meet Customer Commitments

4. Business Model Complexity/Organizational Size:
   - ☐ 2 Low – Limited 3rd Party or Cross-Functional Dependency (<25%) / Low Transaction Volume
   - ☐ 4 Moderate – Some 3rd Party or Cross-Functional Dependency (>25% and <50%) / Moderate Transaction Volume
   - ☑ 6 Significant – Significant 3rd Party or Cross-Functional Dependency (>50%) / High Transaction Volume

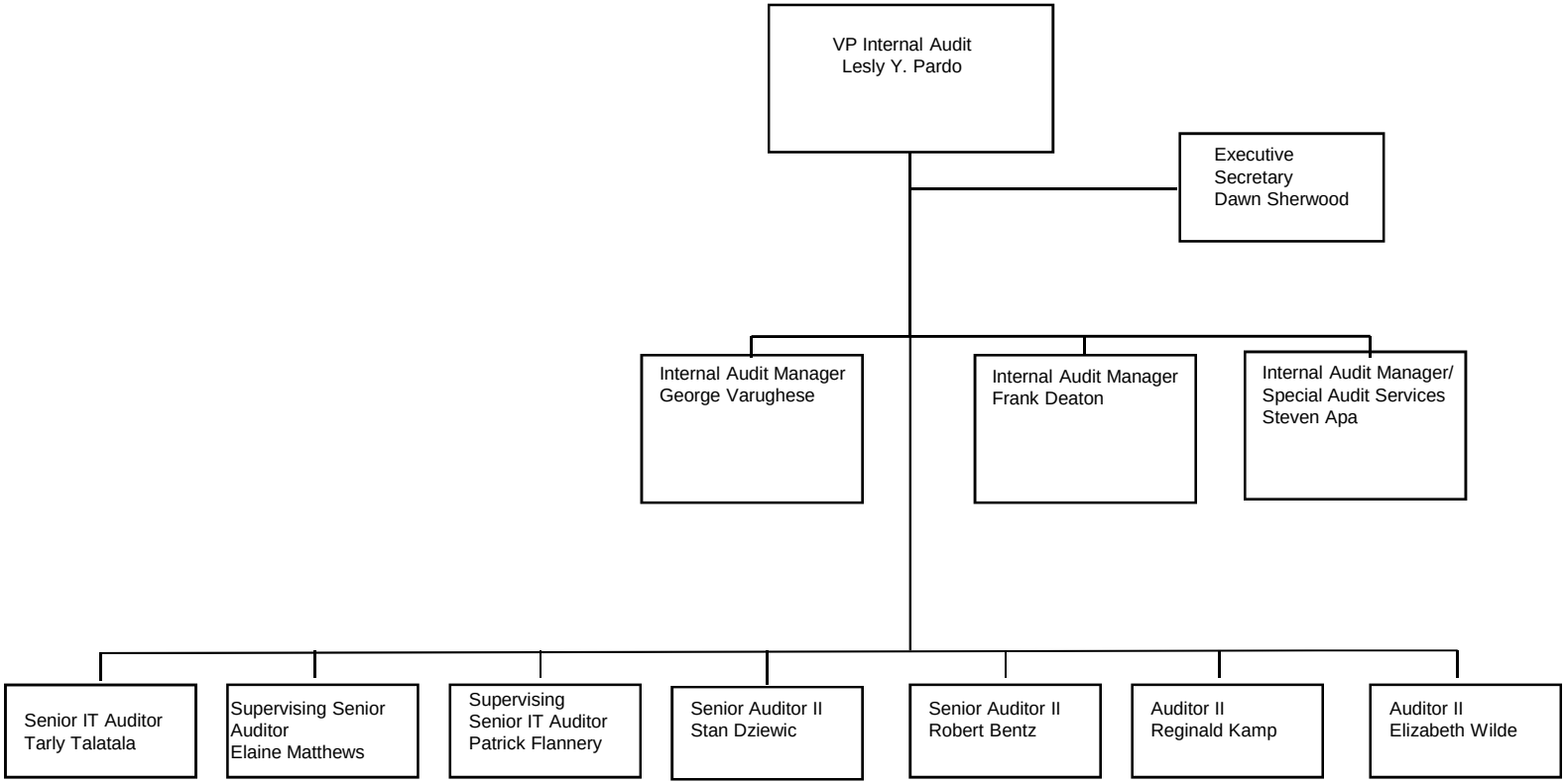
5. Legal/Regulatory Compliance:
   - ☑ 2 Minimal Risk of Litigation or government actions / Minimal Compliance Effort Required
   - ☐ 4 Moderate Risk of Litigation or government actions / Moderate Compliance Effort Required
   - ☐ 6 Significant Risk of Litigation or government actions / Significant Compliance Effort Required

6. Level of Impact on Financial Reporting (PAAA) Controls:
   - ☐ 2 Low – Area impacts operational issues and is not an input or output to financial reporting data
   - ☑ 4 Moderate – Area has indirect or some factors in the input or output to financial reporting data
   - ☐ 6 High – Area has direct effect on the input or output of financial reporting data

7. Strategic Alignment:
   - ☐ 2 Low – Audit has Indirect Impact on Corporate Initiatives
   - ☐ 4 Moderate – Audit has Direct Impact on a Minor Corporate Initiative
   - ☑ 6 High – Audit has Direct Impact on a Major Corporate Initiative

8. Perception / Reputational Risk
   - ☑ 4 Low likelihood & impact of reputational and political / public opinion
   - ☐ 8 Medium likelihood & impact of reputational and political / public opinion
   - ☐ 12 High likelihood & impact of reputational and political / public opinion

2011 Audit Plan
Internal Audit



2011 Audit Plan
Internal Audit Staff
Educational Background and Experience

Lesly Pardo
Vice President – Internal Audit
Education: BBA – Baruch College
MBA – St. John's University
Certifications: Certified Public Accountant, Certified Internal Auditor, Certified Information Systems Auditor, Certified Fraud Examiner, Certified Management Accountant
Experience: Over 31 years of experience including 5 years in Public Accounting and 26 years in Internal Auditing

Steven Apa
Manager – Special Audit Services
Education: BSBA – Northeastern University
Certifications: Certified Public Accountant, Certified Fraud Examiner, Certified Financial Forensic
Experience: Over 26 years of experience; 8 years private industry; 18 years Public Accounting & Consulting

Frank Deaton
Manager – Operational Audit
Education: BS Accounting – SUNY Albany
Certifications: Certified Bank Auditor
Experience: Over 20 years of experience primarily in the financial services industry. 14 years of Internal Auditing experience – joined NYPA in April 2007

George Varughese
Manager – Internal Audit
Education: BS Accounting – CUNY, NY
MS Information Systems Auditing – New York University Wagner School
Certifications: Certified Public Accountant
Experience: Over 28 years of diversified accounting/auditing experience

2011 Audit Plan
Internal Audit Staff
Educational Background and Experience

Patrick Flannery
Supervising Senior Auditor
Education: BS Accounting – Fordham University
Certifications: Certified Information Systems Auditor, Certified Computing Professional
Experience: Over 24 years of experience in Internal Audit – 12 years NYPA Internal Audit – 1 year consulting

Elaine Matthews
Supervising Senior Auditor
Education: BS – Accounting – Rutgers University
Certifications: Certified Public Accountant – New York, New Jersey
Experience: Over 8 years experience including 6 years in Public Accounting, 4 years with PricewaterhouseCoopers and 2 years at RSM McGladrey, 2 years SOX and Internal Audit experience with National Grid

Tarly Talatala
Senior Auditor
Education: BS – Accounting – Xavier University
Certifications: Certified Public Accountant, Certified Information Systems Auditor, Certified Internal Auditor
Experience: Over 9 years experience in Auditing including 7 years with Ernst & Young, LLP

Robert Bentz
Sr. Auditor II
Education: BS - Accounting – St. Vincent College
Post-Baccalaureate Certificate, Computer Information Systems – Robert Morris University
Certifications: Certified Information Systems Auditor
Experience: Over 27 years experience in Internal Audit – 9 years NYPA Internal Audit

2011 Audit Plan
Internal Audit Staff
Educational Background and Experience

Stan Dziewic
Sr. Auditor II
Education: BA – Accounting – William Paterson College
BA – Psychology – University of Nevada – Las Vegas
Certifications: None
Experience: Over 13 years of experience in Internal Audit - 8 years NYPA Internal Audit. 10 years Fuel Buyer

Elizabeth Wilde
Auditor II
Education: Master's Degree – Information Systems – Pace University
Bachelor's – Accounting – Mercy College
Certifications: None
Experience: Over 9 years Internal Audit experience (NYPA); 8 years Accounting Manager; 4 years Sr. Accountant

Reginald Kamp
Auditor
Education: BS Accounting – Fordham University
MPBA Finance – Southeastern University (Washington DC)
Certifications: None
Experience: Over 25 years Internal Audit experience - 9 years NYPA Internal Audit

Audit Committee

Internal Audit Activity Report

December 31, 2010

New York Power Authority
Generating more than electricity

2010 INTERNAL AUDIT PLAN
ACTIVITY REPORT
12/31/10
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2010 INTERNAL AUDIT PLAN
ACTIVITY REPORT
12/31/10
SUMMARY

- Completed 32 audits and projects including 24 financial/operational and eight (8) information technology audits.

- Three (3) audits in progress as of 12/31/10.

- All audits in the revised Audit Plan are completed or in progress.

- Issued 27 audit reports. Two (2) reports under review as of 12/31/10.

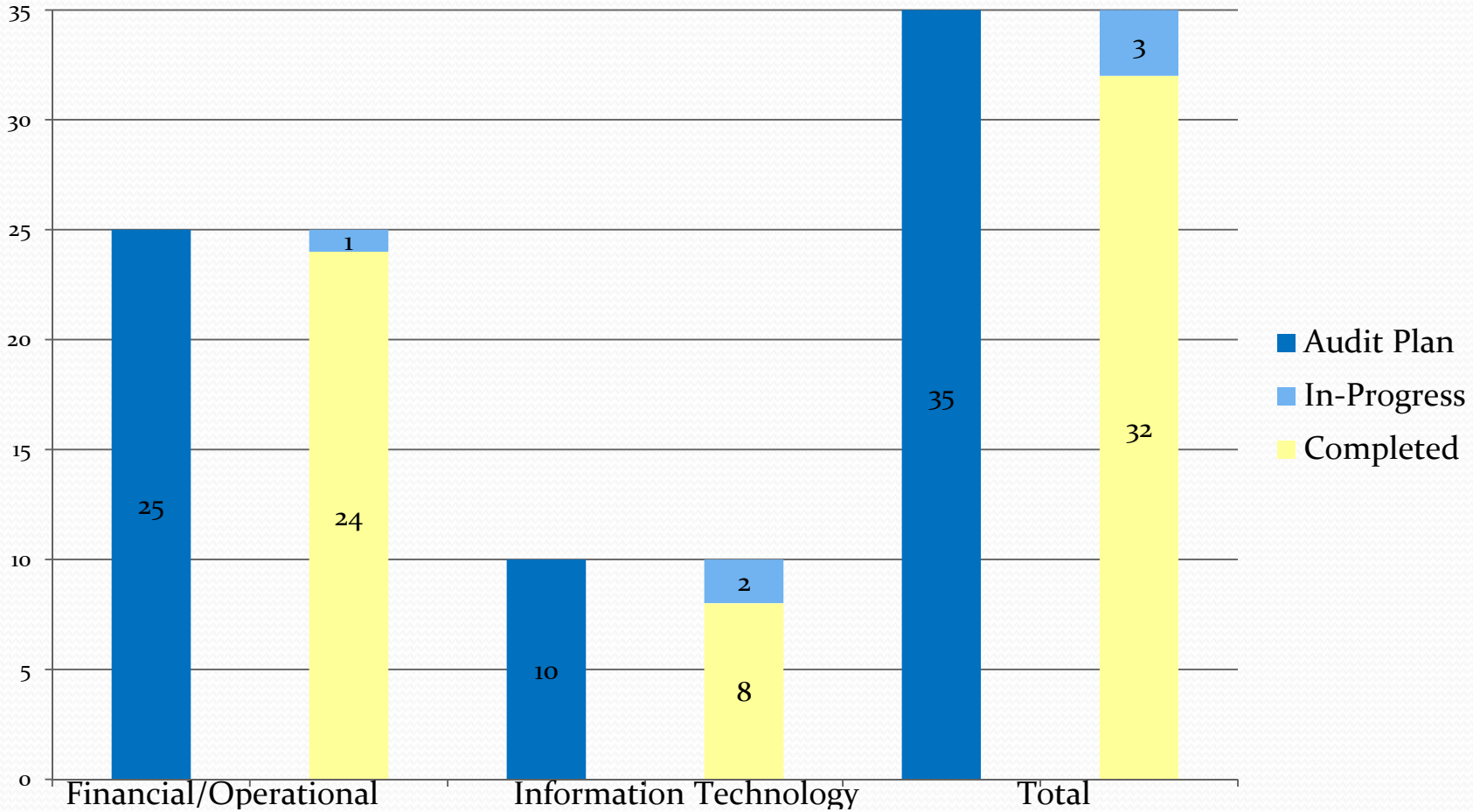
- Seventy (70) recommendations were made to improve internal controls/operational efficiency.

- All recommendations have been accepted by management. Accepted recommendations are being actively tracked and critical recommendations implemented are being verified.

- Met or exceeded performance goals for:
  - Completion of high risk audit areas – 100% (goal 100%).
  - Completion of the Audit Plan – 91% (goal 90%).

- We are receiving management's full cooperation and support.

2010 INTERNAL AUDIT PLAN
ACTIVITY REPORT
12/31/10
AUDIT PLAN STATUS



ACTIVITY REPORT
INTERNAL AUDIT OVERVIEW PER PLAN
1/1/10 - 12/31/10
LIST OF AUDITS COMPLETED/IN-PROGRESS

FINANCIAL

- SENY Long-Term Agreement (C)
- Generation Resource Management (C)
- Headquarters Procurement (C)
- NYISO – Energy Settlements (Load Serving Transactions)(C)
- Hydro Revenues (C)
- Transmission Revenues/ISO Settlements (C)
- Wheeling Expenses (IP)
- Purchasing/Warehousing St. Lawrence (C)
- Purchasing/Warehousing 500 MW/Flynn (C)
- Headquarters ProCard Usage & Controls (C)
- Assistance to KPMG (C)

INFORMATION TECHNOLOGY

- NERC-CIP (C)
- NYPA Network Security (C)
- Maximo System (IP)
- Change Control – Network (C)
- SAP Billing (C)
- EMS Group (P)
- SAP Materials Management (C)
- Telecommunications (C)
- IT Disaster Recovery (Hot Site) (C)
- Network Penetration (P)
- (1) GRC Software (C)
- (1) Virus Protection & Response (IP)

OPERATIONAL/COMPLIANCE

- Energy Hedging – Follow-up Review (C)
- Enterprise Risk – Follow-up Review (C)
- Power Resource Planning & Acquisition (C)
- NERC Reliability Compliance (C)
- Public Authorities Law Compliance (C)
- Transmission O&M (C)
- Western Region O&M (C)
- Fleet Operations (C)
- Economic Development Programs (C)
- Counterparty Credit Follow-up Review (C)
- Succession Planning Follow-up Review (C)
- Project Management Operations & Cost Estimation (C)
- Financial Planning/Operating Forecast Development (C)
- Corporate Compliance (P)
- Stimulus Projects (C)

In-Progress = IP
Completed = C
Postponed = P

(1) New Audits/Projects Added to the Plan.

2010 INTERNAL AUDIT PLAN
ACTIVITY REPORT
12/31/10
REPORT RECAP

Report Name	High-Level Audit Objectives	Observations/Findings/ Recommendations
Energy Hedging – Follow-up Review	Evaluate the implementation of prior internal audit recommendations made during the 2009 Energy Hedging audit.	-Implementation of prior audit recommendations is substantially complete. -The revised Governing Policy and Revised Procedures provide significant improvement in terms of clarifying roles, responsibilities and internal controls. -The reporting of salient energy risk management information to senior management and the Trustees is planned for the first quarter of 2011.
NYPA Network Security	Test and evaluate the NYPA Network to determine if it is adequately protected from unauthorized access, use, disclosure or modifications, damage or loss using best security practices.	-Overall security controls over NYPA network activities provide adequate protection for the Authority's network and its components. -Non-employee/contractor access to the NYPA Network should be reviewed and recertified by management of the Business Units.

2010 INTERNAL AUDIT PLAN
ACTIVITY REPORT
12/31/10
REPORT RECAP

Report Name	High-Level Audit Objectives	Observations/Findings/ Recommendations
SAP Billing System	Review, test and evaluate internal controls over the SAP Billing System. Evaluate input, processing, output and user access controls.	-Overall controls over the SAP Billing System are effective. -Improve user access controls over the SAP Billing System by restricting the access rights of IT SAP Developers to only functions needed for their current job responsibilities.
Counterparty Credit Audit - Follow-up	Evaluate the implementation of prior internal audit recommendations made during the 2009 Counterparty Credit Risk Audit.	-Prior internal audit recommendations are being addressed by management. -Full implementation will occur during 2011 including the resolution of systemic differences between how treasury and commodity counterparties are evaluated and managed.
NERC Reliability Compliance	Evaluate overall processes and controls implemented by NYPA to ensure compliance with NERC Reliability Standards.	-NYPA has dedicated a significant amount of time and resources to establish compliance processes, train impacted staff on compliance activities, revise and structure relevant compliance policies and procedures, and assess NYPA's state of compliance. -This assessment identified certain areas that required Subject Matter Experts to take additional action to improve controls over processes and documentation. -Internal Audit will continue to track audit recommendations relating to NERC Reliability Compliance activities.

