MINUTES OF THE MEETING
OF
THE AUDIT COMMITTEE

September 27, 2011

A meeting of the Audit Committee was held via videoconference at the Authority's offices at 123 Main Street, White Plains, New York at approximately 10:25 a.m.

The following Members of the Audit Committee were present:

Trustee D. Patrick Curley, Chairperson
Vice Chairman Jonathan Foster
Trustee Eugene L. Nicandri

Also in attendance were:

John S. Dyson	*Trustee*
Gil Quiniones	*Acting President and Chief Executive Officer*
Judith McCarthy	*Acting General Counsel*
Edward Welz	*Acting Chief Operating Officer*
Donald Russak	*Acting Chief Financial Officer*
Karen Delince	*Corporate Secretary*
Brian McElroy	*Treasurer*
Thomas Concadoro	*Vice President & Controller*
Dennis Eccleston	*Chief Information Officer*
Lorna Johnson	*Assistant Corporate Secretary*
Sheila Baughman	*Senior Secretary, Corporate Secretary's Office*
Ken Deon	*Managing Partner, KPMG*

Introduction

Chairman D. Patrick Curley welcomed Trustees Foster, Nicandri and Dyson and senior staff to the meeting.

1. Adoption of Meeting Agenda

Chairman Curly said that, after discussion with senior staff, in the future, agendas for the meetings will be provided to the committee in draft form prior to the meeting so that, based on any comments, adjustments can be made to the agendas before the meetings. By motion made and seconded the agenda for the meeting was approved.

2. <u>Approval of the Minutes of the Regular Meeting of March 14, 2011</u>

The minutes of the Committee's Regular Meeting of March 14, 2011 were adopted.

3. Financial Statements for Six Months ended June 30, 2011

Mr. Thomas Concadoro presented highlights of the Authority's financial statements for the six months ended June 30, 2011. He said that the reports are consistent with the results presented by the Chief Financial Officer to the Board in July and are required to be filed annually with the Authority's banking institutions by September 30, 2011. The highlights are as follows:

Balance Sheet

- Increase in current assets ($185 million), primarily due to positive cash generated by operations;
- Increase in restricted funds ($112 million), due to appreciation in the Nuclear Decommissioning Trust Fund fully offset by an increase in the related liability;
- Decrease in other assets/other liabilities ($45 million) Mark-to-market adjustments on the medium term hedge positions taken for the SENY customers are deferred. As positions settle, the deferral amounts decrease and energy costs are passed on to customers.

Income Statement

- For the first half of 2011, net income was $72 million which was $9 million lower than last year;
- Lower net operating income ($41 million) was due to higher expenses including: (1) higher maintenance work ($10 million) at 500 MW plant and the SCPP's; (2) higher Power for Jobs related contributions to the State, included in the Recharge New York (RNY) legislation and (3) higher purchased power costs at Niagara ($15 million) incurred to support customers during a transmission line outage;
- Offset by lower budgetary contributions to the State unrelated to Power for Jobs ($42 million).

Cash Flows

- Significant cash produced by operating activities in both years but lower in 2011 ($43 million). This is consistent with decrease in net operating income.

Footnotes

- No changes have been made to the Authority's accounting policies during the first six months of 2011;
- Shows status of current bond refinancing. This will be updated to reflect scheduled closing in early October;
- Updated to reflect details of RNY legislation and the transition from the Power for Jobs and ECSB programs. Also discloses funding residential discount program starting at $100 million in 2011/12 phasing down to $30 million;
- Includes disclosures about the most recent contributions authorized by the Board and those expected to be presented to the Board for approval in January 2012;
- Increase in OPEB costs based on last actuarial valuation;
- Updated HTP disclosures for execution of agreement in April adding ranges of our potential under-recovery of cost of $40 million to $80 million. Indicates staff currently negotiating with NYC customers;
- Update for proposed increases in hydro rates currently pending;
- Added paragraph about potential expenditures resulting from storm damage at Vischer Ferry and Blenheim-Gilboa as well as potential for insurance recovery.

In response to a question from Chairman Curley, Mr. Concadoro said that funds transferred to the State and to be repaid pursuant to the MOU are treated as long-term receivables on the Authority's balance sheet. Contributions, which are not repaid, are reflected as a reduction in net income. In response to further question from Chairman Curley, Mr. Concadoro said that, from a compliance standpoint, additional loans would need to be evaluated as to asset quality before putting them on the balance sheet as assets. Mr. Russak added that, from a business perspective, the Authority would not want to see balances build up to a level such that it would be impractical for it to be repaid.

Responding to another question from Chairman Curley, Mr. Concadoro said that the report was prepared internally by staff and that KPMG was not involved in the preparation but were provided a copy. In response to a question from Trustee Foster, Mr. Ken Deon, said KPMG read the report in conjunction with the recent bond offering and obtained explanations for significant variations compared to last year.

4. Internal Audit Activity Report

Mr. Lesly Pardo presented an overview of the 2011 Internal Audit Plan to the Board. He said that 36 audits have been scheduled for 2011. As of August 31, 2011, twenty audits have been completed, six audits are in progress and twelve are scheduled to be completed by the end of the year. Approximately 67% of the audits in the audit plan are completed or in progress. Sixteen audit reports with 32 recommendations to improve the Authority's internal controls were issued, all of which were accepted by management. He said that the Internal Audit staff continues to receive full cooperation and support during the audits.

Mr. Pardo continued that of the audit reports issued to date, Internal Audit staff did not identify any material control deficiencies, that is, any recommendation that is not implemented would have an adverse impact on the Authority's operations, financial condition or impair its reputation. Most of the recommendations were for improvements to strengthen the Authority's internal control system.

In response to a question from Chairman Curly, Mr. Pardo said that SAP means Systems, Applications, and Products, and is the application that supports the Authority's key financial systems e.g., general ledger, accounts payable, customer billings, and human resources.

In response to a question from Trustee Nicandri, Mr. Pardo said that he was satisfied with the level of cooperation from management who has been very supportive.

In response to a question from Trustee Foster, Mr. Pardo said the approval process for union employees was informal and it was recommended that the Authority improve this process by using staffing authorization forms that are currently used for salaried employees. With respect to the Power Contract process, it was recommended that the process be formalized to ensure that all required procedures are being followed.

