FINANCIAL REPORT 2003

Report of Management

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 accounting principles generally accepted in the United States of America 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 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 that independently assesses the effectiveness of internal controls and reports findings and recommends possible improvements to management. In addition, as part of its audit of the Authority's financial statements, PricewaterhouseCoopers LLP, independent auditors, considers internal controls in determining the nature, timing and extent of audit procedures to be applied. Management has considered the recommendations of the internal auditors 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. Management believes that, as of December 31, 2003 and 2002, 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 Inspector General's responsibilities include investigating allegations of wrongdoing; monitoring compliance with the Authority's rules and regulations; and initiating reviews and investigations into areas of special concern or vulnerability.

The Authority's Board of Trustees has an Audit Committee composed of Trustees who are not employees of the Authority. The Audit Committee meets with the Authority's management, its Director of Internal Audits and its independent auditors to discuss internal controls and accounting matters, the Authority's financial statements, and the scope and results of the audit by the independent auditors and of the audit programs of the Authority's internal auditing department. The independent auditors, the Director of Internal Audits, the Inspector General and the Vice President of Ethics and Regulatory Compliance have direct access to the Audit Committee.

Arnold M. Bellis
Vice President - Controller and Acting Chief Financial Officer

Report of Independent Auditors

PRICEWATERHOUSECOOPERS

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

In our opinion, the accompanying balance sheets and the related statements of revenues, expenses, and changes in equity and of cash flows present fairly, in all material respects, the financial position of the Power Authority of the State of New York (the "Authority") at December 31, 2003 and 2002, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America. 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 of these statements in accordance with auditing standards generally accepted in the United States of America, which 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note B(6) to the financial statements, the Authority implemented FAS No. 143, "Accounting for Asset Retirement Obligations," effective January 1, 2003. As discussed in Note H, the Authority changed its method of accounting for other postemployment benefits as of January 1, 2002.

The Management's Discussion and Analysis information on pages 31 to 33 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted of 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.

PricewaterhouseCoopers LLP

1177 Avenue of the Americas
New York, N.Y. 10036

February 17, 2004

MANAGEMENT'S DISCUSSION AND ANALYSIS

Operating Environment

The Authority is a provider of low-cost power and energy in New York State (State). To maintain its position in a changing environment, the Authority has undertaken and continues to carry out a multifaceted program, including: (a) the sale of its two nuclear plants to eliminate the risks associated with their operation; (b) the upgrade and relicensing of the Niagara and St. Lawrence-FDR projects; (c) the commencement of discussions with its Southeastern New York (SENY) governmental customers to develop long-term agreements to succeed those in existence; (d) the implementation of modifications to existing power sales arrangements with 79 business customers, resulting in the extension of the terms of such arrangements to either 2005 or 2007; (e) construction of a 500-megawatt (MW) combined-cycle electric generating plant at the Authority's Poletti plant site; (f) the reduction of the Authority's outstanding debt by $982 million from 1994-2003; and (g) the appointment of an officer responsible for energy and fuel risk management and control.

The Authority's financial performance goal is to produce revenues sufficient to meet its ongoing operating requirements, to meet its indenture requirements (including debt service) and maintain adequate liquidity which can be called upon in the event of emergency repairs and replacements, to meet competitive challenges or to augment revenues in the event of an extended outage at any of its facilities.

Summary Statement of Revenues, Expenses, and Changes in Equity

(in Millions)

	2003	2002	2001
Operating Revenues	**$2,292**	$2,061	$2,016
Operating Expenses			
Purchased power	**1,132**	953	1,120
Fuel	**281**	196	188
Operations & Maintenance	**339**	332	213
Wheeling	**278**	273	272
Depreciation	**158**	176	136
Asset impairment charge		63	62
	2,188	1,993	1,991
Net Operating Revenues	**104**	68	25
Investment and other income	**62**	94	91
Interest expense	**77**	78	98
Revenues, net before cumulative effect of change in accounting principle	**89**	84	18
Cumulative effect of change in accounting principle	**16**		
Net Revenues	**73**	84	18
Equity - Beginning	**1,683**	1,599	1,581
Equity - Ending	**$1,756**	$1,683	$1,599

The following summarizes the Authority's financial performance for the years 2003 and 2002:

The Authority had net revenues of $73 million in the year 2003 after the $16 million cumulative effect of a change in accounting principle. This $16 million reflects the impact of adopting Financial Accounting Standard Board Statement No. 143, "Accounting for Asset Retirement Obligations," on years prior to 2003 (see Note B(6)). Net revenues before the cumulative effect of the change in accounting principle were $89 million for 2003, compared to $84 million in 2002. This $5 million increase includes higher net operating revenues of $36 million and lower interest expense of $1 million, offset by a $32 million decrease in investment and other income.