2010 INTERNAL AUDIT PLAN
ACTIVITY REPORT
12/31/10
REPORT RECAP

Report Name	High-Level Audit Objectives	Observations/Findings/ Recommendations
Succession Planning – Follow-up	Assess the completeness and adequacy of NYPA's succession planning process including following up on the implementation of prior Internal Audit recommendations.	-Overall controls are adequate and effective. -Development plans should be created for all high-risk mission critical positions. -Monitoring procedures should be established by Human Resources to ensure business units are maintaining their succession plan information.
NYISO Energy Settlements – Load Serving Transactions	Review processes and controls associated with Energy Scheduling and Energy Settlements with the NYISO.	-Controls over the Energy Scheduling and Energy Settlements with the NYISO are working effectively. -A review of user access rights to NYPA's bid data in the NYISO Information System should be performed. -Potential billing anomalies in the NYISO billing data should be reviewed and resolved.
SENY Governmental Customers - Long Term Agreement	Review processes and controls in the administration of NYPA's Long Term Agreement (LTA) with the NYC Governmental Customers. Verify Compliance with the various terms and conditions of LTA. Review Cost of Service and the reliability of financial and operating information used in connection with LTA.	-Processes and controls over the administration of the LTA are adequate and working effectively. -The LTA is being administered in accordance with the various terms and conditions of the LTA. -Actual and projected costs are being properly reported to the customers. All variances are adequately explained. -Customers are being billed in accordance with the LTA.

2010 INTERNAL AUDIT PLAN
ACTIVITY REPORT
12/31/10
REPORT RECAP

Report Name	High-Level Audit Objectives	Observations/Findings/ Recommendations
Headquarters Procurement	Determine the extent of compliance with required procurement policies and procedures. Review controls over (1) requisition processing, (2) bid solicitation/evaluation, (3) contract awards, and (4) change order procedures.	-Most aspects of internal controls over Headquarters Procurement are effective and operating as designed. -Improved monitoring is needed to ensure that NYPA's Supplier Diversity Program procedures are adhered to. -All required procurement documents should be maintained in the procurement files. - A small number of procurement transactions were not processed in accordance with NYPA Procurement Policies and Procedures.
Project Management and Cost Estimation	Review processes and controls associated with estimating and monitoring costs for major construction activities. Verify compliance with established NYPA policies and procedures. Review the adequacy and effectiveness of reporting activities.	-Controls are generally adequate and working effectively. -Project Management procedures should be updated to clarify key operational and internal control expectations including cost estimating and quality assurance activities. -Complete documentation to support cost estimates should be maintained by the Cost Estimation Group. - Monthly Progress Reports should include projects at SENY as is being done for other projects at other locations.

123 Main Street
White Plains, New York 10601
914 681.6200

New York Power Authority

March 1, 2011

To: **Audit Committee Members:**
Chairman D. Patrick Curley
Trustee Jonathan F. Foster
Trustee Eugene L. Nicandri

From: **Thomas Concadoro** T Concadoro

Subject: **Year 2010 Annual Report – Financial Section**

Please find a draft copy of the financial section of the Authority's 2010 Annual Report attached for your consideration. We are planning to review the report at the March 14, 2011 audit committee meeting and present it to the full board for its approval on March 29.

To facilitate your review, we have highlighted items of particular importance on the attached draft including significant changes in line items and footnotes due to events and changes in accounting requirements.

If you have any comments, please forward them or call me at (914) 287-3350 in the White Plains Office.

cc: **Richard M. Kessel**
Gil C. Quiniones
Elizabeth McCarthy
Judith McCarthy
Karen Delince

Final Editorial Review Not Completed

PLEASE COMPLETE

Date/Time Due _____

Services Requested:

_____ *Format* _____ *Revisions*

_____ *Editorial Review* _____ *Print*

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Special Instructions:

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NEW YORK POWER AUTHORITY

Financial Statements

December 31, 2010 and 2009

(With Independent Auditors' Report Thereon)

13815

NEW YORK POWER AUTHORITY

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Management Report

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

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

The Authority maintains an internal auditing program to independently assess the effectiveness of internal controls and to report findings and recommend possible improvements to management. This program includes a comprehensive assessment of internal controls as well as testing of all key controls to ensure that the system is functioning as intended. Additionally, as part of its audit of the Authority's financial statements, KPMG LLP, the Authority's independent auditors, considers internal controls over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for purpose of expressing an opinion on the effectiveness of the Authority's internal controls over financial reporting. Management has considered the recommendations of its internal auditors, the Office of the State Comptroller (OSC), and the independent auditors concerning the system of internal controls and has taken actions that it believed to be cost-effective in the circumstances to respond appropriately to these recommendations. Based on its structure and related processes, management believes that, as of December 31, 2010, the Authority's system of internal controls provides reasonable assurance as to the integrity and reliability of the financial statements, the protection of assets from unauthorized use or disposition and the prevention and detection of fraudulent financial reporting.

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

Elizabeth M. McCarthy
Executive Vice President & Chief Financial Officer

March 11, 2011

KPMG LLP
515 Broadway
Albany, NY 12207

Independent Auditors' Report

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

We have audited the balance sheets, statements of revenues, expenses, and change in net assets and statements of cash flows of the Power Authority of the State of New York (the Authority) as of and for the years ended December 31, 2010 and 2009. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States and the standards for financial statement audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of December 31, 2010 and 2009, and the changes in its financial position and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 11, 2011 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The accompanying management's discussion and analysis and the schedule of funding progress listed in the accompanying table of contents are not a required part of the basic financial statements but are supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

KPMG LLP

March 11, 2011

KPMG LLP, a U.S. limited liability partnership, is the U.S.
member firm of KPMG International, a Swiss cooperative.

NEW YORK POWER AUTHORITY

Management's Discussion and Analysis

December 31, 2010 and 2009

(Unaudited)

Overview of the Financial Statements

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

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

The Authority is considered a special-purpose government entity engaged in business-type activities and follows financial reporting for enterprise funds. The Authority's financial statements are prepared in accordance with generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB). In accordance with GASB standards, the Authority has elected to comply with all authoritative pronouncements applicable to nongovernmental entities (i.e., Accounting Standards Codification of the Financial Accounting Standards Board) that do not conflict with GASB pronouncements.

Forward Looking Statements

The statements in this management discussion and analysis (MD&A) that are not historical facts are forward-looking statements based on current expectations of future events and are subject to risks and uncertainties that could cause actual results to differ materially from those expressed or implied by such statements. In addition, we, through our management, from time to time make forward-looking public statements concerning our expected future operations and performance and other developments. All of these forward-looking statements are subject to risks and uncertainties that may change at any time, and, therefore, our actual results may differ materially from those we expected. We therefore caution against placing substantial reliance on the forward-looking statements contained in this MD&A. All forward-looking statements included in this MD&A are made only as of the date of this MD&A and we assume no obligation to update any written or oral forward-looking statements made by us or on our behalf as a result of new information, future events or other factors.

NEW YORK POWER AUTHORITY

Management's Discussion and Analysis

December 31, 2010 and 2009

(Unaudited)

The following is a summary of the Authority's financial information for 2010, 2009, and 2008:

Summary of Revenues, Expenses, and Changes in Net Assets
(In millions)

		2010	2009	2008	2010 vs. 2009 favorable (unfavorable)	2009 vs. 2008 favorable (unfavorable)
Operating revenues	$	2,568	2,595	3,185	(1)%	(19)%
Operating expenses:						
Purchased power		931	905	1,242	(3)	27
Fuel		224	366	615	39	40
Wheeling		528	436	388	(21)	(12)
Operations and maintenance		443	438	456	(1)	4
Depreciation		163	164	173	1	5
Total operating expenses		2,289	2,309	2,874	1	20
Operating income		279	286	311	(2)	(8)
Nonoperating revenues		138	132	164	5	(20)
Nonoperating expenses		236	165	176	(43)	6
Nonoperating (loss)		(98)	(33)	(12)	(197)	(175)
Net income and change in net assets		181	253	299	(28)	(15)
Net assets – beginning		2,820	2,567	2,268	10	13
Net assets – ending	$	3,001	2,820	2,567	6	10

The following summarizes the Authority's financial performance for the years 2010 and 2009:

The Authority had net income of $181 million in the year 2010, compared to $253 million in 2009. This $72 million decrease in net income is primarily due to higher nonoperating expenses ($65 million) as a result of higher voluntary contributions to N.Y. State. Operating income was slightly lower ($7 million) than the prior year. Lower fuel costs and higher purchased power expenses in 2010 were substantially attributable to changes in resources utilized to serve the Authority's Southeast New York (SENY) Governmental Customers necessitated by the cessation of operations of the Authority's Poletti plant on January 31, 2010. Wheeling expenses increased due to a Con Ed rate increase for delivery service to the SENY Governmental Customers. The majority of these cost variations are offset through revenues as variances are reflected in customer rates. Nonoperating revenues increased by $6 million in 2010 including an increased mark-to-market adjustment for investments in 2010 due to lower market interest rates partially offset by lower realized investment income.

During 2010, long-term debt decreased by $118 million, or 7%, primarily due to scheduled maturities and cash funding of capital expenditures. Interest expense was $6 million lower than 2009 primarily due to decreases in interest rates on short-term debt. During the period 2000 to 2010, the Authority reduced its total debt/equity ratio from 1.48 to 0.65.

The Authority had net income of $253 million in the year 2009, compared to $299 million in 2008. This $46 million decrease in net income includes lower operating income ($25 million) combined with lower nonoperating income ($21 million). Revenues were lower ($590 million) primarily due to lower market based sales and the pass through of lower fuel and purchased power prices to customers.

Market based sales were lower mainly due to lower prices on power generated by the Authority's Niagara plant and the Small Clean Power Plants (SCPPs) that was sold in the New York Independent System Operator (NYISO) market. Lower operating expenses for 2009 include the aforementioned decreases in purchased power ($337 million) and fuel ($249 million) expenses. Operations and maintenance expenses were also lower ($18 million) primarily due to a lower voluntary contribution to New York State related to the Authority's Power for Jobs program and the recognition of a loss in 2008 related to the early retirement of compressors at the Authority's 500-MW plant. The decrease in nonoperating income in 2009 included lower investment income ($32 million) and a higher voluntary payment to the State ($10 million) unrelated to the Authority's Power for Jobs program; partially offset by a lower interest expense ($21 million). Investment income for 2009 was reduced by an unrealized loss of $13 million on investments due to higher market interest rates as compared to a $24 million unrealized gain in 2008.

Operating Revenues

Operating revenues of $2,568 million in 2010 were $27 million or 1% lower than the $2,595 million in 2009, primarily due to lower market-based sales significantly offset by an increase in customer revenues related to the pass-through of increased wheeling charges. Market-based sales were lower mainly due to lower generation from the Niagara plant due to lower lake levels.

Purchased Power and Fuel

Purchased power costs increased by 3% in 2010 to $931 million from $905 million in 2009, primarily due to changes in the resources utilized to serve the SENY governmental customers necessitated by the cessation of operation of the Authority's Poletti plant on January 31, 2010. Fuel costs were $142 million (39%) lower during 2010, also primarily due to discontinued operations at Poletti.

Operations and Maintenance (O&M)

O&M expenses increased by $5 million or 1% in 2010 to $443 million primarily due to expenditures relating to the North Country stimulus program at St. Lawrence ($9 million) and the Industrial Incentive Award program at Niagara ($6 million) which were partly offset by lower maintenance at the fossil fuel facilities due to the Poletti plant closure and less emergent work at the SCPPs.

Nonoperating Revenues

For 2010, nonoperating revenues increased by $6 million or 5% due to a swing from an unrealized loss of $13 million in 2009 to an unrealized gain of $6 million in 2010 on the Authority's investment portfolio. This increase was substantially offset by reduced investment income due to lower average interest rates on investments. Nonoperating revenues for 2010 and 2009 include income recognition of $72 million for each year resulting from a revenue sharing agreement relating the nuclear power plants sold by the Authority to subsidiaries of Entergy Corporation in 2000. See note 11(a), "Nuclear Plant Divestiture," for additional information.

Nonoperating Expenses

For 2010, nonoperating expenses increased by $71 million or 43% primarily due to an increase of $77 million in the Authority's voluntary contribution to New York State ($147 million) that was not related to the Power for Jobs program partially offset by lower costs on variable rate debt ($6 million).

Cash Flows

During 2010, the Authority generated cash flows of $427 million from operations compared to $491 million in 2009. Cash flows from operating activities for 2010 were lower than 2009 primarily due to decreased cash receipts from energy sales into the NYISO market as a result of lower volumes and lower average prices than the prior year.

Net Generation

Net generation for 2010 was 24.4 million megawatt-hours (MWh) compared to the 27.3 million MWh generated in 2009. Net generation from the Niagara (13.2 million MWh) and St. Lawrence (6.6 million MWh) plants were 7% and 8% lower, respectively, than 2009 as a result of lower hydro flows. During 2010, combined net generation of the fossil fuel plants was 4.6 million MWh or 19% lower than 2009 (5.8 million MWh), with decreased output from cessation of operations at the Poletti plant on January 31, 2010 and decreased output from the Flynn plant as a result of an unscheduled maintenance outage offsetting increases at the 500-MW plant and the SCPPs.

NEW YORK POWER AUTHORITY

Management's Discussion and Analysis

December 31, 2010 and 2009

(Unaudited)

Beginning in 1999 and continuing through 2003, below average water levels in the Great Lakes reduced the amount of water available to generate power at the Authority's Niagara and St. Lawrence-FDR projects, thereby requiring the periodic curtailment of the electricity supplied to the Authority's customers from these projects. Flow conditions improved such that hydroelectric generation levels returned to near long-term average from 2004 through 2010. During 2010, net generation was approximately 98% of long-term average, but below 2009, which was 106% of long-term average.

The following is a summary of the Authority's balance sheets for 2010, 2009, and 2008:

Summary Balance Sheet
(In millions)

		2010	2009	2008	2010 vs. 2009	2009 vs. 2008
Current assets	$	1,636	1,396	1,553	17%	(10)%
Capital assets		3,697	3,711	3,737	0	(1)
Other noncurrent assets		2,288	2,203	1,717	4	28
Total assets		7,621	7,310	7,007	4	4
Current liabilities	$	938	830	850	13	(2)
Long-term liabilities		3,682	3,660	3,590	1	2
Total liabilities		4,620	4,490	4,440	3	1
Net assets		3,001	2,820	2,567	6	10
Total liabilities and net assets	$	7,621	7,310	7,007	4	4

The following summarizes the Authority's balance sheet variances for the years 2010 and 2009:

In 2010, current assets increased by $240 million (17%) to $1,636 million primarily due to an increase in investments ($204 million) reflecting the investment of cash generated by operations. Capital assets decreased by $14 million (0.4%) to $3,697 million primarily due to annual depreciation ($163 million) substantially offset by an increase in plant assets which includes Life Extension and Modernization programs at St. Lawrence and Blenheim-Gilboa (B-G) ($154 million). Other noncurrent assets increased by $85 million (4%) to $2,288 million primarily due to an increase in the market value of the nuclear decommissioning fund ($90 million). Current liabilities increased by $108 million (13%) to $938 million primarily due to changes in fair market values related to the Authority's energy commodity hedging transactions ($65 million) and an increase in short-term debt ($34 million) relating to the Authority's Energy Services programs. Long-term liabilities increased by $22 million (1%) to $3,682 million primarily due to increases in other long-term liabilities ($140 million) which includes an increase in the nuclear plant decommissioning obligation ($90 million) offset by decreases in long-term debt resulting from reclassifications to long-term debt due within one year ($121 million). The increase in the nuclear plant decommissioning obligation reflects the increase in the market value of the decommissioning fund (i.e., the Authority's obligation is limited to no more than the amount in the decommissioning fund and therefore the liability increases or decreases to reflect the fair value of the decommissioning fund). (See note 11(c) for more information on decommissioning.) The changes in net assets for 2010 and 2009 are discussed in the summary of revenues, expenses and changes in net assets in this Management Discussion and Analysis.

In 2009, current assets decreased by $157 million (10%) to $1,396 million primarily due to a $119 million voluntary contribution to the State in January 2009. Capital assets decreased by $26 million (1%) to $3,711 million primarily due to annual depreciation ($137 million) and a decrease in construction work in progress ($13 million) partially offset by an increase in plant assets which includes Life Extension and Modernization programs at St. Lawrence and Blenheim-Gilboa (B-G) ($124 million). Other noncurrent assets increased by $486 million (28%) to $2,203 million primarily due to the addition of the temporary asset transfer to New York State ($318 million) (see note 12(g)) and an increase in the market value of the decommissioning fund ($130 million). Current liabilities decreased by $20 million (2%) to $830 million primarily due to changes in fair market values related to the Authority's energy commodity hedging transactions ($57 million) and accounts payable ($6 million) offset by increases in current maturities of long-term debt ($27 million) and short-term

debt ($16 million). Long-term liabilities increased by $70 million (2%) to $3,660 million primarily due to increases in the nuclear plant decommissioning obligation ($130 million), changes in fair market values related to the Authority's energy commodity hedging transactions ($56 million), deferred regulatory liabilities ($31 million) and other liabilities ($8 million) offset by decreases in long-term debt resulting from reclassifications to long-term debt due within one year ($129 million), and relicensing obligations ($26 million). The increase in the nuclear plant decommissioning obligation reflects the increase in the market value of the decommissioning fund (i.e., the Authority's obligation is limited to no more than the amount in the decommissioning fund and therefore the liability increases or decreases to reflect the fair value of the decommissioning fund). (See note 11(c) for more information on decommissioning.) The changes in net assets for 2009 and 2008 are discussed in the summary of revenues, expenses and changes in net assets in this Management's Discussion and Analysis.