5. Next Meeting

Mr. Donald Russak suggested that the next Committee meeting be held November. Chairman Curley said he would put this suggestion in abeyance; in the meantime, he will ask that staff plan for the meeting as previously scheduled in October.

The next regular meeting of the Audit Committee will be held on Tuesday, October 25, 2011, to commence at approximately 9:30 a.m., at the Clarence D. Rappleyea Building, White Plains, New York.

On motion made and seconded, the meeting was adjourned at approximately 10:45 a.m.

EXHIBITS

For

September 27, 2011
Meeting Minutes

NEW YORK POWER AUTHORITY

FINANCIAL STATEMENTS

JUNE 30, 2011

(Unaudited)

DRAFT

The accompanying Financial Statements are the responsibility of the Authority's management and reflect all appropriate estimates and all known liabilities. These unaudited financial statements should be read in conjunction with the financial statements and notes contained in the Authority's December 31, 2010 Annual Report.

____

Thomas J. Concadoro
Vice President and Controller

New York Power Authority
Balance Sheets
June 30, 2011 and 2010
(in milions)
(Unaudited)
DRAFT

Assets and Deferred Outflows		**2011**	**2010**
Current Assets and deferred outflows:			
	Cash and cash equivalents	$91	$114
	Investment in securities, at fair value	1,046	831
	Interest receivable on investments	5	5
	Receivables - customers	233	225
	Materials and supplies, at average cost:		
	Plant and general	77	85
	Fuel	15	18
	Prepayments, miscellaneous receivables and other	135	136
	Deferred outflows	66	69
		1,668	1,483
Noncurrent Assets and deferred outflows:			
Restricted Funds	Cash and cash equivalents	21	20
	Investment in securities, at fair value	1,134	1,023
		1,155	1,043
Capital Funds	Cash and cash equivalents	2	9
	Investment in securities, at fair value	116	169
		118	178
Utility Plant	Capital assets not being depreciated	275	308
	Capital assets, net of accumulated depreciation	3,395	3,377
		3,670	3,685
Other Noncurrent Assets and deferred outflows:			
	Unamortized debt expense	15	16
	Regulatory assets-risk management activities	32	38
	Receivable - New York State	318	318
	Deferred charges, long-term receivables and other	446	430
	Notes receivable - nuclear plant sale	70	85
	Deferred outflows	110	149
		991	1,036
	Total Assets	$7,602	$7,425
Liabilities and Net Assets			
Current Liabilities	Accounts payable and accrued liabilities	$388	$380
	Short-term debt	325	297
	Long-term debt due within one year	90	104
	Risk management activities - derivatives	66	69
		869	850
Long-term debt	Senior:		
	Revenue bonds	1,109	1,152
	Adjustable rate tender notes	115	123
	Subordinated:		
	Commercial paper	246	284
		1,470	1,559
Other Noncurrent Liabilities	Nuclear plant decommissioning	1,072	951
	Disposal of spent nuclear fuel	216	216
	Deferred credits and other	753	754
	Risk management activities - derivatives	149	194
		2,190	2,115
Net Assets	Invested in capital assets, net of related debt	1,978	2,015
	Restricted	33	36
	Unrestricted	1,062	850
		3,073	2,901
	Total Liabilities and Net Assets	$7,602	$7,425

See accompanying notes to the financial statements.

New York Power Authority
Statements of Revenues, Expenses, and Changes in Net Assets
Six Months ended June 30, 2011 and 2010
(in millions)
(Unaudited)
DRAFT

Statements of Net Income		**2011**	**2010**
Operating Revenues			
	Power Sales	$929	$906
	Transmission charges	77	77
	Wheeling charges	228	240
	Total Operating Revenues	1,234	1,223
Operating Expenses			
	Operations and Maintenance	230	199
	Fuel oil and gas	117	115
	Purchased power	472	439
	Wheeling	228	240
	Depreciation	81	83
	Total Operating Expenses	1,128	1,076
	Net Operating Income	106	147
Nonoperating revenues			
	Investment income	19	30
	Other	56	55
	Total nonoperating revenues	75	85
Nonoperating expenses			
	Contribution to NY State	65	107
	Interest on long-term debt	36	38
	Interest-other	11	10
	Interest capitalized	(2)	(2)
	Amortization of debt discount and expense	(1)	(2)
	Total nonoperating expenses	109	151
	Net Income	$72	$81

Statements of Net Assets			
	Net Assets at January 1	$3,001	$2,820
	Net Income	72	81
	Net Assets at June 30	$3,073	$2,901

See accompanying notes to the financial statements.

NEW YORK POWER AUTHORITY
Statements of Cash Flows
Six Months ended June 30, 2011 and 2010
(in millions)
(Unaudited)

DRAFT

		2011	2010
Cash Flows From Operating Activities	Received from customers for the sale of power, transmission and wheeling	1,212	1,179
	Paid to suppliers and employees for:		
	Purchased power	(476)	(436)
	Operations and maintenance	(234)	(215)
	Fuel, oil and gas	(126)	(119)
	Wheeling of power by other utilities	(234)	(224)
	Net cash provided by operating activities	142	185
Cash Flows form Capital and Related Financing	Earnings received on construction fund investments	1	2
	Sale of commercial paper	2	2
	Repayment of notes	(8)	(7)
	Repayment of commercial paper	(50)	(73)
	Construction and acquisition of utility plant:		
	Gross additions to utility plant	(32)	(44)
	Interest paid, net	(35)	(37)
	Net cash used in capital and related financing activities	(122)	(157)
Cash Flow From Noncapital-Related Financing Activities	Energy conservation program payments received from participants	67	81
	Energy conservation program costs	(74)	(75)
	Sale of commercial paper	70	87
	Repayment of commercial paper	(69)	(79)
	Interest paid on commercial paper	(1)	(1)
	Payment to New York State	(73)	(120)
	Entergy Value Sharing Agreement	72	72
	Net cash used in non-capital-related activities	(8)	(35)
Cash Flows From Investing Activities	Earnings received on investments	13	15
	Purchase of investment securities	(3,886)	(2,077)
	Sale of investment securities	3,889	2,095
	Net cash provided by investing activities	16	33
	Net increase in cash	28	26
	Cash and cash equivalents, January 1	**87**	**117**
	Cash and cash equivalents, June 30	**115**	**143**
Reconciliation to Net Cash Provided by Operating activities	Net Operating Income	106	147
	Adjustments to reconcile net revenues to net cash provided by operating activities		
	Provision for depreciation	81	83
	Net decrease in prepayments and other	21	1
	Net increase in receivables and inventory	(23)	(31)
	Net decrease in accounts payable and accrued liabilities	(43)	(15)
	Net cash provided by operating activities	142	185