Capital Asset and Long-Term Debt Activity

The Authority currently estimates that it will expend approximately $998 million for various capital improvements over the five-year period 2011-2015. The Authority anticipates that these expenditures will be funded using existing construction funds, internally generated funds and additional borrowings. Such additional borrowings are expected to be accomplished through the issuance of additional commercial paper notes and/or the issuance of long-term fixed rate debt. Projected capital requirements during this period include (in millions):

Projects:		
Plant Modernization Program (Lewiston Pump Generating Plant, St. Lawrence)	$	230
MA1 and MA2 Transmission Line		110
Switchyard Modernization Program (St. Lawrence, Niagara, Clark Energy Center)		94
Transmission Initiative - Licensing and Design		84
Relicensing Compliance/Implementation (B-G, Niagara, St. Lawrence)		57
Niagara Stator Rewind and Restack Project		39
IT Initiatives		24
Niagara Unit 2 and 13 Standardization		22
Fleet		16
Astoria Plant Upgrades		9
Other (projects less than $9 million)		313
	$	998

In addition, the Authority's capital plan includes the provision of $1,051 million in financing for Energy Services and Technology projects to be undertaken by the Authority's governmental customers and other public entities in the State. It should also be noted that due to projects currently under review, there is a potential for significant increases in the capital expenditures indicated in the table above. Such additional capital expenditures would be subject to evaluation and Trustee approval.

In June 2010, the Authority's Trustees approved a $460 million Life Extension and Modernization ("LEM") Program at the Lewiston Pump-Generating Plant. The work to be done includes a major overhaul of the plant's 12 pump turbine generator units. The LEM Program will increase pump and turbine efficiency, operating efficiency, and the peaking capacity of the overall Niagara Project. The Authority intends to file an application with the Federal Energy Regulatory Commission (FERC) for a non-capacity license amendment in connection with the program. The unit work is scheduled to begin in late 2012, with the final unit being completed in 2020.

By order issued March 15, 2007, FERC issued the Authority a new 50-year license for the Niagara Project effective September 1, 2007. In doing so, FERC approved six relicensing settlement agreements entered into by the Authority with various public and private entities. By decision dated March 13, 2009, the U.S. Court of Appeals for the District of Columbia Circuit denied a petition for review of FERC's order filed by certain entities, thereby concluding all litigation involving FERC's issuance of the new license. The Authority currently expects that the costs associated with the relicensing of the Niagara Project will be at least $495 million over a period of 50 years, which includes $50.5 million in administrative costs associated with the relicensing effort and does not include the value of the power allocations and operation and maintenance expenses associated with several habitat and recreational elements of the settlement agreements. Of the $495 million, $184 million has been spent through December 31, 2010.

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

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

Capital Structure

		2010	2009	2008
			(In millions)	
Long-term debt:				
Senior:				
Revenue bonds	$	1,111	1,154	1,196
Adjustable rate tender notes		122	131	138
Subordinated:				
Subordinate revenue bonds		—	—	—
Commercial paper		264	330	410
Total long-term debt		1,497	1,615	1,744
Net assets		3,001	2,820	2,567
Total capitalization	$	4,498	4,435	4,311

During 2010, long-term debt, net of current maturities, decreased by $118 million primarily due to scheduled maturities and cash funding of capital expenditures. In October 2010, the Authority's Trustees authorized the issuance of up to $220 million of additional revenue bonds for the purpose of refunding certain Revenue Bonds and funding certain construction costs up to a maximum of $80 million related to the life extension and modernization of the Lewiston Pump Generating Plant at the Niagara Project. It is uncertain whether and to what extent such revenue bonds will be issued in 2011.

During 2009, long-term debt, net of current maturities, decreased by $129 million due to scheduled maturities.

Total Debt to Equity as of December 31, 2010, decreased to 0.65 to 1 from 0.72 to 1 as of December 31, 2009.

Debt Ratings

	Moody's	Standard & Poor's	Fitch
NYPA's underlying credit ratings:			
Senior debt:			
Long-term debt	Aa2	AA-	AA
Adjustable rate tender notes	Aa2/VMIG1	AA-/A-1+	N/A
Subordinate debt:			
Commercial paper	P-1	A-l	F1+
Municipal bond insurance support ratings:			
Senior debt:			
Series 2007 A, B and C Revenue Bonds due 2013 to 2047	Aa2*	AA-*	AA*
Series 2006 A Revenue Bonds due 2009 to 2020	Aa2*	AA-*	AA*
Series 2003 A Revenue Bonds due 2009 to 2033	Aa2*	AA+	AA*

The Authority has a $550 million line of credit with a syndicate of banks supporting the Commercial Paper Notes which line expires January 20, 2014. More detailed information about the Authority's debt is presented in note 6 to the financial statements.

In October 2010, S&P downgraded Assured Guaranty Municipal Corp's AAA rating (formerly Financial Security Assurance Inc.) to AA+. All other bond insurers' ratings are no longer above the Authority's underlying rating and/or are no longer rated. Consequently, the insured bonds carry the Authority's underlying rating denoted by an asterisk (*) after the rating set forth in the table above.

The impact of the bond insurers' credit downgrades on the market value of the Authority's insured bonds was not discernible because of the Authority's strong underlying ratings.

Risk Management

The objective of the Authority's risk management program is to manage the impact of interest rate, energy commodity price and fuel cost volatility on its earnings and cash flows. To achieve these objectives, the Authority's Trustees have authorized the use of various interest rate, energy-price and fuel-price forward instruments for hedging purposes. In addition, the Authority also has a program designed to assess and manage enterprise-wide risk across the Authority.

The Vice President and Chief Risk Officer reports to the Executive Vice President and Chief Financial Officer and is responsible for establishing procedures for identifying, reporting and controlling energy commodity exposure and risk exposure connected with enterprise-wide risk.

On July 21, 2010, President Obama signed into law the Dodd-Frank Wall Street Reform and Consumer Protection Act ("DF Act") which addresses almost every aspect of the financial services industry. Among other things, the DF Act addresses forward interest rate and energy transactions of the type in which the Authority engages, and many of the requirements and processes in this area are expected to be set forth in regulations promulgated by the Commodities Futures Trading Commission in the coming months. Depending on the ultimate resolution of numerous issues, which is uncertain, including whether and to what extent forward transactions are required to be cleared through clearinghouses and/or traded on exchanges with accompanying collateral and/or margin requirements; whether and to what extent forward transactions entered into prior to the enactment of the DF Act are required to be collateralized; and whether and to what extent public power entities such as the Authority are exempted from these requirements, the impact of the DF Act on the Authority's liquidity and/or future risk mitigation activities could be significant. In the event such regulations are applied retroactively to forward positions predating the enactment of the DF Act, it could require the Authority to post as much as $250 million in collateral to maintain its open hedge positions as of December 31, 2010. The Authority has sufficient liquidity to post such collateral, if required.

NEW YORK POWER AUTHORITY

Management's Discussion and Analysis

December 31, 2010 and 2009

(Unaudited)

Economic Conditions

The Authority operates in a competitive and sometimes volatile market environment. Volatility in the energy market has, in previous years, unfavorably impacted the Authority in its role as a buyer and has resulted in higher costs of purchased power and fuel in its New York City (NYC) Governmental Customer and other market areas. The NYC Governmental Customer market cost situation is mitigated by the cost recovery provisions in the long-term supplemental electricity supply agreements and generation from the Authority's 500-MW plant. Wholesale electricity prices, which declined towards the 2008 year-end reflecting weaknesses in the economy and in commodity prices, continued its decline in 2009 and 2010 resulting in lower costs of purchased power and fuel, but also unfavorably impacted the Authority in its role as a seller in the electricity market.

According to the National Bureau of Economic Research, a recession in the United States began in December 2007 and ended in June 2009. However, the economy continues to grow slowly and unemployment is high. Forecasted recovery time for these economic conditions range from a few to many years. In this environment, the Authority has continued to utilize its financial flexibility to support its mission and its customers. In December 2010, the Governor approved long-term contract extensions for the continued supply of low-cost hydropower to more than 100 of Western New York's leading companies. These expansion and replacement power customers, who account for more than 70 percent of the manufacturing jobs in the region, are integral to the area's economy with wide-ranging impacts associated with spinoff jobs, payments to suppliers for goods and services, local tax revenues and financial support of local communities and organizations. These contract extensions will help protect nearly 30,000 jobs and a combined annual payroll of over $2 billion and ensure annual capital investments of tens of millions of dollars.

In response to the economic downturn's effects 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 the temporary shutdown of one of its two smelters served by the Authority in Massena, New York, 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 will 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. In September 2010, the Authority's Trustees approved extension of the electric bill discount program for the lesser of one year or the duration of the temporary curtailment of operations at the affected Alcoa facility. On January 7, 2011, Alcoa announced its plans to restart the temporarily curtailed facility beginning later in the first quarter of 2011 at which time the discount program would cease.

In March 2009, the Authority's Trustees approved the deferral for recovery in the future of a proposed 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 in August 2010, the Authority announced an extension of such deferral through the end of 2010. Currently, the rates are being reevaluated. The deferral amounts to approximately $18.5 million through the end of 2010. Further, the Authority withdrew two proposed hydropower rate increases totaling approximately $6.9 million for its Replacement Power, Expansion Power, and certain other industrial customers that were scheduled to go into effect on May 1, 2009 and May 1, 2010, respectively.

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 Authority's Bond Resolution. The Bond Resolution requirements to withdraw moneys "free and clear of the lien and pledge created by the [Bond] Resolution" are as follows: (1) such withdrawal must be for a "lawful corporate purpose as determined by the Authority," and (2) the Authority must determine "taking into account, among other considerations, anticipated future receipt of Revenues or other moneys constituting part of the Trust Estate, that the funds to be so withdrawn are not needed" for (a) payment of reasonable and necessary operating expenses, (b) an Operating Fund reserve for working capital, emergency repairs or replacements, major renewals, or for retirement from service, decommissioning or disposal of facilities, (c) payment of, or accumulation of a reserve for payment of, interest and principal on senior debt, or (d) payment of interest and principal on subordinate debt.

Legislation enacted into law, as part of the 2000-2001 State budget, as amended in subsequent years, has authorized the Authority "as deemed feasible and advisable by the trustees," to make a series of "voluntary contributions" into the State treasury in connection with the Power for Jobs (PFJ) Program and for other purposes as well. The PFJ Program has been extended to May 15, 2011. Legislation enacted in 2008, among other things, authorized the Authority to make a voluntary contribution unrelated to the PFJ Program of $107 million

during State Fiscal Year 2009-2010. This $107 milllion voluntary contribution was approved and paid in March 2010. By legislation enacted in May 2010, the Authority was authorized to make an additional voluntary contribution of $65 million unrelated to the PFJ Program for State Fiscal Year 2010-2011. In June 2010, the Authority's Trustees approved the payment of a voluntary contribution of $40 million to the State which was paid in August 2010. The Authority's Trustees authorized and the Authority paid the remaining $25 million in January 2011. Cumulatively through January 2011, the Authority has made voluntary contributions to the State totaling $461.5 million in connection with the PFJ Program and $302 million unrelated to the PFJ Program. The 2010 ($147 million) and the 2009 ($70 million) contributions to the State which are not related to the PFJ Program were recorded as nonoperating expenses and classified as contributions to New York State in the 2010 and 2009 statements of revenues, expenses and changes in net assets, respectively. The $25 million paid in January 2011 will be reported as a nonoperating expense in the 2011 financial statements. On February 1, 2011, the Governor introduced his proposed Executive Budget for State Fiscal Year 2011-2012 in which the Authority would be authorized to make two additional voluntary contributions, one to be considered for payment in June, 2011 in the amount of $40 million and a second, in the amount of $60 million, to be considered for payment in January 2012. Such contributions will only be made if authorized by legislation and approved by the Authority's Trustees as feasible and advisable at that time.

By budget legislation enacted in February 2009, the Authority was further authorized to make certain temporary asset transfers to the State of reserve funds. 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 $215 million associated with its Spent Nuclear Fuel Reserves (Asset B) by the end of State Fiscal Year 2008-2009. The Spent Nuclear Fuel Reserves are funds that have been set aside for the liability 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 during State Fiscal Year 2009-2010 $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. Both transfers were approved by the Authority's Trustees and made in 2009.

The MOU provides that the obligation of the State to return all or a portion of an amount equal to the moneys transferred by the Authority to the State 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 were established.

The Authority classified the transfers of Asset A and Asset B ($318 million) as a long-term loan receivable. In lieu of interest payments, the State waived certain future payments from the Authority to the State. The waived payments include the Authority's obligation to pay until September 30, 2017 the amounts to which the State is entitled under a governmental cost recovery process for the costs of central governmental services. These payments would have been approximately $5 million per year based on current estimates but the waiver will 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 and St. Lawrence power plants will be waived from April 1, 2011 to March 31, 2017. These payments would have been approximately $8 million per year but the waiver will be limited to a maximum of $43 million for the period. The present value of the waivers approximates the present value of the lost interest income on the transferred reserve funds.

Other Legislation

The ''Public Authorities Accountability Act of 2005'' (''PAAA'') was signed into law in January 2006 and its various provisions address public authority reporting, governance, budgeting, oversight, and auditing matters, among other things. Additional public authority reform legislation took effect on March 1, 2010 which provides, among other things, for State Senate approval of certain authorities' chief executive officers, including the Authority, and also provides the State Comptroller with discretionary authority to review and approve certain contracts entered into by public authorities, including the Authority.

NEW YORK POWER AUTHORITY

Management's Discussion and Analysis

December 31, 2010 and 2009

(Unaudited)

Contacting the Authority

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

NEW YORK POWER AUTHORITY

Balance Sheets

December 31, 2010 and 2009

(In millions)

Assets and Deferred Outflows	2010	2009
Current assets and deferred outflows:		
Cash and cash equivalents	$ 50	82
Investment in securities	1,032	828
Interest receivable on investments	6	7
Accounts receivable	212	192
Materials and supplies:		
Plant and general	75	82
Fuel	15	22
Miscellaneous receivables and other	160	162
Deferred outflows	86	21
Total current assets	1,636	1,396
Noncurrent assets and deferred outflows:		
Restricted funds:		
Cash and cash equivalents	20	21
Investment in securities	1,096	1,016
Total restricted funds	1,116	1,037
Capital funds:		
Cash and cash equivalents	17	14
Investment in securities	130	178
Total capital funds	147	192
Capital assets:		
Capital assets not being depreciated	273	292
Capital assets, net of accumulated depreciation	3,424	3,419
Total capital assets	3,697	3,711
Other noncurrent assets and deferred outflows:		
Unamortized debt expense	15	16
Regulatory assets - risk management activities	34	41
Due from New York State	318	318
Deferred charges, long-term receivables and other	445	424
Notes receivable – nuclear plant sale	68	82
Deferred outflows	145	93
Total other noncurrent assets	1,025	974
Total noncurrent assets	5,985	5,914
Total assets	$ 7,621	7,310

(Continued)

NEW YORK POWER AUTHORITY

Balance Sheets

December 31, 2010 and 2009

(In millions)

Liabilities and Net Assets		2010	2009
Current liabilities:			
Accounts payable and accrued liabilities	$	408	391
Short-term debt		323	289
Long-term debt due within one year		121	129
Risk management activities - derivatives		86	21
Total current liabilities		938	830
Noncurrent liabilities:			
Long-term debt:			
Senior:			
Revenue bonds		1,111	1,154
Adjustable rate tender notes		122	131
Subordinated:			
Commercial paper		264	330
Total long-term debt		1,497	1,615
Other noncurrent liabilities:			
Liability to decommission divested nuclear facilities		1,032	942
Disposal of spent nuclear fuel		216	216
Relicensing		335	331
Deferred credits and other		416	417
Risk management activities - derivatives		186	139
Total other noncurrent liabilities		2,185	2,045
Total noncurrent liabilities		3,682	3,660
Total liabilities		4,620	4,490
Net assets:			
Invested in capital assets, net of related debt		1,748	1,717
Restricted		34	38
Unrestricted		1,219	1,065
Total net assets		3,001	2,820
Total liabilities and net assets	$	7,621	7,310

See accompanying notes to financial statements.

NEW YORK POWER AUTHORITY

Statements of Revenues, Expenses, and Changes in Net Assets

Years ended December 31, 2010 and 2009

(In millions)

		2010	2009
Operating revenues:			
Power sales	$	1,889	2,014
Transmission charges		151	145
Wheeling charges		528	436
Total operating revenues		2,568	2,595
Operating expenses:			
Purchased power		931	905
Fuel oil and gas		224	366
Wheeling		528	436
Operations		327	324
Maintenance		116	114
Depreciation		163	164
Total operating expenses		2,289	2,309
Operating income		279	286
Nonoperating revenues and expenses:			
Nonoperating revenues:			
Investment income		41	32
Other income		97	100
Total nonoperating revenues		138	132
Nonoperating expenses:			
Contributions to New York State		147	70
Interest on long-term debt		75	82
Interest – other		21	21
Interest capitalized		(4)	(5)
Amortization of debt premium		(3)	(3)
Total nonoperating expenses		236	165
Nonoperating loss		(98)	(33)
Net income and change in net assets		181	253
Net assets at January 1		2,820	2,567
Net assets at December 31	$	3,001	2,820

See accompanying notes to financial statements.

NEW YORK POWER AUTHORITY

Statements of Cash Flows

Years ended December 31, 2010 and 2009

(In millions)

	3	2010	2009
Cash flows from operating activities:			
Received from customers for the sale of power, transmission and wheeling	$	2,531	2,594
Disbursements for:			
Purchased power		(930)	(915)
Fuel oil and gas		(213)	(357)
Wheeling of power by other utilities		(512)	(430)
Operations and maintenance		(449)	(401)
Net cash provided by operating activities		427	491
Cash flows from capital and related financing activities:			
Earnings received on capital fund investments		4	6
Issuance of commercial paper		4	142
Repayment of notes		(8)	(6)
Retirement of bonds		(40)	(37)
Repayment of commercial paper		(80)	(197)
Gross additions to capital assets		(80)	(93)
Interest paid, net		(74)	(81)
Net cash used in capital and related financing activities		(274)	(266)
Cash flows from noncapital – related financing activities:			
Energy conservation program payments received from participants		123	111
Energy conservation program costs		(139)	(116)
Issuance of commercial paper		159	123
Repayment of commercial paper		(125)	(107)
Interest paid on commercial paper		(1)	(2)
Contributions to New York State		(160)	(119)
Temporary asset transfer to New York State		—	(318)
Entergy value sharing agreement		72	72
Entergy notes receivable		30	30
Net cash used in noncapital – related financing activities		(41)	(326)
Cash flows from investing activities:			
Earning received on investments		28	38
Purchase of investment securities		(5,852)	(4,329)
Sale of investment securities		5,682	4,478
Net cash provided by (used in) investing activities		(142)	187
Net increase (decrease) in cash		(30)	86
Cash and cash equivalents, January 1		117	31
Cash and cash equivalents, December 31	$	87	117
Reconciliation to net cash provided by operating activities:			
Operating income	$	279	286
Adjustments to reconcile operating income to net cash provided by operating activities:			
Provision for depreciation		163	164
Change in assets and liabilities:			
Net increase in prepayments and other		1	(29)
Net decrease in receivables and inventory		(15)	15
Net increase in accounts payable and accrued liabilities		(1)	55
Net cash provided by operating activities	$	427	491

See accompanying notes to financial statements.

NEW YORK POWER AUTHORITY

Notes to Financial Statements

December 31, 2010 and 2009

(1) General

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

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

The Authority's Trustees are appointed by the Governor of the State, with the advice and consent of the State Senate. The Authority is a fiscally independent public corporation that does not receive State funds or tax revenues or credits. It generally finances construction of new projects through sales of bonds and notes to investors and pays related debt service with revenues from the generation and transmission of electricity. Accordingly, the financial condition of the Authority is not controlled by or dependent on the State or any political subdivision of the State. However, pursuant to the Clean Water/Clean Air Bond Act of 1996 (Bond Act), the Authority administers a Clean Air for Schools Projects program, for which $125 million in Bond Act monies have been allocated for effectuation of such program. Also, in accordance with legislation enacted in 2006, the Authority was appropriated $25 million to implement the Lower Manhattan Energy Independence Initiative involving certain clean energy and energy efficiency measures. Under the criteria set forth in Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, as amended by Governmental Accounting Standard (GAS) No. 39, *Determining Whether Certain Organizations Are Component Units* and GAS No. 61, *The Financial Reporting Entity: Omnibus--an amendment of GASB Statements No. 14 and No. 34*, the Authority considers its relationship to the State to be that of a related organization.

Income of the Authority and properties acquired by it for its projects are exempt from taxation. However, the Authority is authorized by Chapter 908 of the Laws of 1972 to enter into agreements to make payments in lieu of taxes with respect to property acquired for any project where such payments are based solely on the value of the real property without regard to any improvement thereon by the Authority and where no bonds to pay any costs of such project were issued prior to January 1, 1972.

(2) Summary of Significant Accounting Policies

The Authority's significant accounting policies include the following:

(a) General

The Authority complies with all applicable pronouncements of the GASB. In accordance with GAS No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the Authority also has elected to comply with all authoritative pronouncements applicable to nongovernmental entities (i.e., Accounting Standards Codification (ASC) of the Financial Accounting Standards Board) that do not conflict with GASB pronouncements. The Authority also applies the standard that allows utilities to capitalize or defer certain costs or revenues based on management's ongoing assessment that it is probable these items will be recovered or reflected in the rates charged for electricity. The operations of the Authority are presented as an enterprise fund following the accrual basis of accounting in order to recognize the flow of economic resources. Under this basis, revenues are recognized in the period in which they are earned and expenses are recognized in the period in which they are incurred.

In December 2010, the GASB issued GAS No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* which is effective for the Authority's 2012 financial statements. GAS No. 62 supersedes GAS No. 20 thereby eliminating the need to elect to comply with all authoritative FASB and AICPA pronouncements applicable to nongovernmental entities. The Authority has determined that the adoption of GAS No. 62 will have no impact on the Authority's accounting policies and financial reporting procedures.

(b) Accounting for the Effects of Rate Regulation

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.

In order for a rate-regulated entity to continue to apply the provisions of ASC Topic 980, it must continue to meet the following three criteria: (1) the enterprise's rates for regulated services provided to its customers must be established by an independent third-party regulator or its own governing board empowered by a statute to establish rates that bind customers; (2) the regulated rates must be designed to recover the specific enterprise's costs of providing the regulated services; and (3) in view of the demand for the regulated services and the level of competition, it is reasonable to assume that rates set at levels that will recover the enterprise's costs can be charged to and collected from customers.

Based upon the Authority's evaluation of the three criteria discussed above in relation to its operations, and the effect of competition on its ability to recover its costs, the Authority believes that the provisions of ASC Topic 980 continue to apply.

(c) Estimates

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

(d) Capital Assets

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

The related depreciation provisions at December 31, 2010 and 2009 expressed as a percentage of average depreciable capital assets on an annual basis are:

	Average depreciation rate	
	2010	**2009**
Type of plant:		
Production:		
Hydro	1.9%	1.8%
Gas turbine/combined cycle	3.5	3.6
Transmission	2.6	2.7
General	3.3	3.6
	2.6%	2.6%

(e) Asset Retirement Obligation

The Authority applies the applicable provisions of ASC Topic 410 Asset Retirement and Environmental Obligations (FAS No. 143, Accounting for Asset Retirement Obligations) which requires an entity to record a liability at fair value to

recognize legal obligations for asset retirements in the period incurred and to capitalize the cost by increasing the carrying amount of the related long-lived asset. The Authority determined that it had legal liabilities for the retirement of certain SCPPs in New York City and, accordingly, has recorded a liability for the retirement of this asset. In connection with these legal obligations, the Authority has also recognized a liability for the remediation of certain contaminated soils discovered during the construction process.

ASC Topic 410 does not apply to asset retirement obligations involving pollution remediation obligations that are within the scope of GAS No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. The Authority applies GAS No. 49 which, upon the occurrence of any one of five specified obligating events, requires an entity to estimate the components of expected pollution remediation outlays and determine whether outlays for those components should be accrued as a liability or, if appropriate, capitalized when goods and services are acquired. The Authority had no liabilities recorded related to GAS No. 49 at December 31, 2010 or 2009.

In addition to asset retirement obligations, the Authority has other cost of removal obligations that are being collected from customers and accounted for under the provisions of ASC Topic 980. The balances of these other cost of removal obligations as of December 31, 2010 and 2009 were approximately $228 million and $216 million, respectively, and are recorded in other noncurrent liabilities on the balance sheets.

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

	ARO amounts	Cost of removal obligation
	(In millions)	
Balance – December 31, 2009	$ 21	216
Depreciation expense	1	12
Balance – December 31, 2010	$ 22	228

(f) Long Lived Assets

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

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

(g) Cash, Cash Equivalents and Investments

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

(h) Derivative Instruments

The Authority uses financial derivative instruments to manage the impact of interest rate, energy price and fuel cost changes on its earnings and cash flows. The Authority recognizes the fair value of all derivative instruments as either an asset or liability on its balance sheets with the offsetting gains or losses recognized in earnings or deferred charges. 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.

(i) Accounts Receivable

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

(j) Materials and Supply Inventory

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

(k) Deferred Charges

At December 31, 2010 and 2009, deferred charges include $146 million and $108 million, respectively, of energy services program costs. These deferred costs will be recovered from certain customers through the terms of contracts.

(l) Deferred Debt Refinancing Charges

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

(m) Compensated Absences

The Authority accrues the cost of unused sick leave which is payable upon the retirement of its employees. The current year's cost is accounted for as a current operating expense in the statement of revenues, expenses, and changes in net assets and in other noncurrent liabilities on the balance sheets.

(n) Net Assets

Net Assets represent the difference between assets and liabilities and are classified into three categories:

a. Investment in Capital Assets, Net of Related Debt – This reflects the net assets of the Authority that are invested in capital assets, net of related debt and accounts. This indicates that these assets are not accessible for other purposes.

b. Restricted Net Assets – This represents the net assets that are not accessible for general use because their use is subject to restrictions enforceable by third parties.

c. Unrestricted Net Assets – This represents the net assets that are available for general use.

Restricted and unrestricted resources are utilized, as applicable, by the Authority for their respective purposes.

(o) Revenues

Revenues are recorded when power is delivered or service is provided. Customers' meters are read, and bills are rendered, monthly. Wheeling charges are for costs incurred for the transmission of power over transmission lines owned by other utilities. Sales and purchases of power between the Authority's facilities are eliminated from revenues and operating expenses. Energy costs are charged to expense as incurred. Sales to the Authority's five (5) largest customers (three governmental customers and two investor-owned utilities) operating in the State accounted for approximately 53% and 52% of the Authority's operating revenues in 2010 and 2009, respectively. The Authority distinguishes operating revenues and expenses from nonoperating items in the preparation of its financial statements. The principal operating revenues are generated from the sale, transmission, and wheeling of power. The Authority's operating expenses include fuel, operations and maintenance, depreciation, purchased power costs, and other expenses related to the sale of power. All revenues and expenses not meeting this definition are reported as nonoperating income and expenses.

(p) Reclassifications

Certain prior year amounts have been reclassified to conform with the current year's presentation. These reclassifications had no effect on net income and changes in net assets.

(3) Bond Resolution

On February 24, 1998, the Authority adopted its "General Resolution Authorizing Revenue Obligations" (as amended and supplemented up to the present time, the Bond Resolution). The Bond Resolution covers all of the Authority's projects, which it defines as any project, facility, system, equipment or material related to or necessary or desirable in connection with the generation, production, transportation, transmission, distribution, delivery, storage, conservation, purchase or use of energy or fuel, whether owned jointly or singly by the Authority, including any output in which the Authority has an interest authorized by the Act or by other applicable State statutory provisions, provided, however, that the term "Project" shall not include any Separately Financed Project as that term is defined in the Bond Resolution. The Authority has covenanted with bondholders under the Bond Resolution that at all times the Authority shall maintain rates, fees or charges, and any contracts entered into by the Authority for the sale, transmission, or distribution of power shall contain rates, fees or charges sufficient together with other monies available there for (including the anticipated receipt of proceeds of sale of Obligations, as defined in the Bond Resolution, issued under the Bond Resolution or other bonds, notes or other obligations or evidences of indebtedness of the Authority that will be used to pay the principal of Obligations issued under the Bond Resolution in anticipation of such receipt, but not including any anticipated or actual proceeds from the sale of any Project), to meet the financial requirements of the Bond Resolution. Revenues of the Authority (after deductions for operating expenses and reserves, including reserves for working capital, operating expenses or compliance purposes) are applied first to the payment of, or accumulation as a reserve for payment of, interest on and the principal or redemption price of Obligations issued under the Bond Resolution and the payment of Parity Debt issued under the Bond Resolution.

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

(4) Cash and Investments

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

(a) Credit Risk

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

(b) Interest Rate Risk

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

(c) Concentration of Credit Risk

There is no limit on the amount that the Authority may invest in any one issuer; however, investments in authorized certificates of deposit shall not exceed 25% of the Authority's invested funds. At December 31, 2010, $371 million (16%),

$266 million (11%), $232 million (10%) and $158 million (7%) of the Authority's investments were in securities of Federal Home Loan Bank (FHLB), Federal Farm Credit Bank (FFCB), Federal National Mortgage Association (FNMA or Fannie Mae) and Federal Home Loan Mortgage Corp. (FHLMC), respectively.

(d) Decommissioning Fund

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

(e) Other

All investments are held by designated custodians in the name of the Authority. At December 31, 2010 and 2009, the Authority had investments in repurchase agreements of $50 million and $72 million, respectively. The bank balances were $29.1 million and $35.6 million, respectively, of which $28.0 million and $34.5 million, respectively, were uninsured, but were collateralized by assets held by the bank in the name of the Authority.

Cash and Investments of the Authority at December 31, 2010 and 2009, are as follows:

			Restricted				
December 31, 2010	**Total**	**Total restricted**	**Decommis-ioning Trust Fund**	**POCR and CAS projects and other**	**ART note debt reserve**	**Capital fund**	**Unrestricted**
				(In millions)			
Cash and investments:							
Cash and equivalents	$ 87	20	—	20	—	17	50
U.S. government:							
Treasury bills	43	43	—	43	—	—	—
GNMA	38	—	—	—	—	—	38
	81	43	—	43	—	—	38
Other debt securities:							
FNMA	232	5	—	—	5	22	205
FHLMC	158	—	—	—		6	152
FHLB	371	5	—	—	5	6	360
FFCB	266	4	—	—	4	54	208
All other	118	7	—	—	7	42	69
	1,145	21	—	—	21	130	994
Portfolio Manager	1,032	1,032	1,032	—	—	—	—
Total investments	2,258	1,096	1,032	43	21	130	1,032
	$ 2,345	1,116	1,032	63	21	147	1,082

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December 31, 2010 and 2009

December 31, 2010	Total	Total restricted	Restricted: Decommissioning Trust Fund	Restricted: POCR and CAS projects and other	Restricted: ART note debt reserve	Capital fund	Unrestricted
				(In millions)			
Summary of maturities (years):							
0 – 1	$ 317	63	—	63	—	47	207
1 – 5	826	21	—	—	21	74	731
5 – 10	69	—	—	—	—	—	69
10+	101	—	—	—	—	26	75
Portfolio manager	1,032	1,032	1,032	—	—	—	—
	$ 2,345	1,116	1,032	63	21	147	1,082

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

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

The New York State Clean Water/Clean Air Bond Act of 1996 made available $125 million for Clean Air for Schools Projects (CAS Projects) for elementary, middle and secondary schools, with the Authority authorized to undertake implementation of the CAS Projects program. The CAS Projects are designed to improve air quality for schools and include, but are not limited to, projects that replace coal-fired furnaces and heating systems with furnaces and systems fueled with oil or gas. The conversion of 80 schools was substantially completed during 2010. As of December 31, 2010, restricted funds include the POCR fund ($16 million), the CAS Projects fund ($10 million), the Lower Manhattan Energy Independence Initiative fund ($18 million) and the Fish & Wildlife Habitat Enhancement fund related to the Niagara relicensing costs ($17 million).

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Notes to Financial Statements

December 31, 2010 and 2009

December 31, 2009	Total	Total restricted	Restricted: Decommissioning Trust Fund	Restricted: POCR and CAS projects and other	Restricted: ART note debt reserve	Capital fund	Unrestricted
				(In millions)			
Cash and investments:							
Cash and equivalents	$ 117	21	—	21	—	14	82
U.S. government:							
Treasury bills	52	52	—	52	—	—	—
GNMA	39	—	—	—	—	—	39
	91	52	—	52	—	—	39
Other debt securities:							
FNMA	193	5	—	—	5	10	178
FHLMC	197	—	—	—	—	16	181
FHLB	234	9	—	—	9	48	177
FFCB	227	—	—	—	—	55	172
All other	138	8	—	1	7	49	81
	989	22	—	1	21	178	789
Portfolio Manager	942	942	942	—	—	—	—
Total investments	2,022	1,016	942	53	21	178	828
	$ 2,139	1,037	942	74	21	192	910
Summary of maturities (years):							
0 – 1	$ 301	74	—	74	—	54	173
1 – 5	679	21	—	—	21	101	557
5 – 10	110	—	—	—	—	10	100
10+	107	—	—	—	—	27	80
Portfolio manager	942	942	942	—	—	—	—
	$ 2,139	1,037	942	74	21	192	910

(5) Capital Assets

The following schedule summarizes the capital assets activity of the Authority for the year ended December 31, 2010:

	Beginning balance	Additions	Deletions/ Transfers	Ending balance
		(Amounts in millions)		
Capital assets, not being depreciated:				
Land	$ 148	—	—	148
Construction in progress	144	149	(168)	125
Total capital assets not being depreciated	292	149	(168)	273
Capital assets, being depreciated:				
Production – Steam	437	—	—	437
Production – Hydro	1,689	74	(14)	1,749
Production – Gas turbine/combined cycle	1,236	12	—	1,248
Transmission	1,749	47	(11)	1,785
General	1,037	35	(2)	1,070
Total capital assets being depreciated	6,148	168	(27)	6,289
Less accumulated depreciation for:				
Production – Steam	436	—	—	436
Production – Hydro	614	28	(14)	628
Production – Gas turbine/combined cycle	448	49	—	497
Transmission	910	42	(1)	951
General	321	34	(2)	353
Total accumulated depreciation	2,729	153	(17)	2,865
Net value of capital assets, being depreciated	3,419	15	(10)	3,424
Net value of all capital assets	$ 3,711	164	(178)	3,697

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Notes to Financial Statements

December 31, 2010 and 2009

The following schedule summarizes the capital assets activity of the Authority for the year ended December 31, 2009:

	Beginning balance	Additions	Deletions/ Transfers	Ending balance
		(Amounts in millions)		
Capital assets, not being depreciated:				
Land	$ 148	—	—	148
Construction in progress	158	131	(145)	144
Total capital assets not being depreciated	306	131	(145)	292
Capital assets, being depreciated:				
Production – Steam	436	1	—	437
Production – Hydro	1,622	81	(14)	1,689
Production – Gas turbine/combined cycle	1,225	11	—	1,236
Transmission	1,729	21	(1)	1,749
General	1,011	28	(2)	1,037
Total capital assets being depreciated	6,023	142	(17)	6,148
Less accumulated depreciation for:				
Production – Steam	436	—	—	436
Production – Hydro	603	26	(15)	614
Production – Gas turbine/combined cycle	398	50	—	448
Transmission	869	42	(1)	910
General	286	37	(2)	321
Total accumulated depreciation	2,592	155	(18)	2,729
Net value of capital assets, being depreciated	3,431	(13)	1	3,419
Net value of all capital assets	$ 3,737	118	(144)	3,711

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Notes to Financial Statements

December 31, 2010 and 2009

(6) Long-Term Debt

(a) Components

	Amount 2010	Amount 2009	Interest rate	Maturity	Earliest redemption date prior to maturity
	(In millions)				
Senior debt:					
Revenue Bonds (Tax-Exempt):					
Series 2000 A Revenue Bonds:					
Term Bonds	$ 10	10	5.25%	11/15/2030	Any date
Term Bonds	67	67	5.25	11/15/2040	Any date
Series 2002 A Revenue Bonds:					
Serial Bonds	120	145	3.25% to 5.00%	11/15/2011 to 2022	11/15/2012
Series 2006 A Revenue Bonds:					
Serial Bonds	134	144	3.4% to 5.0%	11/15/2011 to 2020	11/15/2015
Series 2007 A Revenue Bonds:					
Term Bonds	82	82	4.5% to 5.0%	11/15/2047	11/15/2017
Series 2007 C Revenue Bonds:					
Serial Bonds	264	264	4.0% to 5.0%	11/15/2014 to 2021	11/15/2017
Revenue Bonds (Taxable):					
Series 2003 A Revenue Bonds:					
Serial Bonds	14	19	4.5% to 4.83%	11/15/2011 to 2013	Any date
Term Bonds	186	186	5.230% to 5.749%	11/15/2018 to 2033	Any date
Series 2007 B Revenue Bonds:					
Serial Bonds	18	18	5.253% to 5.603%	11/15/2013 to 2017	Any date
Term Bonds	239	239	5.905% to 5.985%	11/15/2037 and 2043	Any date
	1,134	1,174			
Plus unamortized premium and discount	21	25			
Less deferred refinancing costs	4	6			
	1,151	1,193			
Less due in one year	40	39			
	$ 1,111	1,154			

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December 31, 2010 and 2009

	Amount 2010	Amount 2009	Interest rate	Maturity	Earliest redemption date prior to maturity
	(In millions)				
Adjustable Rate Tender Notes:					
2016 Notes	$ 55	63	0.29%	3/1/2016	Any adjustment date
2020 Notes	75	75	0.29%	3/1/2020	Same as above
	130	138			
Less due in one year	8	7			
	122	131			
Subordinate debt:					
Commercial Paper:					
EMCP (Series 1)	141	149	0.36%	2011 to 2025	
CP (Series 2)	128	196	0.29%	2011 to 2015	
CP (Series 3)	68	68	0.29%	2011 to 2025	
	337	413			
Less due within one year	73	83			
	264	330			
Total Long-term debt	1,618	1,744			
Less due within one year	121	129			
Long-term debt, net of due in one year	$ 1,497	1,615			

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

Senior Debt

As indicated in note 3, "Bond Resolution," the Authority has pledged future revenues to service the Obligations and Parity Debt (Senior Debt) issued under the Bond Resolution. Annual principal and interest payments on the Senior Debt are expected to require less than 35% of operating income plus depreciation. The total principal and interest remaining to be paid on the Senior Debt is $2.2 billion. Principal and interest paid for 2010 and operating income plus depreciation were $107 million and $442 million, respectively.