NEW YORK POWER AUTHORITY
NOTES to FINANCIAL STATEMENTS
JUNE 30, 2011 and 2010
(Unaudited)
DRAFT

A. General

The Power Authority of the State of New York (Authority) is a corporate municipal instrumentality and political subdivision of the State of New York (State) created by the Legislature of the State in 1931, and is authorized to help provide a continuous and adequate supply of dependable electricity to the people of the State. The Authority is a fiscally independent public corporation that does not receive State funds or tax revenues or credits; it generally finances construction of new projects through the sale of bonds and notes to private investors and pays the related debt service principally with revenues from the generation and transmission of electricity. The Authority's Trustees are appointed by the Governor of the State, with the advice and consent of the State Senate, generally to serve five-year terms. Income of the Authority and properties acquired by it for its projects are exempt from taxation.

The Authority's financial statements should be read in conjunction with the financial statements and the notes to the financial statements included in the Authority's Annual Report for the year ended December 31, 2010 and the notes to the December 31, 2010 financial statements are incorporated by reference herein. Such notes are supplemented below. Certain information and footnote disclosures that are normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted. The results for the six months ended June 30, 2011 are not necessarily indicative of the results of the entire fiscal year ending December 31, 2011. Certain amounts previously reported have been reclassified to conform to the current presentation.

Accounting Policies

Reference is made to "Summary of Significant Accounting Policies" in Note (2) to the Authority's December 31, 2010 Financial Statements.

The Authority is subject to the provisions of ASC Topic 980, Regulated Operations (FAS No. 71, Accounting for the Effects of Certain Types of Regulation). These provisions recognize the economic ability of regulators, through the ratemaking process, to create future economic benefits and obligations affecting rate-regulated companies. Accordingly, the Authority records these future economic benefits and obligations as regulatory assets and regulatory liabilities, respectively. Regulatory assets represent probable future revenues associated with previously incurred costs that are expected to be recovered from customers. Regulatory liabilities represent probable future reductions in revenues associated with amounts that are expected to be refunded to customers through the ratemaking process. Based upon the Authority's evaluation of the criteria in the standard and the effect of competition on its ability to recover its cost, the Authority believes the provisions of ASC Topic 980 continue to apply. The Authority estimates that the impact would not be material if the Authority had been unable to continue to apply this standard as of June 30, 2011.

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

B. Investments

The Authority's investments, which comply with the New York State Comptroller's investment guidelines for public authorities, have been restricted to (a) collateralized certificates of deposit, (b) direct obligations of or obligations guaranteed by the United States of America or the State of New York, (c) obligations issued or guaranteed by certain specified federal agencies and any agency controlled by or supervised by and acting as an instrumentality of the United States government, and (d) obligations of any state or any political subdivision thereof or any agency, instrumentality or local government unit of any state or political subdivision which is rated in any of the three highest long-term rating categories, or the highest short-term rating category, by nationally recognized rating agencies. The Authority is also authorized to enter into repurchase agreements for the purchase and sale of authorized investments. Designated custodians hold all investments in the name of the Authority. Securities that are the subject of repurchase agreements must have a market value at least equal to the cost of the investment, and the agreements are limited to a maximum fixed term of five business days. Governmental Accounting Standards Board Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools," requires that investments be reported in the balance sheet at fair value and that realized and unrealized gains and losses on investments be recorded as investment income.

C. Capital Assets

Capital assets are stated at original cost and consist of amounts expended for labor, materials, services and indirect costs to license, construct, acquire, complete and place in operation the projects of the Authority. Depreciation of capital assets is generally provided on a straight-line basis over the estimated useful lives of the various classes of capital assets. Capital assets net of accumulated depreciation at June 30, 2011 and 2010 were:

(in Millions)	June	
Type of Plant	2011	2010
Production:		
Steam	1	1
Hydro	1,166	1,133
Gas Turbine/Combined Cycle	768	802
Transmission	865	872
General	746	716
	3,546	3,524
Construction work in progress	124	161
	3,670	**3,685**

D. Debt

Revenue Bonds

Revenue Bonds Outstanding, June 30:	($ in millions)	
	June 30	
	2011	2010
Principal amount outstanding	$1,134	$1,173
Add: Unamortized premium	19	26
Less: Deferred refinancing costs	4	8
	1,149	1,191
Less: Due within one year	40	39
	$1,109	$1,152

The Revenue Bonds outstanding at June 30, 2011, have an average interest rate of 5.22%, and mature in the years 2011 to 2047. As of June 30, 2010, the average interest rate was 5.18%. These rates do not reflect the effect of the Authority's risk management and hedging activities discussed in note (E).

In July 2011, the Authority Trustees authorized the issuance of up to $341 million of additional Revenue Bonds for the purpose of refunding certain Revenue Bonds and/or Commercial Paper Notes, including the Extendible Municipal Commercial Paper Notes. The Authority is in the process of refunding it's Series 2000A and certain of its 2002A Revenue Bonds with pricing expected to occur in late September 2011. The Authority is also evaluating the refunding of Commercial Paper Notes and/or Extendible Municipal Commercial Paper Notes. Implementation of any refunding will be dependent upon market conditions and other factors.

Adjustable Rate Tender Notes

The Adjustable Rate Tender Notes (ART Notes) were issued pursuant to a resolution adopted April 30, 1985 (subsequently amended). The ART Notes had an average interest rate of 0.32% effective March 1, 2011 through September 1, 2011 and are scheduled to mature from 2012 to 2020. The holders may tender the ART Notes to the Authority on any adjustment date. These rates do not reflect the effect of the Authority's risk management and hedging activities discussed in note (E). As of June 30, 2011, the Authority had $123 million in ART Notes outstanding of which $8 million are classified as current.