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

In October 2010, the Authority's Trustees authorized the issuance of up to $220 million of additional revenue bonds for the purpose of refunding certain revenue bonds and funding certain construction costs up to a maximum of $80 million related to the life extension and modernization of the Lewiston Pump Generating Plant at the Niagara Project. It is uncertain whether and to what extent such revenue bonds will be issued in 2011.

In prior years, the Authority defeased certain revenue bonds and general purpose bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the Authority's financial statements. At December 31, 2010 and 2009, $268 million and $315 million, respectively, of outstanding bonds were considered defeased.

The Adjustable Rate Tender Notes may be tendered to the Authority by the holders on any adjustment date. The rate adjustment dates are March 1 and September 1. The Authority has entered into a revolving credit agreement (Agreement) with The Bank of Nova Scotia to provide a supporting line of credit. Under the Agreement, which terminates on September 1, 2015, the Authority may borrow up to $131 million for the purpose of repaying, redeeming or purchasing the Notes. The Agreement provides for interest on outstanding borrowings (none outstanding at December 31, 2010 or 2009) at either (i) the Federal Funds Rate plus a percentage, or (ii) a rate based on the London Interbank Offered Rate (LIBOR) plus a percentage. The Authority expects that it will be able to renew or replace this Agreement as necessary. In accordance with the Adjustable Rate Tender Note Resolution, a Note Debt Service Reserve account has been established in the amount of $20 million. See note 8 for the Authority's risk management program relating to interest rates.

At December 31, 2010 and 2009, the current market value of the senior debt was approximately $1.294 billion and $1.335 billion, respectively. Market values were obtained from a third party that utilized a matrix-pricing model.

Subordinate Debt – Commercial Paper

Under the Extendable Municipal Commercial Paper (EMCP) Note Resolution, adopted December 17, 2002, and as subsequently amended and restated, the Authority may issue a series of notes, designated EMCP Notes, Series 1, maturing not more than 270 days from the date of issue, up to a maximum amount outstanding at any time of $200 million (EMCP Notes).

The proceeds of the Series 2, 3, and 4 Commercial Paper Notes (CP Notes) were used to refund General Purpose Bonds and for other corporate purposes. The proceeds of the EMCP Notes were used to refund Series 2 and 3 CP Notes. CP Notes and EMCP Notes have been used, and may in the future be used, for other corporate purposes. It is the Authority's intention to renew the Series 2 and 3 CP Notes and the EMCP Notes as they mature so that their ultimate maturity dates will range from 2011 to 2025, as indicated in the table above.

The Authority has a line of credit under a 2011 revolving credit agreement (the 2011 RCA) to provide liquidity support for the Series 1-3 CP Notes, with a syndicate of banks, providing $550 million for such CP Notes until January 20, 2014, which succeeded another revolving credit agreement (the 2008 RCA) in January 2011. No borrowings have been made under the 2011 RCA or the 2008 RCA. The Authority has the option to extend the maturity of the EMCP Notes and would exercise such right in the event there is a failed remarketing. This option serves as a substitute for a liquidity facility for the EMCP Notes.

CP Notes and EMCP Notes are subordinate to the Series 2000 A Revenue Bonds, the Series 2002 A Revenue Bonds, the Series 2003 A Revenue Bonds, the Series 2006 A Revenue Bonds, the Series 2007 A, B, and C Revenue Bonds and the Adjustable Rate Tender Notes.

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

Long-Term Debt Maturities and Interest Expense
(In millions)

	Principal	Interest	Hedging Derivative Instruments, Net	Total
Year:				
2011	$ 121	69	9	199
2012	81	66	7	154
2013	98	62	6	166
2014	98	59	5	162
2015	95	54	3	152
2016 – 2020	454	217	3	674
2021 – 2025	198	144	—	342
2026 – 2030	104	116	—	220
2031 – 2035	114	82	—	196
2036 – 2040	110	55	—	165
2041 – 2045	87	24	—	111
2046 – 2047	41	3	—	44
	1,601	951	33	2,585
Plus unamortized bond premium	21	—	—	21
Less deferred refinancing cost	4	—	—	4
	$ 1,618	951	33	2,602

The interest rate used to calculate future interest expense on variable rate debt is the interest rate at December 31, 2010.

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

Adjustable Rate Tender Notes

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

CP Notes and EMCP Notes (Long-Term Portion)

The Authority determines the rate for each rate period which is the minimum rate necessary to remarket the notes at par in the Dealer's opinion. On July 28, 2009, the Authority approved an amendment to its 2002 EMCP Resolution revising the reset rate formula as well as capping such rate at 12%, applicable only to Series 1 Notes issued on or after October 29, 2009. If the Authority exercises its option to extend the maturity of the EMCP Notes, the reset rate will be the higher of (SIFMA + E) or F, where SIFMA is the Securities Industry and Financial Markets Association Municipal Swap Index, which is calculated weekly, and where "E" and "F" are fixed percentage rates expressed in basis points (each basis point being 1/100 of one percent) and yields, respectively, that are determined based on the Authority's debt ratings. As of December 31, 2010, the reset rate would have been 7.33%.

(c) Changes in Long-Term Liabilities

Changes in the Authority's long-term liabilities for the year ended December 31, 2010 are comprised of the following:

	Beginning balance	Additions	Maturities/ refundings and other	Ending balance	Due within one year
			(Amounts in millions)		
Senior debt:					
Revenue bonds	$ 1,174	—	40	1,134	40
Adjustable rate tender bonds	138	—	8	130	8
Subtotal	1,312	—	48	1,264	48
Subordinate debt:					
Commercial paper	413	4	80	337	73
Subtotal	413	4	80	337	73
Net unamortized discounts/ premiums and deferred losses	19	—	2	17	—
Total debt, net of unamortized discounts/ premiums/ deferred losses	$ 1,744	4	130	1,618	121
Other long-term liabilities:					
Nuclear decommissioning	$ 942	90	—	1,032	—
Disposal of nuclear fuel	216	—	—	216	—
Deferred revenues and other	887	87	37	937	—
Total other long-term liabilities	$ 2,045	177	37	2,185	—

Changes in the Authority's long-term liabilities for the year ended December 31, 2009 are comprised of the following:

	Beginning balance	Additions	Maturities/ refundings and other	Ending balance	Due within one year
	(Amounts in millions)				
Senior debt:					
Revenue bonds	$ 1,211	—	37	1,174	39
Adjustable rate tender bonds	144	—	6	138	7
Subtotal	1,355	—	43	1,312	46
Subordinate debt:					
Commercial paper	469	142	198	413	83
Subtotal	469	142	198	413	83
Net unamortized discounts/ premiums and deferred losses	22	—	3	19	—
Total debt, net of unamortized discounts/ premiums/ deferred losses	$ 1,846	142	244	1,744	129
Other long-term liabilities:					
Nuclear decommissioning	$ 812	130	—	942	—
Disposal of nuclear fuel	216	—	—	216	—
Deferred revenues and other	716	202	31	887	—
Total other long-term liabilities	$ 1,744	332	31	2,045	—

(7) Short-Term Debt

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

	December 31			
	2010		2009	
	Availability	Outstanding	Availability	Outstanding
	(In millions)			
CP Notes (Series 1)	$ 400	323	400	289

Under the Commercial Paper Note Resolution adopted June 28, 1994, as subsequently amended and restated, the Authority may issue from time to time a separate series of notes maturing not more than 270 days from the date of issue, up to a maximum amount outstanding at any time of $400 million (Series 1 CP Notes). See note 6 – Long-term Debt for Series 2, 3 and 4 CP Notes and the EMCP Notes. The proceeds of the Series 1 CP Notes have been and shall be used to finance the Authority's current and future energy services programs and for other corporate purposes.

The changes in short-term debt are as follows:

	Beginning balance	Increases	Decreases	Ending balance
		(In millions)		
Year:				
2009	$ 273	123	107	289
2010	289	159	125	323

CP Notes are subordinate to the Series 2000 A Revenue Bonds, the Series 2002 A Revenue Bonds, the Series 2003 A Revenue Bonds, the Series 2006 A Revenue Bonds, the Series 2007 A, B, and C Revenue Bonds and the Adjustable Rate Tender Notes.

(8) 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 portions of its medical, dental and workers' compensation insurance programs. The Authority pursues subrogation claims as appropriate against any entities that cause damage to its property.

Another aspect of the Authority's risk management program is to manage 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 derivative instruments that are considered financial derivatives under GAS No. 53, *Accounting and Financial Reporting for Derivative Instruments* (GAS No. 53).

The fair values of all Authority derivative instruments, as defined by GAS No. 53, are reported in current and noncurrent assets or liabilities on the balance sheets as risk management activities. For designated hedging derivative instruments, changes in the fair values are deferred and classified as deferred inflows or deferred outflows in current and other noncurrent assets or liabilities. Renewable energy contracts, designated as investment derivative instruments, are deferred as regulatory assets or liabilities, as they are recoverable from customers by contractual agreements. GAS No. 53 provides for the recognition of deferred outflows of resources and deferred inflows of resources that arise from an effective hedging relationship. Deferred outflows of resources is defined as a consumption of net assets by the government that is applicable to a future reporting period. Deferred inflows of resources is defined as an acquisition of net assets by the government that is applicable to a future reporting period.

The fair value of interest rate swap contracts take 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 of the interest rate option contracts were measured using an option pricing model that considers probabilities, volatilities, time, underlying prices, and other variables. The fair value for over-the-counter 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 Platt's prices.

The Authority's policy regarding the creditworthiness of counterparties for interest rate derivative contracts is defined in the Bond Resolution. It requires that such counterparties be rated in at least the third highest rating category for each appropriate rating agency maintaining a rating for qualified swap providers. In January 2011, the Authority's Trustees adopted a Policy for the Use of interest Rate Exchange Agreements which established the framework, objectives and overall authority for governing activities relating to the Authority's interest rate risk management program.

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 require collateral such as parental guarantees, letters of credit or margin calls.

Based upon the fair values as of December 31, 2010 the Authority's individual or aggregate exposure to derivative contract counterparty credit risk is not significant.

The following table shows the fair value of derivatives contracts for 2010 and 2009:

Derivitive instrument description	Fair value balance December 31, 2010	Net change in fair value	Fair value balance December 31, 2009	Type of hedge or transaction	Financial statement classification for changes in fair value	Notional amount December 31, 2010	Volume
		(In millions)					
Interest rate contracts (Swaps):							
Series 2 CP Notes	$ (8.7)	$ 3.2	$ (11.9)	Cash Flow	Deferred out-flow	104.2	USD
ART Notes	(12.7)	(2.2)	(10.5)	Cash Flow	Deferred out-flow	130.5	USD
Energy contracts (Swaps):							
Power for Jobs Program	—	(0.1)	0.1	Cash Flow	Deferred in-flow	—	MWh
Economic Cost Savings Benefits	(0.1)	(1.9)	1.8	Cash Flow	Deferred in-flow/ out-flow	136,400	MWh
SENY Customer Load	—	8.2	(8.2)	Cash Flow	Deferred out-flow	—	MWh
SENY Customer Load	—	12.5	(12.5)	Cash Flow	Deferred out-flow	—	MWh
SENY Customer Load	(101.0)	(58.1)	(42.9)	Cash Flow	Deferred out-flow	5,701,800	MWh
SENY Customer Load	(108.8)	(80.3)	(28.5)	Cash Flow	Deferred out-flow	6,574,200	MWh
Renewable energy contracts: (Swaps)							
SENY Renewable Energy	(33.8)	6.9	(40.7)	Investment	Regulatory Asset	1,284,880	MWh
Totals	$ (265.1)	$ (111.8)	$ (153.3)				

Interest Rate Contracts:

Series 2 CP Notes: In 1998, the Authority entered into forward interest rate swaps to fix rates on long-term obligations initially issued to refinance $268.2 million of Series 1998 B Revenue Bonds required to be tendered in the years 2002 (the 2002 Swaps). Based upon the terms of these forward interest rate swaps, the Authority would pay interest calculated at a fixed rate of 5.1% to the counterparties through February 15, 2015. In return, the counterparties would pay interest to the Authority based upon the SIFMA municipal swap index (SIFMA Index) on the established reset dates. On November 15, 2002 the Authority completed the mandatory payment on the Series 1998 B Revenue Bonds from the proceeds of the issuance of Series 2 CP Notes. The 2002 Swaps became active on November 15, 2002 and are scheduled to terminate on February 15, 2015. Net settlement payments were $6.7 and $9.4 million in 2010 and 2009 respectively.

ART Notes: In 2006, the Authority entered into a forward interest rate swap having an initial notional amount of $156 million (which declines over time to $75 million) with the objective of fixing the interest rates on the Authority's Adjustable Rate Tender Notes (ART Notes) for the period September 1, 2006 to September 1, 2016. Based upon the terms of the forward interest rate swap, the Authority pays interest calculated at a fixed rate of 3.7585% on the outstanding notional amount. In return, the counterparty pays interest to the Authority based upon 67% of the six-month LIBOR established on the reset dates that coincide with the ART Notes interest rate reset dates. Net settlement payments were $4.5 and $3.7 million in 2010 and 2009 respectively.

Energy Contracts:

Power for Jobs Program: In 2010 and 2009, the Authority purchased a number of short-term energy swaps. The objective of these short-term energy swaps was to fix the price of purchases of energy in the NYISO electric market to meet short-term forecasted load requirements for the Authority's Power for Jobs program. These short-term energy swaps terminated in less than one year. Net settlement payments were $ 0.4 and $1.0 million in 2010 and 2009 respectively.

Energy Cost Savings Benefits: In 2010 and 2009, the Authority purchased a number of short-term energy swaps. The objective of these short-term energy swaps was to fix the cost of energy purchases in the NYISO electric market to meet the forecasted load requirements of certain Energy Cost Saving Benefits program customers. These short-term energy swaps terminate in less than one year. Net settlement payments were $0.6 and $0.4 million in 2010 and 2009 respectively.

SENY Customer Load: In 2008 and 2009, the Authority purchased a number of short-term energy swaps. The objective of these short-term energy swaps was to fix the cost of energy purchases in the NYISO electric market to the benefit of the NYC Governmental Customers. These short-term energy swaps terminate in less than two years. Net settlement payments were $17.7 and $183.3 million in 2010 and 2009 respectively.

In 2005, the Authority entered into a long-term forward energy swap to fix the cost of energy purchases in the NYISO electric market to meet certain long-term NYC Governmental Customers load requirements between 2008 and 2010. Net settlement payments were $14.5 and $21.5 million in 2010 and 2009 respectively.

On October 1, 2009, the Authority entered into the first of two medium-term forward energy swaps to fix the cost of energy purchases in the NYISO electric market to meet certain long-term NYC Governmental Customers load requirements between 2010 and 2012. Net settlement payments were $27.7 million in 2010.

On October 1, 2009, the Authority entered into the second of two medium-term forward energy swaps to fix the cost of energy purchases in the NYISO electric market to meet certain long-term NYC Governmental Customers load requirements between 2011 and 2014.

Renewable Energy Contracts:

SENY Renewable Energy: In 2006, the Authority entered into long-term forward energy swaps and purchase agreements based upon a portion of the generation of the counterparties' wind-farm-power-generating facilities between 2008 and 2017. The fixed price ranges from $74 to $75 per megawatt and includes the purchase of the related environmental attributes. The intent of the swaps and purchase agreements is to assist specific governmental customers in acquiring and investing in wind power and related environmental attributes to satisfy certain New York State mandates to support renewable energy. Net settlement payments were $4.2 and $5.1 million in 2010 and 2009 respectively. The Authority anticipates the recovery or distribution of any net settlements through specific contractual agreements with customers.

Other Considerations:

In addition, the Authority utilized derivatives during the periods to hedge certain exposures. These derivatives had no value or open positions on December 31, 2010 or 2009. These derivatives included:

- In 2007, an interest rate cap was purchased with the objective of limiting exposure to rising interest rates relating to the Series 1 CP Notes at a premium cost of $0.035 million. The interest rate for the Series 1 CP Notes was capped at 5.9% and was based upon the SIFMA Index for a notional amount ($300 million) through August 15, 2010. On January 26, 2011 a new interest rate cap set at 5.5% was purchased for a premium of $0.177 million. The cap, based upon the SIFMA Index, has a notional amount of ($300 million) through January 26, 2013.

- In 2008, the Authority purchased a number of short-term energy swaps. The objective of these short-term energy swaps was to fix the cost of energy purchases in the NYISO electric market to meet the forecasted load requirements for certain Power for Jobs customers that opted to leave the program. Net settlement payments were $4.1 million in 2009.

- In 2008, the Authority sold a number of short-term energy swaps. The objective of these short-term energy swaps was, in conjunction with NYMEX gas futures contracts to operate the 500 MW plant, to fix the margin between the prices of sales of energy in the NYISO electric market and purchases of natural gas. The margin was for the benefit of the Authority's NYC Governmental Customers during 2009. Net settlement receipts were $128.9 million in 2009.

- In 2008, the Authority purchased a number of NYMEX natural gas futures contracts with the objective, 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 to the benefit of the Authority's NYC Governmental Customers in 2009. Net settlement payments were $73.0 million in 2009.

- In 2008, the Authority purchased a number of natural gas basis swaps with the objective to fix natural gas pipeline transportation costs to the New York City Gate for forecasted purchases of natural gas to operate the 500 MW facility. These natural gas basis swaps settled upon the natural gas Henry Hub and the IFERC NY Tranco 6 pricing in 2009. Net settlement payments were $6.6 million in 2009.

The Authority from time to time may be exposed to any of the following risks defined under GAS 53.

Basis risk: The Authority is exposed to basis risk on its pay-fixed interest rate swaps because the variable-rate payments received by the Authority on these hedging derivative instruments are based upon indexes other than the actual interest rates the Authority pays on its hedged variable-rate debt. Under the terms of the related hedging fixed rate swap transactions, the Authority receives a variable rate based upon SIFMA and sixty-seven percent of LIBOR, respectively. The Authority remarkets its Notes at rates that approximate SIFMA and sixty-seven percent of LIBOR after considering other factors such as the Authority's creditworthiness.

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

Tax risk: The Authority is at risk that a change in Federal tax rates will alter the relationship between the actual rates at which the Authority remarkets its ART Notes and LIBOR Index used in the pay- fixed receive-variable interest rate swap transaction.

Rollover risk: The Authority is exposed to certain rollover risk on its variable ART Notes. Certain of the ART Notes mature on March 1, 2020 while its pay- fixed, receive- variable ART Notes swap terminates on September 1, 2016 leaving the Authority exposed to interest rate volatility during the period September 1, 2016 to March 1, 2020.

Certain electrical commodity, natural gas and natural gas pipeline transportation based derivative instruments are based upon projected future customer loads or facility operations. Beyond the terms of these derivative instruments (varying from one month to 48 months) the Authority is subject to the corresponding market volatilities.

Termination risk: The Authority or its counterparties may terminate a derivative instrument if the other party fails to perform under the terms of the contract. The Authority is at risk that counterparty will terminate a swap (interest rate or commodity swaps) at a time when the Authority owes the counterparty a termination payment. The Authority has mitigated this risk by specifying that the counterparty has the right to terminate only as a result of certain events, including: a payment default by the Authority; other Authority defaults which remain uncured within a defined time-frame after notice; Authority bankruptcy; insolvency of the Authority (or similar events); or a downgrade of the Authority's credit rating below investment grade. If at the time of termination, a hedging derivative instrument is in a liability position, the Authority would be liable to the counterparty for a payment equal to the liability, subject to netting arrangements.

Market-Access Risk: The Authority remarkets its CP Notes on a continuous basis and its ART Notes every March 1 and September 1. Should the market experience a disruption or dislocation, the Authority may be unable to remarket its Notes for a period of time. To mitigate this risk, the Authority has entered into liquidity facilities with highly rated banks to provide loans to support both the CP Note and ART Note program.

(9) Pension Plans, Other Postemployment Benefits, Deferred Compensation and Savings Plans

(a) Pension Plans

The Authority and substantially all of the Authority's employees participate in the New York State and Local Employees' Retirement System (ERS) and the Public Employees' Group Life Insurance Plan (the Plan). These are cost-sharing, multiple-employer defined benefit retirement plans. The ERS and the Plan provide retirement benefits as well as death and disability benefits. Obligations of employers and employees to contribute and benefits to employees are governed by the New York State Retirement and Social Security Law (NYSRSSL). As set forth in the NYSRSSL, the Comptroller of the

State of New York (Comptroller) serves as sole trustee and administrative head of the ERS and the Plan. The Comptroller adopts and may amend rules and regulations for the administration and transaction of the business of the ERS and the Plan, and for the custody and control of their funds. The ERS and the Plan issue a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the New York State and Local Employees' Retirement System, 110 State Street, Albany, NY 12236.

The ERS is contributory except for employees who joined the ERS on or prior to July 27, 1976. Employees who joined between July 28, 1976 and December 31, 2009 and have less than ten years of service, contribute 3% of their salary. Employees who join the ERS on or after January 1, 2010 contribute 3% of their salary during their entire length of service. Under the authority of the NYSRSSL, the Comptroller shall certify annually the rates expressed as proportions of payroll of members, which shall be used in computing the contributions required to be made by employers to the pension accumulation fund.

The Authority is required to contribute at an actuarially determined rate. The required contributions for 2010, 2009 and 2008 were $17.1 million, $9.6 million and $11.8 million, respectively The Authority's contributions made to the ERS were equal to 100% of the contributions required for each year.

During 2008, the global decline in financial markets adversely impacted state pension investment market values including those of the ERS. The average contribution rates relative to payroll for the fiscal years ended March 31, 2011 and 2012 have been set at approximately 10% and 16%, respectively. If ERS's investment market values do not recover, significant increases in the annual contributions to ERS in subsequent years are expected. For the Authority, such increases initially appeared during calendar year 2010 (State fiscal year 2011).

During 2010, the New York State Legislature passed a bill authorizing a temporary retirement incentive for certain State employees and other public employees. Under the legislation, public employees were 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 was 50 years of age or more and had a minimum of 10 years of service. On July 22, 2010 the Authority's Trustees authorized (a) participation in the Part B incentive program for all eligible employees and (b) participation in the Part A incentive on a limited basis for targeted employees at the Poletti plant. The open period for eligible employees ended on December 29, 2010 for the Part A incentive and October 30, 2010 for the Part B incentive. The Authority recognized a liability for an additional contribution to the System based on eligible employees who accepted the incentive. The incremental cost of participation, approximately $4 million, was recognized in 2010.

(b) Other Postemployment Benefits (OPEB)

The Authority provides certain health care and life insurance benefits for eligible retired employees and their dependents under a single employer noncontributory (except for certain optional life insurance coverage) health care plan. Employees and/or their dependents become eligible for these benefits when the employee has at least 10 years of service and retires or dies while working at the Authority. Approximately 4,000 participants, including 1,600 current employees and 2,400 retired employees and/or spouses and dependents of retired employees, were eligible to receive these benefits at December 31, 2010. The Authority's post-retirement health care trust does not issue a stand-alone financial report.

Through 2006, other postemployment benefits (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 (OPEB Trust), with the trust fund to be held by an independent custodian. Prior to 2009, the Authority funded the OPEB Trust with contributions totaling $225 million. Plan members are not required to contribute to the OPEB Trust. The Authority did not make any contributions to the OPEB Trust in 2010 or 2009.

NEW YORK POWER AUTHORITY

Notes to Financial Statements

December 31, 2010 and 2009

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

		2010	2009	2008
Annual OPEB cost:				
Annual required contribution (ARC):				
Normal cost	$	8	7	6
Amortization payment		20	13	25
Interest to the end of the year		—	1	2
Total		28	21	33
ARC adjustment		8	8	(4)
Interest on net OPEB obligation		(4)	(5)	3
Annual OPEB cost	$	32	24	32
Net OPEB obligation:				
Net OPEB (asset) obligation at beginning of fiscal year	$	(61)	(69)	38
Annual required contribution:				
Annual OPEB cost		32	24	32
Employer contribution:				
Payments for retirees during the year		17	16	14
Trust fund contributions		—	—	125
Total employer contribution		17	16	139
Net OPEB (asset) obligation at end of fiscal year	$	(46)	(61)	(69)

The $46 million OPEB asset is reported as an other noncurrent asset in the balance sheets.

The Authority's annual OPEB cost for 2010 was $32 million, which is reflected as an expense in the Statement of Revenues, Expenses, and Changes in Net Assets. The Authority's annual OPEB cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. As indicated herein, the Authority uses a twenty (20) years amortization period.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits. The Authority's most recent actuarial evaluation was performed on January 1, 2010 and reported an actuarial accrued liability of $400 million which was funded with assets with an actuarial value of $218 million resulting in the Authority's retiree health plan to be 55% funded.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation. The actuarial

methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. In the 2010 actuarial valuation, the projected unit credit actuarial cost method was used with benefits attributed on a level basis. The actuarial assumptions included a 7% investment rate of return (net of administrative expenses) and an annual healthcare cost trend rate of 9% (net of administrative expenses) including inflation, declining approximately 1% each year to an ultimate trend rate of approximately 5%. Both rates include a 4.5% inflation assumption. Commencing with the January 1, 2010 actuarial valuation, the Authority commenced amortizing gains and losses, first recognized in 2010, over an open 20-year period while continuing to amortize its initial unfunded accrued liability (beginning January 1, 2002 through January 1, 2009) over a closed 20-year period.

(c) Deferred Compensation and Savings Plans

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

The Authority also offers salaried employees a savings plan created in accordance with Internal Revenue Code, Section 401(k). This plan also permits participants to defer a portion of their salaries. The Authority matches contributions of employees up to limits specified in the plan. Such matching annual contributions were approximately $2.4 million per year for 2010 and 2009.

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

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

(10) NYISO

Pursuant to FERC Order No. 888, the New York investor-owned electric utilities (the IOUs), a subsidiary of the Long Island Power Authority (doing business as LIPA hereafter referred to as LIPA) and the Authority, and certain other entities, established two not-for-profit organizations, the New York Independent System Operator (NYISO) and the New York State Reliability Council (Reliability Council). The mission of the NYISO is to assure the reliable, safe and efficient operation of the State's major transmission system, to provide open-access nondiscriminatory transmission services and to administer an open, competitive and nondiscriminatory wholesale market for electricity in the State. The mission of the Reliability Council is to promote and preserve the reliability of electric service on the NYISO's system by developing, maintaining, and from time to time, updating the reliability rules relating to the transmission system. The Authority, the current IOUs and LIPA are members of both the NYISO and the Reliability Council.

The NYISO is responsible for scheduling the use of the bulk transmission system in the State, which normally includes all the Authority's transmission facilities, and for collecting ancillary services, losses and congestion fees from transmission customers. Each IOU and the Authority retains ownership, and is responsible for maintenance of its respective transmission lines. All customers of the NYISO pay fees to the NYISO. Each customer also pays a separate fee for the benefit of the Authority that is designed to assure that the Authority will recover its entire transmission revenue requirement.

The Authority dispatches power from its generating facilities in conjunction with the NYISO. The NYISO coordinates the reliable dispatch of power and operates a market for the sale of electricity and ancillary services within the State. The NYISO surveys the capacity of generating installations serving the State (installed capacity) and the load requirements of the electricity servers and provides an auction market for generators to sell installed capacity. The NYISO also administers day-ahead and hourly markets whereby generators bid to serve the announced requirements of the local suppliers of energy and ancillary services to retail customers. The Authority participates in these markets as both a buyer and a seller of electricity and ancillary services. A significant feature of the energy markets is that prices are determined on a location-specific basis, taking into account local generating bids submitted and the effect of transmission congestion between regions of the State. The NYISO collects charges associated with the use of the transmission facilities and the sale of power and services bid through the markets that it operates. It

remits those proceeds to the owners of the facilities in accordance with its tariff and to the sellers of the electricity and services in accordance with their respective bids.

Because of NYISO requirements, the Authority is required to bid into the NYISO day-ahead market (DAM) virtually all of the installed capacity output of its units. The NYISO then decides which Authority units will be dispatched, if any, and how much of such units' generation will be dispatched. The dispatch of a particular unit's generation depends upon the bid prices for the unit submitted by the Authority and whether the unit is needed by the NYISO to meet expected demand. If an Authority unit is dispatched by the NYISO, the Authority receives a fixed price (the Market Clearing Price), based on NYISO pricing methodology, for the energy dispatched above that needed to meet Authority contractual load (the Excess Energy). For the energy needed to meet Authority contractual load (the Contract Energy), the Authority receives the price in its contracts with its customers (the Contract Price).

This procedure has provided the Authority with economic benefits from its units' operation when selected by the NYISO and may continue to do so in the future. However, such bids also obligate the Authority to supply the energy in question during a specified time period, which does not exceed two days (the Short Term Period), if the unit is selected. If a forced outage occurs at the Authority plant that is to supply such energy, then the Authority is obligated to pay during the Short Term Period (1) in regard to the Excess Energy amount, the difference between the price of energy in the NYISO hourly market and the Market Clearing price in the day-ahead market, and (2) in regard to the Contract Energy amount, the price of energy in the NYISO hourly market, which is offset by amounts received based on the Contract Price. This hourly market price is subject to more volatility than the day-ahead market price. The risk attendant with this outage situation is that, under certain circumstances, the Market Clearing Price in the day-ahead market and the Contract Price may be well below the price in the NYISO hourly market, with the Authority required to pay the difference. In times of maximum energy usage, this cost could be substantial. This outage cost risk is primarily of concern to the Authority in the case of its 500-MW plant (discussed in note 12(f)) because of its size, nature and location.

In addition to the risk associated with the Authority bidding into the day-ahead market, the Authority could incur substantial costs, in times of maximum energy usage, by purchasing replacement energy for its customers in the NYISO day-ahead market or through other supply arrangements to make up for lost energy due to an extended outage of its units or failure of its energy suppliers to meet their contractual obligations. As part of an ongoing risk mitigation program, the Authority investigates financial hedging techniques to cover, among other things, future maximum energy usage periods.

(11) Nuclear Plant Divestiture and Related Matters

(a) Nuclear Plant Divestiture

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 Corporation (collectively Entergy or the Entergy Subsidiaries) for cash and noninterest-bearing notes totaling $967 million (subsequently reduced by closing adjustments to $956 million) maturing over a 15-year period. The present value of these payments recorded on the Closing Date, utilizing a discount rate of 7.5%, was $680 million.

As of December 31, 2010 and 2009, the present value of the notes receivable were:

	2010	2009
	(In millions)	
Notes receivable – nuclear plant sale	$ 82	95
Less due within one year	14	13
	$ 68	82

On September 6, 2001, a subsidiary of Entergy Corporation completed the purchase of Indian Point 1 and 2 (IP1 and IP2) nuclear power plants from Consolidated Edison Company of New York Inc. Under an agreement between the Authority and Entergy, which was entered into in connection with the sale of the Authority's nuclear plants to Entergy, the acquisition of the IP2 nuclear plant by a subsidiary of Entergy resulted in the Entergy subsidiary which now owns IP3 being obligated to pay the Authority $10 million per year for 10 years beginning September 6, 2003, subject to certain termination and payment reduction provisions upon the occurrence of certain events, including the sale of IP3 or IP2 to

another entity and the permanent retirement of IP2 or IP3, The September 6, 2010 and 2009 payments were received and are included in other income.

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. In essence, these contracts provide 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). During 2006 and 2007, disputes arose concerning the calculation of the amounts due the Authority for 2005 and 2006, respectively. In October 2007, the parties reached an agreement resolving these disputes and amending the VSAs. In essence, these amended VSAs provide for the Entergy Subsidiaries to pay the Authority a set price ($6.59 per MWh for IP3 and $3.91 per MWh for JAF) for all MWhs metered from each plant between 2007 and 2014, with the Authority being entitled to receive annual payments up to a maximum of $72 million. Relating to calendar year 2010, payments totaling $72 million have been accrued by the Authority and are reflected in other income in the Authority's statements of revenues, expenses, and changes in net assets. The Authority has received the maximum annual payments related to calendar years 2009 and 2010. In all other material respects, the terms of the amended and original VSAs are substantially similar. The payments, related to the calendar years ending after December 31, 2010, are subject to continued ownership of the facilities by the Entergy Subsidiaries or its affiliates.

As a result of competitive bidding, and not related to the sale of the nuclear plants, the Authority agreed to purchase energy from Entergy's IP3 and IP2 nuclear power plants in the total amount of 200 MW during the period 2009 to 2013.

(b) Nuclear Fuel Disposal

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

(c) Nuclear Plant Decommissioning

The Decommissioning Agreements with each of the Entergy Subsidiaries 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.

The Authority will retain contractual decommissioning liability until license expiration, a change in the tax status of the fund, or any early dismantlement of the plant, at which time the Authority will have the option of terminating its decommissioning responsibility and transferring the plant's fund to the Entergy Subsidiary owning the plant. At that time, the Authority will be entitled to be paid an amount equal to the excess of the amount in the Fund over the Inflation Adjusted Cost Amount, described below, if any. The Authority's decommissioning responsibility is limited to the lesser of the Inflation Adjusted Cost Amount or the amount of the plant's Fund.

The Inflation Adjusted Cost Amount for a plant means a fixed estimated decommissioning cost amount adjusted in accordance with the effect of increases and decreases in the U.S. Nuclear Regulatory Commission (NRC) minimum cost estimate amounts applicable to the plant.