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

Commercial Paper

Under the Commercial Paper Note Resolution adopted June 28, 1994, as subsequently amended and restated, the Authority may issue a separate series of notes (CP Notes) maturing not more than 270 days from the date of issue, up to a maximum amount outstanding at any time of $400 million (Series 1); $450 million (Series 2); $350 million (Series 3); and $220 million (Series 4). It is the Authority's intention to remarket the Series 2 and 3 CP Notes as they mature with their ultimate retirement dates planned to range from 2011 to 2025. There were no Series 4 Notes outstanding as of June 30, 2011. Under the Extendible Municipal Commercial Paper Note Resolution, adopted December 17, 2002, as subsequently amended and restated, the Authority may issue a series of notes, designated Series 1 (EMCP Notes) maturing not more than 270 days from the original date of issue, up to a maximum amount outstanding at any time of $200 million.

	($ in millions)	
Long-Term CP Notes outstanding, June 30:	2011	2010
Series 1 –EMCP	$138	$146
Series 2 CP Notes- Tax Exempt	82	129
Series 3 CP Notes- Taxable	67	67
	287	342
Less: Due within one year	41	58
	$246	$284

The Authority has a revolving line of credit with a syndicate of banks under which the Authority may borrow up to $550 million in aggregate principal amount outstanding at any time for certain purposes, including the repayment of the Series 1, the Series 2, and the Series 3 CP Notes.

Short-term Debt

Short term debt outstanding, consisted of Series 1 CP Notes, at June 30, 2011 and 2010. The Authority issues Series 1 CP Notes to finance energy services programs and for other corporate purposes. In January 2011, the Authority purchased a 5.5 % interest rate cap on $300 million of Series 1 CP Notes, with a termination date of January 26, 2013. As of June 30, 2011, the Authority had outstanding $325 million in Series 1 CP Notes.

E. Risk Management and Hedging Activities

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

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

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

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

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

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

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

Based upon the fair values as of June 30, 2011 the Authority's individual or aggregate exposure to derivative contract counterparty credit risk is not significant.

The following table shows the fair value and net settlement amounts of derivative contracts as June 30, 2011 and 2010 respectively:

Derivative instrument description		Fair Value Balance June 30 2011	Net Change in Fair Value	Fair Value Balance June 30 2010	Type of Hedge or Transaction	Financial Statement Classification for changes in Fair Value	Notional Amount June 30 2011	Volume
				(in millions)				
Interest rate contracts (1)	$	(19.7)	5.4	(25.1)	Cash Flow	Deferred out-flows	502	USD
Energy Contracts (2)		(156.3)	36.6	(192.9)	Cash Flow	Deferred out-flows	10,633,025	MWh
Renewable Energy Contracts (3)		(32.1)	5.8	(37.9)	Investments	Deferred Regulatory Asset	1,183,628	MHw
Fuel and Related Contracts (4)		(0.1)	(0.1)	----	Cash Flow	Deferred out-flows	2,480,000	MMBTU
Totals	$	(208.2)	47.7	(255.9)				

(1) The Authority uses interest rate swaps and caps to hedge interest rate risks. The Authority entered into forward interest rate swaps to fix rates on long-term obligations initially issued to refinance $126.6 million of Series 1998 B Revenue Bonds required to be tendered in the years 2002 (the 2002 Swaps) at a fixed rate of 5.123% through February 16, 2015. The Authority entered into a forward interest rate swap to fix the interest rates at 3.7585% on $130.5 million of its Adjustable Rate Tender Notes through September 1, 2016. The Authority purchased an interest rate cap with the objective of limiting exposure to rising interest rates relating to $300 million of its Series 1 CP Notes at 5.5% through January 26, 2013.

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

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

(4) The Authority uses NYMEX natural gas futures contracts and natural gas (transportation) basis swaps to (a) fix the cost of fuel to operate its SCPP facilities and (b) 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 Plant and sales of energy in the NYISO electric market.

F. Power for Jobs and Recharge New York Power Programs

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

In 2004, legislation was enacted into New York law which amended the PFJ Program in regard to contracts of certain PFJ Program customers. Under the amendment, certain customer contracts terminating in 2004 and 2005 could be extended by the affected customer, or the customer could opt for "Power for Jobs electricity savings reimbursements" (PFJ Rebates). Generally, the amount of such PFJ Rebates for a particular customer is based on a comparison of the current cost of electricity to such customer with the cost of electricity under the prior Power for Jobs contract during a comparable period. The PFJ Program has been extended numerous times and pursuant to recent legislation, discussed in the next paragraph below, the PFJ Program will end on June 30, 2012.

In March 2011, Chapter 60 of the laws of 2011 established the "Recharge New York Power Program" (RNYPP). The RNYPP is a new, permanent power program, administered by the Authority and the EDPAB, which has as its central benefit up to 910 MW of power comprised of 455 MW of hydropower from the Niagara and St. Lawrence-FDR Projects (which power, until August 1, 2011, had been provided to residential and farm customers of three upstate utilities) and up to 455 MW of other power procured or produced by the Authority. The 910 MW of power will be available for allocation to eligible new and existing businesses and not-for-profit corporations under contracts of up to seven years effective no sooner than July 1, 2012. Chapter 60 also temporarily extends the PFJ and Energy Cost Savings Benefit (ECSB) Programs through June 30, 2012 at which time the two programs will end and be replaced by the RNYPP. Those PFJ and ECSB Program customers that do not receive RNYPP allocations will be eligible to apply for certain "transitional electricity discounts," which will decline to zero by June 30, 2016, if payment of such discounts is deemed feasible and advisable by the Authority's Trustees. The legislation also authorizes the Authority, as deemed feasible and advisable by its Trustees, to provide annual funding of $100 million for the first three years following withdrawal of the hydropower from the residential and farm customers, $70 million for the fourth year, $50 million for the fifth year, and $30 million each year thereafter for the purpose of mitigating bill impacts on the residential and farm customers that currently use the hydropower that will be utilized in the RNYPP. The 455 MW of hydropower was withdrawn by the Authority on August 1, 2011. On June 28, 2011, the Authority's Trustees authorized the use of revenues from the sales of such power into the wholesale market or, as necessary, internal funds, to fund the residential consumer discount program for its first six months.

G. *Financial Assistance to the State*

The Authority is requested, from time to time, to make financial contributions or transfers of funds to the State. Any such contribution or transfer of funds must (i) be authorized by State legislation (generally budget legislation), and (ii) satisfy the requirements of the Bond Resolution. In May 2011, the Authority's Trustees adopted a policy statement (Policy Statement) which relates to, among other things, voluntary contributions, transfers, or other payments to the State by the Authority after that date. The Policy Statement provides, among other things, that in deciding whether to make such contributions, transfers, or payments, the Authority shall use as a reference point the maintenance of a debt service coverage ratio of at least 2.0, in addition to making the other determinations required by the Bond Resolution. The Policy Statement may at any time be modified or eliminated at the discretion of the Authority's Trustees.