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

If the license for IP3 or JAF is extended, an amount equal to $2.5 million per year, for a maximum of 20 years, would be paid to the Authority by the relevant Entergy Subsidiary for each year of life extension during which the plant operates. In April 2007, the NRC received a license renewal application (for an additional 20 years) for IP3. The original licenses for

JAF and IP3 expire in 2014 and 2015, respectively. On September 9, 2008, the NRC renewed the operating license of JAF for 20 years to October 17, 2034.

Decommissioning Funds of $1,032 million and $942 million are included in restricted funds and other noncurrent liabilities in the balance sheets at December 31, 2010 and 2009, respectively.

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.

(12) Commitments and Contingencies

(a) Competition

The Authority's mission is to provide clean, low-cost, and reliable energy consistent with its commitment to the environment and safety, while promoting economic development and job development, energy efficiency, renewables and innovation, for the benefit of its customers and all New Yorkers. The Authority's financial performance goal is to have the resources necessary to achieve its mission, to maximize opportunities to serve its customers better and to preserve its strong credit rating.

To maintain its position as a low cost provider of power in a changing environment, the Authority has undertaken and continues to carry out a multifaceted program, including: (a) the upgrade and relicensing of the Niagara and St. Lawrence-FDR projects; (b) long-term supplemental electricity supply agreements with its governmental customers located mainly within the City of New York (NYC Governmental Customers); (c) construction of a 500-megawatt (MW) combined-cycle electric generating plant at the Authority's Poletti plant site (500-MW plant); (d) a long-term electricity supply contract with Astoria Generating LLC for the purchase of the output of a new 500-MW power plant under construction in Astoria, Queens, adjacent to its existing plant, which is anticipated to enter service by the summer of 2011; (e) a significant reduction of outstanding debt; and (f) implementation of an energy and fuel risk management program. The Authority operates in a competitive and sometimes volatile market environment. Volatility in the energy market has impacted the Authority in its role as a buyer and until recent years had resulted in higher costs of purchased power and fuel in its NYC Governmental Customer and other market areas. The NYC Governmental Customer market cost situation is mitigated by the cost recovery provisions in the long-term supplemental electricity supply agreements and generation from the Authority's 500-MW plant. The Authority also has implemented a restructuring program for its long-term debt through open-market purchases, early retirements and refundings, which has resulted in cost savings and increased financial flexibility. The Authority can give no assurance that even with these measures it will not lose customers in the future as a result of the restructuring of the State's electric utility industry and the emergence of new competitors or increased competition from existing participants. In addition, the Authority's ability to market its power and energy on a competitive basis is limited by provisions of the Power Authority Act that restrict the marketing of the 500-MW plant output, restrictions under State and Federal law as to the sale and pricing of a large portion of the output from the Niagara and St. Lawrence-FDR projects, and restrictions on marketing arising from Federal tax laws and regulations.

According to the National Bureau of Economic Research, a recession in the United States began in December 2007 and ended in June 2009. However, the economy continues to grow slowly and unemployment is high. Forecasted recovery time for these economic conditions ranges from a few to many years. In this environment, the Authority has continued to utilize its financial flexibility to support its mission and its customers. In December 2010, the Governor approved long-term contract extensions for the continued supply of low-cost hydropower to more than 100 of Western New York's leading companies. These expansion and replacement power customers, who account for more than 70 percent of the manufacturing jobs in the region, are integral to the area's economy with wide-ranging impacts associated with spinoff jobs, payments to suppliers for goods and services, local tax revenues and financial support of local communities and organizations. These contract extensions will help protect nearly 30,000 jobs and a combined annual payroll of over $2 billion and ensure annual capital investments of tens of millions of dollars. In addition to other actions and programs aimed at creating and maintaining jobs, the Authority has also used low cost energy to attract businesses to New York State.

In response to the economic downturn's effects 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 the temporary shutdown of one of its two smelters served by the Authority in Massena, New York, 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 January 2011, Alcoa announced that its idled Massena East plant will be back online by midsummer and that it will recall 95 furloughed employees and an additional 20 to 30 employees will be added. The $600 million planned modernization of Massena East will be delayed, as agreed to by the Authority, until 2013. 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. In September 2010, the Authority's Trustees approved extension of the electric bill discount program for the lesser of one year or the duration of the temporary curtailment of operations at the affected Alcoa facility. On January 7, 2011, Alcoa announced, as indicated above, its plans to restart the temporarily curtailed facility beginning later in the first quarter of 2011 at which time the discount program would cease.

In March 2009, the Authority's Trustees approved the deferral for recovery in the future of a proposed 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 in August 2010, the Authority announced an extension of such deferral through the end of 2010 at which time the rates are to be reevaluated. The deferral amounts to approximately $18.5 million through the end of 2010. Further, the Authority withdrew two proposed hydropower rate increases totaling approximately $6.9 million for its Replacement Power, Expansion Power, and certain other industrial customers that were scheduled to go into effect on May 1, 2009 and May 1, 2010, respectively.

Legislation

Chapter 436 of the Laws of 2010 established a Western New York Economic Development Fund Benefit program, and authorized the Authority to fund the program from net earnings from the Authority's sale of unallocated, relinquished, and withdrawn Expansion Power and Replacement Power into the wholesale market. Net earnings are defined as any excess revenues earned from such power allocated to the wholesale market over the revenues that would have been received had the power been sold at the Expansion Power and Replacement Power rates. Proceeds from the Fund may be used to support eligible projects undertaken within a 30-mile radius of the Niagara Project that qualify under applicable criteria. The law authorizes the Authority to administer the new program with assistance from public and private entities. Authority revenues for the Fund could range from between $2 million and $10 million per year.

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

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

Under the Agreements, the Authority will modify rates annually through a formal rate case where there is a change in fixed costs to serve the NYC Governmental Customers. Except for the minimum volatility price option, changes in variable costs, which include fuel and purchased power, will be captured through contractual pricing adjustment mechanisms. Under these mechanisms, actual and projected variable costs are reconciled and all or a portion of the variance is either charged or credited to the NYC Governmental Customers. The Authority provides the customers with indicative electricity prices for the following year reflecting market-risk hedging options designated by the NYC Governmental Customers. Such market-risk hedging options include a full cost energy charge adjustment ("ECA") pass-through arrangement relating to fuel, purchased power, and NYISO-related costs (including such an arrangement with some cost hedging) and a sharing option where the customers and the Authority will share in actual cost variations as specified in the Agreements.

For 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.

For 2011, the NYC Customers chose a market-risk hedging price option designated an "ECA with hedging" pricing option whereby actual cost variations in variable costs are passed through to the customers as specified above.

With the customers' guidance and approval, the Authority will continue to offer up to $100 million annually in financing for energy efficiency projects and initiatives at governmental customers' facilities, with the costs of such projects to be recovered from such customers.

The NYC Governmental Customers are committed to pay for any supply secured for them by the Authority which results from a collaborative effort. In response to the Authority's Request for Proposals for Long-Term Supply of In-City Unforced Capacity and Optional Energy issued in March 2005, Authority staff entered into negotiations for the execution of a firm transmission capacity purchase agreement with the winning bidder, Hudson Transmission Partners, LLC (HTP) to serve the long-term requirements of the Authority's NYC Governmental Customers through the transmission rights associated with HTP's proposed transmission line extending from Bergen County, New Jersey, to Consolidated Edison's West 49th Street substation. Negotiations concerning a number of issues relating to the proposed transmission line, including the terms and conditions of a related agreement with the NYC Governmental Customers, have occurred and are continuing. The Authority has posted certain interim financial guaranties as security for interconnection and system upgrade work that would be undertaken in the future in the event the Authority authorizes such work and enters into a supply agreement with HTP. The Authority is unable to predict whether it will enter into a supply agreement with HTP.

In anticipation of the closure of the Authority's existing Poletti plant 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, which is under construction, will enter into service by the summer of 2011. The Authority will account for and report this lease transaction as a capital asset and a capitalized lease liability in the amount of $1.12 billion which reflects the present value of the monthly portion of lease payments allocated to real and personal property. The balance of the monthly lease payments represents the portion of the monthly lease payment allocated to operations and maintenance costs which will be recorded monthly. Fuel for the 500-MW power plant will be provided by the Authority.

The Authority's other Southeastern New York (SENY) Governmental Customers are Westchester County and numerous municipalities, school districts, and other public agencies located in Westchester County (collectively, the "Westchester Governmental Customers"). By early 2008, the Authority had entered into a new supplemental electricity supply agreement with all 104 Westchester Governmental Customers. Among other things, under the agreement, an energy charge adjustment mechanism is applicable, and customers are allowed to partially terminate service from the Authority on at least two months notice prior to the start of the NYISO capability periods. Full termination is allowed on at least one year's notice, effective no sooner than January 1 following the one year notice.

(c) Power for Jobs

In 1997, and thereafter, legislation was enacted into New York law which authorized the Power for Jobs (PFJ) Program to make available low-cost electric power to businesses, small businesses, and not-for-profit organizations. All customers awarded an allocation under the PFJ Program were recommended for such award by the New York State Economic Development Power Allocation Board (EDPAB). 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 recent years, annual extensions of the Power for Jobs (PFJ) Program have been signed into law. The most recent in 2010 (1) extended the PFJ Program, including the PFJ Rebate provisions, to May 15, 2011; (2) authorizes certain customers that had elected to be served by PFJ contract extensions to elect to receive PFJ Rebates instead; and (3) requires 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 Authority approved PFJ Rebates totaling $241 million for the years 2005-2010 and expects such payments will not exceed $25 million for the remainder of the extended PFJ Program through May 15, 2011.

Two Authority PFJ customers initiated an Article 78 proceeding challenging the Authority's implementation of Chapter 645 of the Laws of 2006, signed by the Governor on August 16, 2006. The Authority was served on February 8, 2007. The petition primarily alleged two Authority misinterpretations of the new law: (a) the Authority limited the restitution benefits provided by the new law only to PFJ customers who chose to continue with the standard PFJ contracts; and (b) the Authority computes the rebates available to petitioners who now elect the PFJ Rebates option (in lieu of the standard contract) based on 2006 rates rather than 2005 rates. The petition did not quantify the damages it sought but asked the court to order an inquest to determine the amount. In its responsive papers served on February 23, 2007, the Authority maintained that its implementation of the new legislation was lawful and appropriate in all respects. By decision dated April 26, 2007, the Court dismissed the petition and ruled in favor of the Authority. The petitioners appealed this decision to the Appellate Division, Third Department, and by decision issued April 17, 2008, the court modified the lower court's decision and held that the Authority's determinations on both issues discussed above were erroneous. Thereafter, the Authority moved for permission to appeal to the Court of Appeals and that motion was granted. By decision dated October 20, 2009, the Court of Appeals affirmed the decision of the Appellate Division and, subsequently, the Court of Appeals denied the Authority's motion for reargument. The Authority has made the additional PFJ Reimbursement payments resulting from completion of this litigation.

The Power for Jobs legislation authorizes the Authority "as deemed feasible and advisable by the trustees," to make annual "voluntary contributions" to the State in connection with the Program. Commencing in December 2002 through December 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.

(d) Legal and Related Matters

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

On May 30, 2001, the United States District Court (the Court) denied, with one minor exception, the defendants' motion to dismiss the land claims. However, the Court barred the Federal government and one of the tribal plaintiffs, the American Tribe of Mohawk Indians from relitigating a claim to 144 acres on the mainland which had been lost in the 1930s by the Federal government. The Court rejected the State's broader defenses, allowing all plaintiffs to assert challenges to the islands and other mainland conveyances in the 1800s, which involved thousands of acres.

On August 3, 2001, the Federal government sought to amend its complaint in the consolidated cases to name only the State and the Authority as defendants. The State and the Authority advised the Court that they would not oppose the motion but reserved their right to challenge, at a future date, various forms of relief requested by the Federal government.

The Court granted the Federal government's motion to file an amended complaint. The tribal plaintiffs still retain their request to evict all defendants, including the private landowners. Both the State and the Authority answered the amended complaint. In April 2002, the tribal plaintiffs moved to strike certain affirmative defenses and, joined by the Federal government, moved to dismiss certain defense counterclaims. The defendants filed their opposition papers in September 2002. In an opinion, dated July 28, 2003, the Court left intact most of the Authority's defenses and all of its counterclaims.

Thereafter, settlement discussions produced a land claim settlement, which if implemented would include, among other things, the payment by the Authority of $2 million a year for 35 years to the tribal plaintiffs, the provision of up to 9 MW of low cost Authority power for use on the reservation, the transfer of two Authority-owned islands; Long Sault and Croil, and a 215-acre parcel on Massena Point to the tribal plaintiffs, and the tribal plaintiffs withdrawing any judicial challenges to the Authority's new license, as well as any claims to annual fees from the St. Lawrence-FDR project. Members of all three tribal entities voted to approve the settlement, which was executed by them, the Governor, and the Authority on February 1, 2005. The settlement would also require, among other things, Federal and State legislation to become effective. Litigation in the case had been stayed to permit time for passage of such legislation and thereafter to await decision of appeals in two relevant New York land claim litigations (Cayuga and Oneida) to which the Authority is not a party.

The legislation was never enacted and once the Cayuga and Oneida appellate decisions were issued in 2005 and 2006, respectively, efforts to obtain legislative approval for the settlement ceased. Because these appellate decisions dismissed land claims by the Cayugas and Oneidas based on the lengthy delay in asserting such claims (i.e., the defense of laches), the defense in the instant actions, in motions filed in November 2006, moved to dismiss the three Mohawk complaints as well as the United States' complaint on similar delay grounds. The Mohawks and the Federal government filed papers opposing those motions in July 2007, and additional briefing by the parties occurred thereafter. By order dated May 16, 2008, U.S. Magistrate Lowe granted the defense motion to stay all proceedings until the U.S. Court of Appeals for the Second Circuit issued its decision in the Oneida case, one raising similar laches issues.

On August 9, 2010, the Second Circuit issued a decision in the Oneida case (Oneida Indian Nation of New York et al. v County of Madison et al.), thereby lifting the stay of this litigation. The Second Circuit, in that case, dismissed both the Native American and U.S. claims in their entirety finding, among other things, that those claims were barred by equitable principles as articulated in the earlier Cayuga and other decisions. Defendants in the St. Regis litigation advised the Court, by letter, that the decision was issued and sought its direction as to the pending motions. On November 19, 2010, U.S. Magistrate Lowe ordered all parties to submit supplemental briefs by January 15, 2011, and reply briefs by February 15, 2011. The Authority had previously accrued an estimated liability based upon the provisions of the settlement described above. This liability is reflected in the balance sheet as of December 31, 2010.

The Authority is unable to predict the outcome of the matters described above, but believes that the Authority has meritorious defenses or positions with respect thereto. However, adverse decisions of a certain type in the matters discussed above could adversely affect Authority operations and revenues.

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

(e) Construction Contracts and Net Operating Leases

Estimated costs to be incurred on outstanding contracts in connection with the Authority's construction programs aggregated approximately $400 million at December 31, 2010.

Noncancelable operating leases primarily include leases on real property (office and warehousing facilities and land) utilized in the Authority's operations. Commitments under noncancelable operating leases are as follows:

	Total	2011	2012	2013	2014	2015	2016
				(In millions)			
Operating leases	$ 2.6	0.9	0.7	0.4	0.3	0.2	0.1

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

To meet capacity deficiencies and ongoing load requirements in the New York City metropolitan area, which could also adversely affect the statewide electric pool, the Authority placed in operation, in the Summer of 2001, the Small, Clean

Power Plants (SCPPs), consisting of eleven natural-gas-fueled combustion-turbine electric units, each having a nameplate rating of 47 MW at six sites in New York City and one site in the service region of LIPA.

As a result of the settlement of litigation relating to certain of the SCPPs, the Authority has agreed under the settlement agreement to cease operations at one of the SCPP sites, which houses two units, as early as the commercial operation date of either the 500-MW plant (December 31, 2005) or another specified plant being constructed in the New York City area, if the Mayor of New York City directs such cessation. No such cessation has occurred.

To serve its NYC Governmental Customers and to comply with the NYISO in-city capacity requirement in the New York City area, the Authority has constructed a 500-MW combined-cycle natural-gas-and-distillate-fueled power plant at the Poletti site (the 500-MW plant) as the most cost-effective means of effectuating such compliance. In connection with the licensing of the 500-MW plant, the Authority entered into an agreement that resulted in the cessation of operation of the Authority's Poletti plant (which had entered into service in 1977) on January 31, 2010.

(g) New York State Budget and Other Matters

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

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

Budget

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

Legislation enacted into law, as part of the 2000-2001 State budget, as amended in subsequent years, has authorized the Authority "as deemed feasible and advisable by the trustees," to make a series of "voluntary contributions" into the State treasury in connection with the Power for Jobs (PFJ) Program and for other purposes as well. The PFJ Program has been extended to May 15, 2011. Legislation enacted in 2008, among other things, authorized the Authority to make a voluntary contribution unrelated to the PFJ Program of $107 million during State Fiscal Year 2009-2010. This $107 milllion voluntary contribution was approved and paid in March 2010. By legislation enacted in May 2010, the Authority was authorized to make an additional voluntary contribution of $65 million unrelated to the PFJ Program for State Fiscal Year 2010-2011. In June 2010, the Authority's Trustees approved the payment of a voluntary contribution of $40 million to the State. The Authority's Trustees authorized and the Authority paid the remaining $25 million in January 2011.

Cumulatively, the Authority has made voluntary contributions to the State totaling $461.5 million in connection with the PFJ Program and $302 million unrelated to the PFJ Program. The 2010 ($147 million) and the 2009 ($70 million) contributions to State which are not related to the PFJ Program were recorded as nonoperating expenses and classified as a contribution to New York State in the 2010 and 2009 statements of revenues, expenses and changes in net assets, respectively. The $25 million in January 2011 will be reported in the same manner in the 2011 financial statements. On February 1, 2011, the Governor introduced his proposed Executive Budget for State Fiscal Year 2011-2012 in which the Authority would be authorized to make two additional voluntary contributions, one to be considered for payment in June, 2011 in the amount of $40 million and a second, in the amount of $60 million, to be considered for payment in January 2012. Such contributions will only be made if authorized by legislation and approved by the Authority's Trustees as feasible and advisable at that time.

By budget legislation enacted in February 2009, the Authority was further authorized to make certain temporary asset transfers to the State of funds 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 the Budget of the State, and the Authority, the Authority agreed to transfer $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 the liability 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. Both transfers were approved by the Authority's Trustees and made in 2009.

The MOU provides that the obligation of the State to return all or a portion of an amount equal to the moneys transferred by the Authority to the State 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.

The Authority classified the transfers of Assets A and B ($318 million) as a long-term loan receivable. In lieu of interest payments, the State waived certain future payments from the Authority to the State. The waived payments include the Authority's obligation to pay until September 30, 2017 the amounts to which the State is entitled under a governmental cost recovery process for the costs of central governmental services. These payments would have been approximately $5 million per year based on current estimates but the waiver will 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 and St. Lawrence power plants will be waived from April 1, 2011 to March 31, 2017. These payments would have been approximately $8 million per year but the waiver will be limited to a maximum of $43 million for the period. The present value of the waivers approximates the present value of the lost interest income.

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 authorized by 2009/10 budget legislation (except as such contributions relate to the Power for Jobs Program) discussed above. 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 further amend the petition so as to remove the State Comptroller from the amended petition's prayer for relief. That pleading was never filed.

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. Petitioners subsequently filed such complaint and discovery demands. The complaint contains new causes of action including unjust enrichment, conversion, breach of a fiduciary duty, and claims of deceptive acts and practices. The Authority filed a motion to dismiss and the State filed an answer; petitioners filed a partial motion for summary judgment; and respondents filed opposition papers to said motion. However, on March 5, 2010, the Appellate Division (Fourth Department) granted respondents; motions for permission to appeal the lower court's decision dated December 23, 2009; that appeal is now pending at the Appellate Division with oral argument having occurred on January 24, 2011; and the lower court has indicated it will await the outcome of that appeal before deciding the Authority's motion to dismiss the complaint. 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 and complaint. However, adverse decisions of a certain type could adversely affect Authority revenues.

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 and up to 38.6 MW of Preservation Power that might be relinquished or withdrawn in the future 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 the 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 May 15, 2011. A 2006 amendment 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 and 2010, following the general decline in energy prices, no ECS Benefits were paid from internal funds of the Authority, nor are any such payments from internal funds expected through the May 15, 2011 expiration date of the program.

Other Legislation

The ''Public Authorities Accountability Act of 2005'' (''PAAA'') was signed into law in January 2006 and its various provisions address public authority reporting, governance, budgeting, oversight, and auditing matters, among other things. Additional public authority reform legislation took effect on March 1, 2010 which provides, among other things, for State Senate approval of certain authorities' chief executive officers, including the Authority, and also provides the State Comptroller with discretionary authority to review and approve certain contracts entered into by public authorities, including the Authority.

On July 21, 2010, President Obama signed into law the Dodd-Frank Wall Street Reform and Consumer Protection Act ("DF Act") which addresses almost every aspect of the financial services industry. Among other things, the DF Act addresses interest rate and energy swap transactions of the type in which the Authority engages ("Swaps"), and many of the requirements and processes in this area are to be set forth in regulations promulgated by the Commodities Futures Trading Commission in the coming months. Depending on the ultimate resolution of numerous issues, which is uncertain, including whether and to what extent Swaps are required to be cleared through clearinghouses and/or traded on exchanges with accompanying collateral and/or margin requirements; whether and to what extent Swaps entered into prior to the enactment of the DF Act are required to be collateralized; and whether and to what extent public power entities such as the Authority are exempted from these requirements, the impact of the DF Act on the Authority's liquidity and/or future risk mitigation activities could be significant. In the event such regulations are applied retroactively to Swap positions predating the enactment of the DF Act, it could require the Authority to post as much as $250 million in collateral to maintain its open hedge positions as of December 31, 2010. The Authority has sufficient liquidity to post such collateral, if required.

(h) Relicensing of Niagara

By order issued March 15, 2007, FERC issued the Authority a new 50-year license for the Niagara Project effective September 1, 2007. In doing so, FERC approved six relicensing settlement agreements entered into by the Authority with various public and private entities. By decision dated March 13, 2009, the U.S. Court of Appeals for the District of Columbia Circuit denied a petition for review of FERC's order filed by certain entities, thereby concluding all litigation involving FERC's issuance of the new license. The Authority currently expects that the costs associated with the relicensing of the Niagara Project will be at least $495 million (2007 dollars) over a period of 50 years, which does not include the value of the power allocations and operation and maintenance expenses associated with several habitat and recreational elements of the settlement agreements. Of the $495 million, $184 million has already been spent.

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

In December 2009, the Authority's Trustees approved an amendment of the Niagara Relicensing Settlement Agreement (Settlement Agreement) to implement a proposal to expedite the then current funding stream provided for Buffalo's waterfront redevelopment effort under the Settlement Agreement in order to facilitate the completion of the Canal Side project and reinvigorate downtown Buffalo's inner harbor area. This acceleration in funding results in the Authority providing a payment stream of $4.7 million a year for 20 years in lieu of the original payment stream of $3.5 million per year for the remaining 47 years of the Niagara License.

In addition, the EDPAB and the Authority's Trustees approved an Industrial Incentive Award which provides an additional $3.7 million a year for the next 20 years to support the harbor revitalization efforts. The first $3.7 million payment was made in October 2010.

(i) Regional Greenhouse Gas Initiative and Related Matters

The Regional Greenhouse Gas Initiative (RGGI) is a cooperative effort by Northeastern and Mid-Atlantic states (including New York) to hold carbon dioxide emission levels steady from 2009 to 2014 and then reduce such levels by 2.5% annually in the years 2015 to 2018 for a total 10% reduction. Central to this initiative is the implementation of a multi-state cap-and-trade program with a market-based emissions trading system. The program requires electricity generators to hold carbon dioxide allowances in a compliance account in a quantity that matches their total emissions of carbon dioxide for the compliance period. The Authority's Flynn, SCPPs, and 500-MW Plant are subject to the RGGI requirements. The Authority has participated in program auctions commencing in September 2008 and expects to recover RGGI costs through its power sales revenues. The Authority is monitoring the potential federal programs that are under discussion and debate for their potential impact on RGGI in the future.

Regarding such potential federal programs, comprehensive energy legislation passed in the House of Representatives in June 2009 (Waxman-Markey) which would, among other things: (a) establish federal cap-and-trade requirements applicable to greenhouse gas emissions, including emissions from fossil fuel power plants, commencing in 2012 that are designed to gradually reduce such emissions through 2050 and (b) establish a combined efficiency and renewable electricity standard that would require retail electricity suppliers beginning in 2012 to acquire prescribed amounts of renewable energy certificates, which may be substituted for in part by quantified electricity savings, with such prescribed amounts gradually increasing over time and with the standard sunsetting in 2040. Both of these programs would be applicable to the Authority. It is uncertain at this time whether Waxman-Markey or similar legislation will be enacted into law in the future and what the impact of such legislation would be on the Authority.

In July 2010, the U.S. Environmental Protection Agency issued proposed Ozone Transport regulations which if adopted could impact operations of the Flynn plant by reducing allowable emissions. If adopted in their current form, the proposed regulations could require installation of additional emission control technologies such as selective catalytic reduction and a change in fuel use from No. 2 fuel oil to ultra low sulfur fuel at the Flynn plant. Other Authority fossil-fired generating plants could also be affected by the proposed regulations but to a lesser extent. Additional emission credits may also need to be purchased through the trading process provided for in the proposed regulations.

(j) Wind and Solar Initiatives

In December 2009, the Authority issued a non-binding RFP for development of a utility scale, offshore wind power project in the range of 120 MW to 500 MW to be located within New York State waters of Lake Erie and/or Lake Ontario. The RFP indicates that the Authority would purchase the full output of the project under a long-term power purchase agreement. In June 2010, the Authority announced that five proposals had been received in response to the RFP and that evaluation of the proposals would be undertaken in the coming months. The review process may result in a staff recommendation to the Authority's Trustees concerning next steps late in the first quarter of 2011.

In January 2010, the Authority issued a non-binding RFP seeking a public-private partnership for the installation of up to 100 MW of photovoltaic ("PV") systems across the State including roof-mounted and ground-mounted solar arrays. The RFP solicits proposals from developers to install, own, and operate the arrays and to sell the energy and environmental attributes to the Authority pursuant to power purchase agreements. The PV systems would be located primarily at schools, public universities and colleges, state and local government facilities, and municipal electric and rural electric cooperative facilities. Responses to the RFP were received in April 2010; the responses are being evaluated; and initial award recommendations by staff are anticipated to be made to the Authority's Trustees in the first quarter of 2011.

REQUIRED SUPPLEMENTARY INFORMATION
(UNAUDITED)

NEW YORK POWER AUTHORITY

Required Supplementary Information

Schedule of Funding Progress for the Retiree Health Plan (Unaudited)

(In millions)

Actuarial valuation date	Actuarial value of assets (a)*	Actuarial Accrued Liability (AAL) – projected unit credit method (b)	Unfunded AAL (UAAL) (b – a)	Funded ratio (a/b)	Covered payroll (c)	UAAL as a percentage of covered payroll ((b – a)/c)
January 1, 2010	$ 218	400	182	55%	$ 141	129%
January 1, 2008	100	337	237	30	133	178
January 1, 2006	—	301	301	—	130	232
January 1, 2004	—	279	279	—	116	241
January 1, 2002	—	271	271	—	107	253

See accompanying independent auditors' report.

March 14, 2011

2. Year-end 2010 Financial Statements – RESOLUTION

WHEREAS, the Executive Vice President and Chief Financial Officer and Controller have prepared, reviewed and submitted for consideration of the Audit Committee the attached financial statements for the year ending 2010; and

WHEREAS, the Audit Committee has itself reviewed the attached financial statements;

NOW THEREFORE BE IT RESOLVED, That the Audit Committee recommend that the Authority's Trustees approve the financial statements for the year ended December 31, 2010.

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cutting through complexity™

New York Power Authority

2010 Audit

Audit Committee

March 14, 2011

kpmg.com

Agenda

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Audit Results

Results of Audit:

Completed substantially all audit test work as of February 18, 2011

- Scope and Audit testing consistent with that discussed in October 2010 presentation of 2010 Audit Plan
- Scope focused on:
  - Derivatives (Purchased Power and Financial)
  - Implementation of GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*
  - NYISO, SENY and Wholesale revenues/receivables
  - Long term debt including compliance with covenants
  - Nuclear Liabilities
  - Litigation/contingencies
- No material misstatements identified
- No corrected or uncorrected adjustments identified
- No identified significant deficiencies or material weaknesses in internal controls
- KPMG to issue an unqualified opinion on the Authority's Financial Statements
- KPMG to issue an unqualified opinion on the Authority's compliance with its investment guidelines with no exceptions noted in compliance or internal control

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KPMG Responsibilities under GAAS

Our Responsibilities under GAAS:

We have a responsibility to conduct our audit in accordance with generally accepted auditing standards. In carrying out this responsibility, we planned and performed the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud. Because of the nature of audit evidence and the characteristics of fraud, we are to obtain reasonable, not absolute, assurance that material misstatements are detected. We have no responsibility to plan and perform the audit to obtain reasonable assurance that misstatements, whether caused by error or fraud, that are not material to the financial statements are detected.

In addition, in planning and performing our audit, we considered internal controls in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements. An audit does not include examining the effectiveness of internal controls and does not provide assurance on internal controls. However, our internal control testwork did not identify any deficiencies in internal controls over financial reporting that we consider to be material weaknesses.

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Significant Accounting Policies

- Significant accounting policies are disclosed in the financial statements
- We have reviewed the accounting policies used by management in preparation of the financial statements and found such policies to be appropriate

Significant Accounting Policies	Financial Statement Accounts Affected	Literature Guidance Summary	Alternative Methods
■ Accounting for Rate Regulation	■ Deferred charges ■ Regulatory assets/liabilities	■ ASC Topic 980, *Regulated Operations*	■ None
■ Revenue Recognition ■ Billed and Unbilled	■ Receivables ■ Revenue	■ SAB 101 ■ FASB Concept 5 and 6	■ None
■ Derivatives – Energy and Interest Rate	■ Purchased power costs ■ Interest/financing cost ■ Deferred outflows	■ GASB 53	■ None
■ Cash and Investments	■ Cash and investments ■ Investment income	■ GASB 31 ■ GASB 3 ■ GASB 40	■ None
■ Capital Assets	■ Capital assets, depreciation	■ GASB 34	■ Other depreciation methods
■ Asset Retirement Obligations	■ Other assets ■ Other liabilities	■ ASC Topic 410, *Asset Retirement and Environmental Obligations*	■ None

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Significant Judgments and Estimates

- We have reviewed the accounting estimates used by management in preparation of the financial statements. We evaluated the key factors and assumptions used by management and found such factors and assumptions to be reasonable.

Accounting Area	Literature Guidance Summary	Financial Statement Accounts Affected
■ Self-Insurance Accruals – Claims and Damages – Environmental Reserves	■ ASC Topic 450, *Contingencies* ■ GASB 10 ■ GASB 49	■ Deferred credits and other ■ Operating expense
■ Asset Retirement Obligations	■ ASC Topic 410	■ Deferred charges, long-term receivables and other ■ Deferred credits and other
■ Energy Derivatives ■ Interest Rate Derivatives	■ GASB 53	■ Deferred outflows ■ Risk management obligations
■ Other Post-employment Benefits (OPEB)	■ GASB 45	■ Miscellaneous receivables and other ■ Deferred charges, long-term receivables and other

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Audit Risks and Issues

Key audit risks/account balances and primary procedures to address the risk:

- Derivatives
  - Valuation of derivatives associated with energy price and interest rate fluctuations
    - Verification of external pricing sources and confirmations/statements from counterparties
    - Testing management's determination of hedging effectiveness
    - Review of risk management policies by KPMG Financial Risk Management professionals
- Revenue
  - Appropriate revenue recorded as power is delivered
    - Confirmation of Receivables and detailed testing of SENY / Wholesale revenue
    - Confirmation of Revenue/Receivables with NYISO
- Nuclear Decommissioning Liabilities
  - Reporting and receipt of information and accounting for decommissioning trust and liabilities
    - Review of financial statements for completeness and accuracy of trust assets and obligations

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Audit Risks and Issues, continued

- Management Judgments and accounting estimates
  - Appropriate methodologies and assumptions in assessing exposures / liabilities
  - Reviewed methodology, assumptions (and third party statements where applicable) for reasonableness of amounts set up as reserves/liabilities
  - Refer to detailed listing of significant judgments and estimates on page 5
- Manual Journals and non recurring transactions
  - Appropriate accounting for existence and accuracy of unusual nonrecurring transactions
  - Selection and review of material journals, large and unusual entries, frequency, management approvals, etc.
- Investments
  - Appropriate accounting for investments in accordance with approved guidelines
  - Fair market value testing of all investments
  - Review of sample of investments for compliance with Board approved policies

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Involvement of Specialists

Involvement of Specialists and Others

- Information Risk Management
  - Tested Information Technology general controls over SAP and certain Information Technology application controls
- Actuaries
  - Involved an actuary to assist with evaluating the method and assumptions used to estimate the Authority's OPEB obligation and annual cost
- Valuation Specialists
  - Involved our investment pricing desk to assist with verifying the valuation of investments
  - Involved a valuation specialist to assist with evaluating the method and assumptions used to estimate the fair value and effectiveness of the Authority's derivative instruments
- Concurring Review Partner
  - Detail review of financial statements
  - Review of critical audit areas
  - Concurrence on engagement teams planned approach and conclusions

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Consideration of Fraud Risk

During the course of our audit, KPMG has undertaken, or will undertake prior to report issuance, fraud discussions with the following members of NYPA senior management:

- **Richard M. Kessel** – President and Chief Executive Officer
- **Elizabeth McCarthy** – Executive Vice President and Chief Financial Officer
- **Scott Scholten** – Chief Risk Officer
- **Les Pardo** – Director of Internal Audit
- **Arthur Camborius** – Assistant General Counsel
- **Brian McElroy** – Treasurer
- **Joe Gryzlo** – Chief Ethics and Compliance Officer
- **Thomas Concadoro** – Controller

In addition, KPMG designed audit procedures and conducted walkthroughs of significant account balances to identify weaknesses that could heighten fraud risk and sampled journal entries using computer assisted auditing techniques to identify large and unusual transactions.

Based upon our inquiries and testing, no financial statement fraud came to our attention for the year ended December 31, 2010.

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Other Required Communications

- There were no audit adjustments for the year-ended December 31, 2010.
- There were no disagreements with management on financial accounting and reporting matters.
- We encountered no difficulties in dealing with management in performing our audit.
- Significant Written Communications Between Auditor and Management:
  - Engagement Letter / Contract
  - Management Representation Letter
- Other Information in Documents Containing Audited Financial Statements:
  - Our report does not extend beyond the financial information identified in our report, and we have no obligation to perform any procedures to corroborate other information contained in these documents, for example, Management's Discussion and Analysis.
  - We have, however, read the other information included in the Authority's MD&A, and no matters came to our attention that cause us to believe that such information is materially inconsistent with the information, or manner of its presentation, appearing in the financial statements.
- We are in compliance with the Public Authority Accountability Act in regards to non-audit services.
- We are independent in accordance with AICPA Standards and Governmental Auditing Standards (Yellow Book Requirements).

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KPMG Reports

- Audit Opinion on the Authority's Financial Statements as of and for the year ended December 31, 2010
- Accountant's Report on Investment Compliance with New York State Guidelines
- Required Communications to the Audit Committee
- Auditor's Report on Internal Control over Financial Reporting and on Compliance on Other Matters
- Management Letter – Not necessary in 2010

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Status of Prior Year Management Letter Comments

Prior Year Comment	Status
Information System Access and Security	Recommendation Implemented
Segregation of Duties within SAP	Recommendation Implemented
Energy Risk Management Process	Recommendation Implemented
Service Organizations	Recommendation Implemented

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