Legislation enacted into law, as part of the 2000-2001 State budget, as amended up to the present time, has authorized the Authority "as deemed feasible and advisable by the trustees," to make a series of "voluntary contributions" into the State treasury in connection with the Power for Jobs Program and for other purposes as well. The PFJ Program has been extended to June 30, 2012, at which time it will end and be replaced by the RNYPP, discussed in note F. above. Cumulatively through June 2011, the Authority has made voluntary contributions to the State totaling \$469 million in connection with the PFJ Program and \$342 million unrelated to the PFJ Program. The 2011 (\$65 million) and the 2010 (\$147 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 2011 and 2010 statements of revenues, expenses and changes in net assets, respectively. Pursuant to authorizing legislation enacted in March 2011, the Authority expects to consider in the first quarter of 2012 the feasibility and advisability of (i) making an additional voluntary contribution of \$6 million relating to the PFJ Program and (ii) making an additional voluntary contribution of \$60 million unrelated to the PFJ Program.

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

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

In February 2009, the Authority's Trustees authorized the execution of the MOU relating to the temporary transfers of Asset B ($215 million) and Asset A ($103 million) and such transfers were made in March 2009 and September 2009, respectively, following Trustee approval.

The Authority has classified the transfers of Assets A and B ($318 million) as a long-term loan receivable. In lieu of interest payments, the State has waived certain future payments from the Authority to the State. The waived payments include the Authority's obligation to pay until September 30, 2017 the amounts to which the State is entitled under a governmental cost recovery process for the costs of central governmental services. These payments would have been approximately $5 million per year based on current estimates but the waiver is limited to a maximum of $45 million in the aggregate during the period. Further, the obligation to make payments in support of certain State park properties and for the upkeep of State lands adjacent to the Niagara and St. Lawrence power plants is waived from April 1, 2011 to March 31, 2017. These payments would have been approximately $8 million per year but the waiver would be limited to a maximum of $43 million for the period.

H. Pension Plans and Other Postemployment Benefits

Pension Plans

The Authority participates in the New York State and Local Employees' Retirement System (ERS) a cost-sharing, multiple-public-employer, defined benefit pension plan; and also provides its retirees with Other Postemployment Benefits (OPEB). Refer to the Authority's 2010 Annual Report for further information including plan benefits, employer contributions, employee eligibility, vesting, contributions, and OPEB.

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

Under this plan, the required contributions to the ERS were $17.1 million, $9.6 million and $11.8 million, for the ERS's fiscal years ended March 31, 2011, 2010 and 2009 respectively (paid on or about December 15, 2010, 2009 and 2008). The pension contribution for the ERS's fiscal year ended March 31, 2012 will approximate $ 25 million. During 2008, the global decline in financial markets adversely impacted state pension investment market values including the ERS causing contributions to increase significantly. There is the potential for continued large increases in employer contribution rates over the next several years if the ERS's assumed annual rate of return of 8% is not realized

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 non-contributory (except for certain optional life insurance coverage) health care plan. Employees and/or their dependents become eligible for these benefits when the employee has at least 10 years of service and retires or dies while working at the Authority.

Through 2006, OPEB provisions were financed on a pay-as-you-go basis and the plan was unfunded. In December 2006, the Authority's Trustees authorized staff to establish a trust for OPEB obligations, with the trust fund to be held by an independent custodian. The Authority funded the trust with contributions totaling $225 million. At the time the trust fund was created, the Authority indicated that it would evaluate the performance of the fund before making decisions on additional actions. Since that time, the Authority has continued to pay for retiree benefits from cash from operations.

The Authority's OPEB costs were $16 million and $12 million respectively for the six months ended June 30, 2011 and June 30, 2010. The Authority's most recent actuarial valuation was performed as of January 1, 2010 and reported an actuarial accrued liability of $400 million. As of June 30, 2011, the value of the OPEB trust totaled $252 million.

I. Nuclear Plant Divestiture and Related Matters

On November 21, 2000 (Closing Date), the Authority sold its nuclear plants (Indian Point 3 [IP3] and James A. FitzPatrick [JAF]) to two subsidiaries of Entergy Corp. (collectively Entergy or the Entergy Subsidiaries) for cash and non-interest bearing notes, including a Fuel Payment Note, totaling $967 million (subsequently reduced by closing adjustments to $956 million), maturing over a 15-year period. The present value of these payments recorded on the Closing Date, utilizing a discount rate of 7.5%, was $680 million. The Authority remains liable to Entergy for the pre-1983 spent fuel obligation (see note (G), "Financial Assistance to the State" relating to a temporary transfer of such funds to the State.) As of June 30, 2011 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 which has been resolved as noted in the following paragraph.

In 2000, the Authority filed a breach of contract action against the U.S. Department of Energy ("DOE"). The lawsuit alleged that DOE breached the "Standard Contract" executed by the Authority and DOE in 1983 which obligated DOE to begin to accept spent nuclear fuel and high level waste from Standard Contract holders by January 31, 1998. The contract covered the two nuclear generating plants (IP3 and JAF). Following the stay of the case for a period of years to await the outcome of appeals in other relevant cases, the parties served various motions and engaged in extensive discovery and other proceedings. Ultimately, in July 2011, the parties executed a settlement agreement in full and final settlement of the Authority's claims and pursuant to which the Authority received a payment, in August 2011, of $10.98 million (recorded as other income in August 2011 business). This litigation is now concluded.

In connection with the nuclear plants' sale, each of the Entergy Subsidiaries entered into a Decommissioning Agreement with the Authority relating to responsibility for decommissioning the nuclear plant acquired by it. The Decommissioning Agreements deal with the decommissioning funds (the Decommissioning Funds) currently maintained by the Authority under a master decommissioning trust agreement (the Trust Agreement). Under the Decommissioning Agreements, the Authority will make no further contributions to the Decommissioning Funds, and unless there is an early dismantlement of a plant or a change in the tax status of a plant's Decommissioning Fund, the Authority will retain that plant's Fund until at least license expiration. The Authority's decommissioning responsibility is limited to the lesser of the Inflation Adjusted Cost Amount or the amount of the plant's Fund. If the Authority is required to decommission IP3 or JAF pursuant to the relevant Decommissioning Agreement, an affiliate of the Entergy Subsidiaries, Entergy Nuclear, Inc. would be obligated to enter into a fixed price contract with the Authority to decommission the plant, the price being equal to the lower of the Inflation Adjusted Cost amount or the plant's Fund amount.

As part of the Authority's sale of its nuclear projects to Entergy Subsidiaries in November 2000, the Authority entered into two Value Sharing Agreements (VSAs) with them. These contracts required that the Entergy Subsidiaries share a certain percentage of all revenues they receive from power sales in excess of specific projected power prices for a ten-year period (2005-2014). The VSAs, amended in October 2007, now require the Entergy Subsidiaries to pay the Authority a set price for all MWhs metered from each plant between 2007 and 2014, with the Authority being entitled to receive annual payments up to a maximum of $72 million. The Authority has received the maximum annual payments relative to calendar years 2007 through 2010.

J. Other Commitments and Contingencies

County of Niagara

In May 2009, the County of Niagara, "on behalf of its residents", and several individuals commenced an Article 78 lawsuit in Niagara County Supreme Court against the Authority, its Trustees, the State of New York, and the State Comptroller. The lawsuit challenges on numerous grounds the legality of the two temporary asset transfers totaling $318 million and the two voluntary contributions totaling $226 million 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 was sought in the petition. By decision dated October 5, 2009, the court (Justice Boniello) 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 and the lower court indicated that it would await the outcome of that appeal before deciding the Authority's motion to dismiss the complaint. By decision dated March 25, 2011, the Appellate Division unanimously reversed the lower court's ruling of December 23, 2009 and dismissed the amended petition and denied the petitioners' motion for leave to serve a complaint and discovery demands.

By letter dated March 29, 2011, Justice Boniello indicated that he thought that the pending motions were now moot in light of the Appellate Division's decision. Two days later, on March 31, 2011, Justice Boniello signed a judgment dismissing the proceeding on the merits. On April 28, 2011, petitioners filed a motion with the Court of Appeals seeking leave to appeal to that court. The Authority and the State opposed the motion in papers filed on May 16, 2011. A decision on the motion is expected shortly.

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.

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 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.

As a result of a Request for Proposals for Long-Term Supply issued in March 2005, Authority staff entered into negotiations for the execution of a firm transmission capacity purchase agreement with 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 (Line) extending from Bergen County, New Jersey, to Consolidated Edison's West 49th Street substation.

On April 15, 2011, the Authority executed a Firm Transmission Capacity Purchase Agreement (FTCPA) with HTP. The Authority's obligation to make payments under the FTCPA will begin upon commercial operation, which is expected in 2013. Construction of the Line has commenced. Under the FTCPA, the Authority also will pay the costs of certain interconnection and transmission upgrades associated with the Line once it enters into service, estimated to total approximately \$200 million. The Authority is currently in negotiations with certain of its NYC Governmental Customers and other third parties regarding partial recovery of the costs of the Line. It is estimated that the revenues derived from the Authority's rights under the FTCPA will not be sufficient to fully cover the Authority's costs under the FTCPA during the initial 20 year term of the FTCPA. Depending on a number of variables, it is estimated that the Authority's under-recovery of costs under the FTCPA could be in the range of approximately \$40 million to \$80 million per year during the first five years of commercial operation.

In anticipation of the closure of the Authority's existing Poletti plant in January 2010, 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. In April 2008, the Authority's Trustees authorized negotiation of a long-term electricity supply contract with Astoria Energy II LLC for the purchase of the output of a new 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 II LLC entered into a long-term supply contract in July 2008. The costs associated with the contract will be borne by these customers. The new 550-MW plant entered into service in July 2011. Effective July 1, 2011 the Authority is accounting for and reporting 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 are recorded monthly. Fuel for the plant is 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.

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 (ECS Benefits) to be provided to certain Authority customers. Relating to the

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 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 ECSB Program through June 30, 2012. After that date, the ECSB Program will be replaced by the RNYPP. See note F.

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 ECSB 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 June 30, 2012 expiration date of the program.

Other Developments

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 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 was 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 terminated.

In March 2009, the Authority's Trustees approved the deferral of a proposed hydropower rate increase for the Authority's municipal electric and rural cooperative customers, neighboring state customers, upstate investor-owned utilities, and certain other customers that was scheduled to go into effect on May 1, 2009. The deferral amounted to approximately $18.5 million through the end of 2010. The Authority has begun rate proceedings to phase-in increases to these hydropower rates for the period November 2011 through April 2015, and to recover any deferred amounts over a period of time. A determination by the Authority's Trustees in the matter is expected in the fourth quarter of 2011. If approved as proposed, the annual rate increases will average approximately $5.5 million per year.

In March 2009, the Authority also suspended the application of two annual, contractually-indexed hydropower rate increases 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, totaling approximately $6.9 million. The Authority's Trustees in July 2011 approved the reinstatement of these indexed rate adjustments, which will result in an increase in these hydropower rates effective September 1, 2011 in the annualized amount of approximately $5.3 million.

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

Tropical Storm Irene

In late August 2011, Tropical Storm Irene passed through the Northeast and caused, among other things, widespread and severe flooding. The Authority's facilities that were impacted were the Vischer Ferry small hydroelectric plant and the Blenheim-Gilboa Project. Both plants are operational. As a result of the storm, the Authority estimates it will expend (i) approximately $5 million at the Vischer Ferry plant to make certain repairs and improvements to the locks and related berms and (ii) between approximately $4-$7 million at the Blenheim-Gilboa Project to restore and improve containment berms and to remove and secure debris. It is possible that some of these expenditures may be offset by insurance recoveries and/or reimbursement by the Federal Emergency Management Agency.

Audit Committee

Internal Audit Activity Report

August 31, 2011

New York Power Authority
Generating more than electricity

2011 INTERNAL AUDIT PLAN
ACTIVITY REPORT
8/31/11
TABLE OF CONTENTS

2011 INTERNAL AUDIT PLAN
ACTIVITY REPORT
8/31/11
SUMMARY

- Completed 20 audits and projects including 14 financial/operational, four (4) information technology audits and two (2) special projects.

- Six (6) audits in progress as of 8/31/11.

- Approximately 67% of the audits in the original Audit Plan have been completed or in progress.

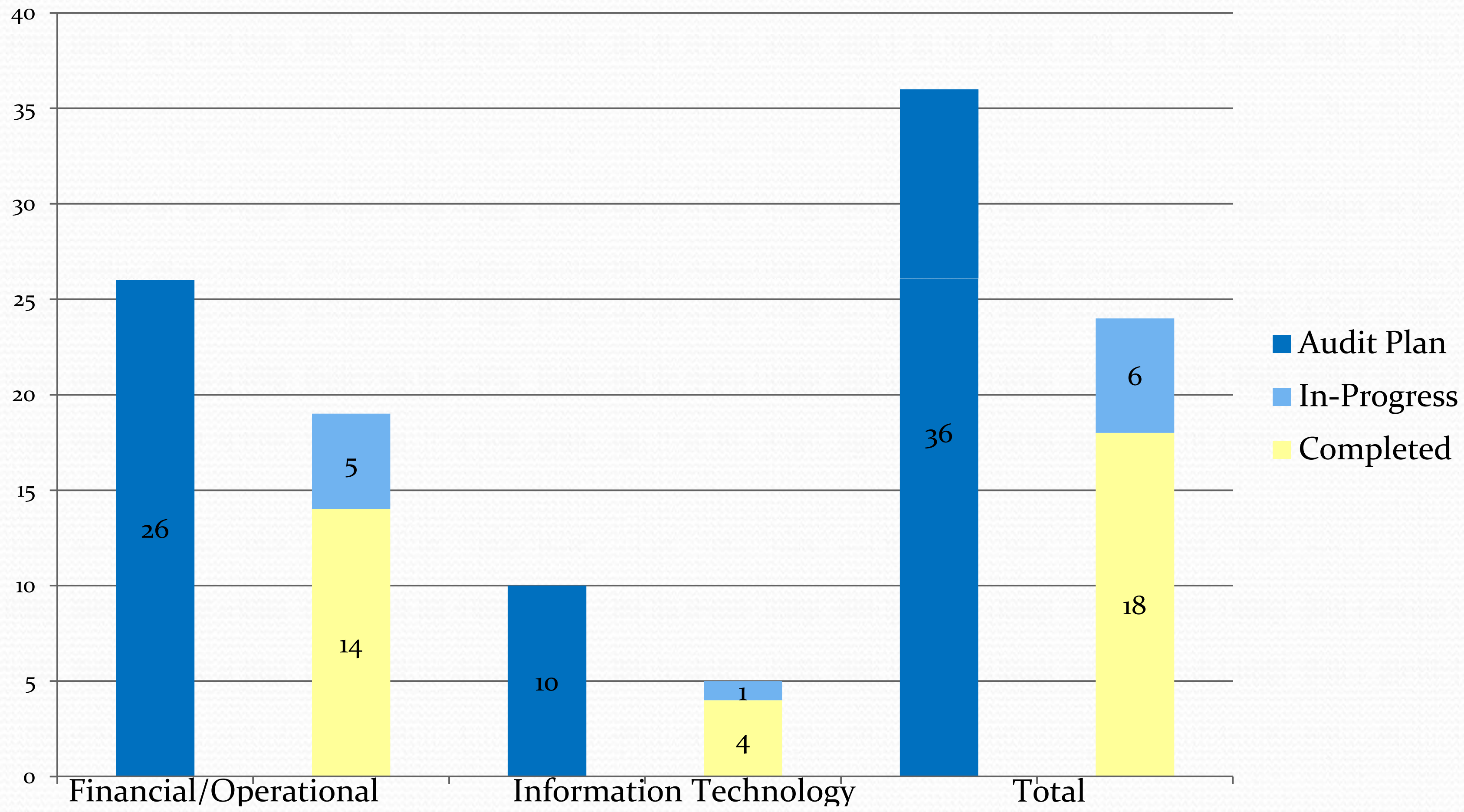
- Issued 16 audit reports. Two (2) reports under review as of 8/31/11.

- Thirty-two (32) 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.

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

2011 INTERNAL AUDIT PLAN
ACTIVITY REPORT
8/31/11
AUDIT PLAN STATUS



2011 INTERNAL AUDIT PLAN
ACTIVITY REPORT
8/31/11
AUDIT PLAN UPDATE

FINANCIAL

- Customer Load Forecasting (C)
- Medical & Dental Benefits (C)
- Niagara Purchasing & Warehousing (C)
- Power for Jobs Revenues (C)
- Revenues-ECSB (C)
- Energy Cost Savings Benefit Customer Revenues (C)
- Investments/Investment Income (C)
- NYISO Generation Settlements (C)
- Headquarters Accounts Payable (C)
- Fuel Operations
- NYPA Energy Services Program (IP)
- SENY Revenues (IP)
- Energy Services- Solar Projects
- Niagara Finance & Administration
- NYISO Ancillary Service Charges (IP)
- Headquarters Procurement

INFORMATION TECHNOLOGY

- SAP Fixed Assets (C)
- SAP – Human Resources (C)
- Change Control – SAP (C)
- Information Security – SAP (C)
- Energy Management System
- Intrusion Prevention & Detection (IP)
- Energy Control Center LAN

INFORMATION TECHNOLOGY (Continued)

- Internet/Intranet Security
- Database Administration
- Niagara LAN

OPERATIONAL/COMPLIANCE

- Environmental, Health & Safety Audit Programs (C)
- Maintenance Resource Management Program (C)
- Revenue Requirements (C)
- Customer Power Contracts (C)
- Law Department Selected Activities (C)
- Records Management (C)
- Transmission Line Maintenance (IP)
- Energy Hedging
- Engineering Support Services (IP)
- Central Region O&M
- Northern Region O&M

OTHERS

- BPS Enterprise Audit Software Implementation (C)
- NERC Reliability Compliance – Consulting (C)
- Vendor Contract Audits (IP)
- EDP Customer Job Commitment Audits (IP)

In-Progress = IP
Completed = C

2011 INTERNAL AUDIT PLAN
ACTIVITY REPORT
8/31/11
REPORT RECAP

Report Name	High-Level Audit Objectives	Observations/Findings/ Recommendations
Customer Load Forecasting	Determine the adequacy and effectiveness of controls over 1) Load Profiling, 2) Short Term Load Forecasting, 3) Monitoring of Actual vs. Scheduled Load, 4) Load Forecasting Reports, and 5) Access and General Information Technology Controls.	-Internal controls over the Customer Load Forecasting function are working effectively. - Recommendations were made to strengthen controls over the review of Load Profiles and Load Forecast Imbalance Reports.
Medical & Dental Benefits	Determine the effectiveness of controls over the Medical & Dental Plans. Review payments to third-party administrators, HMOs and insurance carriers. Verify compliance with the Health Insurance Portability and Accountability Law.	-Controls over the Medical & Dental Plans are working effectively. -The process of reviewing paid claims should be automated. -HMO rate renewal agreements should be approved.
Niagara Purchasing & Warehousing	Review processes and controls associated with purchasing and warehousing activities at the Niagara Power Project. Verify compliance with established NYPA policies and procedures.	-Controls over the procurement and warehousing functions were found to be adequate. -The Expenditure Authorization Procedures covering change orders that exceed the rebidding threshold should be followed.

2011 INTERNAL AUDIT PLAN
ACTIVITY REPORT
8/31/11
REPORT RECAP

Report Name	High-Level Audit Objectives	Observations/Findings/ Recommendations
Environmental, Health & Safety Audit Programs	Confirm that audit programs incorporate applicable legal/regulatory risks. Confirm that contracted auditors have adequate credentials/background to conduct the work/provide expertise in both auditing and EH&S related matters.	-The program administration and oversight of the Audit Programs needs improvement to ensure they are implemented consistently with Corporate Policy and that resources are being allocated based on risk. -EH&S Policies and Procedures should be updated. -Follow-up efforts on Environmental Audit Findings open greater than one year should be documented.
Maintenance Resource Management Program	Determine the adequacy and effectiveness of controls designed to administer the MRM Program including the existence of MRM Program goals/objectives and the reliability of MRM Program performance information.	-MRM Program's goals and objectives need to be clarified for stakeholders. -Asset and Maintenance Management has been drained of resources over the last several years which have significantly impacted the Department's ability to manage and monitor the MRM Program. -Asset and Maintenance Management should work with the Reliability Standards and Compliance and Engineering Departments to clarify equipment, work plans and compliance evidence expectations.

2011 INTERNAL AUDIT PLAN
ACTIVITY REPORT
8/31/11
REPORT RECAP

Report Name	High-Level Audit Objectives	Observations/Findings/ Recommendations
Revenue Requirements	-Determine if policies, procedures and processes have been established by management to provide guidance in determining the Authority's revenue requirements. -Determine if established policies and procedures are being consistently followed. -Review the processes and procedures utilized to determine the reasonableness of the data provided by the various subject matter experts in preparing cost of service studies.	-Internal controls for determining NYPA's revenue requirements can be improved by formally documenting current processes and procedures. -Additional quality assurance procedures should be established to ensure approval of modifications to subject matter experts submitted data.
Customer Power Contracts	Confirm the adequacy and effectiveness of controls over the negotiation, drafting and execution of power sales contracts, delivery arrangements and other contractual documents between NYPA and our customers.	-There are no written policies, procedures or other related governance materials for the power contracting process. -Consider centralizing the various contracting functions into a single group to develop a strong contract administration function, improve controls and maximize staff expertise. -The Law Department's expectations as it relates to their need to review and approve power contracts should be formalized.

2011 INTERNAL AUDIT PLAN
ACTIVITY REPORT
8/31/11
REPORT RECAP

Report Name	High-Level Audit Objectives	Observations/Findings/ Recommendations
SAP Fixed Assets	Review, test and evaluate input controls, processing controls, output controls and user access controls in the SAP – Fixed Assets application.	-Internal controls and processes over the SAP – Fixed Assets application are adequate and working effectively. -There were no significant issues raised during this audit.
SAP – Human Resources	Review, test and evaluate input controls, processing controls, output controls and user access controls in the SAP Human Resources application.	-No formal documentation exists to evidence the approval of the Regional Manager and Human Resources Manager for all union new hires. -Review the roles assigned to SAP users and the Employee Master File and restrict their access rights to functions necessary to carry out their job responsibilities.
Change Control – SAP	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.	-The Procedures Manual covering the SAP Change Management Process should be updated to reflect current procedures. -User access should be removed for personnel that are no longer with NYPA or whose roles have changed.

2011 INTERNAL AUDIT PLAN
ACTIVITY REPORT
8/31/11
REPORT RECAP

Report Name	High-Level Audit Objectives	Observations/Findings/ Recommendations
Power for Jobs Revenues	Review controls, procedures and processes over PFJ Customer billing, Customer Consumption Review Procedures and processing of changes to customer accounts.	-Controls over PFJ Program revenues are working effectively. -Customers are being billed accurately and in accordance with authorized rates. -Monthly PFJ demand and energy billing quantities should be obtained at the account level from National Grid.
Revenues - ECSB	Review controls, procedures and processes over ECSB Customer Billing, Customer Consumption Review Procedures and processing of changes to customer accounts.	-Controls over ECSB revenues are adequate and effective. -The Distribution Loss Factors used to bill ECSB customers for energy lost need to be reviewed and updated periodically.
Investments/Investment Income	Review policies, procedures and controls over the Investment System, purchase and sale of investments and investment income. Verify compliance with established Investment Policies.	-Controls over the purchase and sale of investments and investment income are adequate and operating effectively. -Investment transactions are being processed in accordance with established NYPA policies, procedures and guidelines.

2011 INTERNAL AUDIT PLAN
ACTIVITY REPORT
8/31/11
REPORT RECAP

Report Name	High-Level Audit Objectives	Observations/Findings/ Recommendations
Law Department Selected Activities	-Confirm the adequacy and effectiveness of controls over the annual budget process, monitoring of actual to budgeted expenditures, responsibilities for managing legal expenditures and verification of the accuracy of bills from outside counsel. -Clarify roles and responsibilities of Law in the creation and execution of NYPA contracts/agreements.	-Controls over the budget process and the monitoring of legal expenditures are adequate and effective. -Written policies and procedures to institutionalize the responsibility of the Law Department in the contract review process needs to be expanded beyond contracts originating in Procurement.
Information Security – SAP	Review, test and evaluate controls over SAP access security and user access changes and new users.	Overall SAP information security, access controls and standards provide adequate protection for the Authority's SAP information, program and system.