The increase in net operating revenues of $36 million during 2003 was substantially attributable to a reduction in depreciation of $18 million and the $63 million asset impairment charge recognized in 2002. During 2003, higher energy prices contributed to higher purchased power and fuel costs ($264 million) incurred by the Authority. These higher costs were substantially offset by higher operating revenues ($231 million) including increased revenues from market-based sales to the New York Independent System Operator (ISO). During 2003, a substantial portion of the increased fuel and purchased power costs were incurred in providing service to the Authority's SENY governmental customers. The Authority has filed a notice under the State's Administrative Procedures Act indicating its intention to increase the rates charged to such customers for production service effective April 2004 to a level sufficient to recover future costs.

Interest costs were relatively unchanged in 2003 due to continued low interest rates on variable rate debt. The Authority has continued to prudently manage its capital structure. During 2003, long-term debt, net of current maturities, decreased by $62 million, or 3%, primarily due to early extinguishment of debt and scheduled maturities, offset by the issuance of $213 million in bonds to finance certain costs associated with the relicensing and modernization of the Authority's St. Lawrence-FDR project. During the period 1994 to 2003, the Authority reduced its debt/equity ratio from 2.52 to 1.51.

Lower investment income was primarily the result of a mark-to-market adjustment which reduced the carrying value of the Authority's investment portfolio. This market value adjustment is not expected to impact future cash flows as management expects to hold the majority of the fixed rate investments in the Authority's portfolio until maturity.

In the year 2002, the Authority had net revenues of $84 million compared to $18 million in 2001. This $66 million increase resulted from increases of $43 million in net operating revenues and $3 million in investment and other income; and a $20 million decrease in interest expense. Higher net operating revenues were primarily attributable to higher revenues and lower purchased power costs partially offset by higher operations and maintenance (O&M) expenses and depreciation. Higher operating revenues resulted primarily from increased sales of the output from the Authority's hydroelectric generating plants and Small, Clean Power Plants (SCPPs). Lower purchased power costs during 2002 were primarily attributable to higher hydroelectric net generation. Higher depreciation costs reflected a full year of accelerated depreciation on the SCPPs versus a partial year of depreciation in 2001. O&M costs for 2002 included the cost of a voluntary contribution to the State of $67 million for lost gross receipt tax revenues related to the statutorily enacted Power for Jobs (P4J) program and a provision of $30 million for accrued retiree health and insurance benefits. Interest costs were less in 2002 primarily due to lower rates on variable rate debt.

Operating Revenues

Operating revenues of $2,292 million in 2003 were $231 million or 11% greater than the $2,061 million in 2002 primarily due to higher prices on market-based energy sales to the ISO and higher ancillary service revenues. During 2003, significant additional energy revenues were generated by the Authority's Poletti and large hydroelectric projects. Revenues from energy sales to the ISO were greater due to higher volumes and higher market prices. However, these higher energy prices also had an offsetting negative impact on purchased power and fuel costs (see discussion below). Ancillary service revenues were higher primarily due to the higher prices for services provided by the Authority's Niagara project.

During 2002, operating revenues were $45 million or 2% greater than 2001. Additional revenues were generated by the SCPPs and hydroelectric projects. Revenues from energy sales to the ISO were greater due to higher volumes and higher market prices.

Purchased Power and Fuel

Purchased power costs increased by $179 million (19%), to $1,132 million in 2003 from $953 million in 2002 primarily due to significantly higher prices during 2003. The most significant increase occurred in the Authority's SENY market area. In this area, significant volumes were purchased during 2003 to replace power normally purchased from the Indian Point 3 nuclear power plant (IP3) during planned and unplanned outages at IP3. Fuel costs increased by $85 million (43%), to $281 million in 2003 from $196 million in 2002, primarily due to higher oil and natural gas prices.

Increased fuel and purchased power costs have been offset by increased revenues from sales of energy and other services by the Authority in other New York markets.

During 2002, purchased power costs decreased by $167 million (15%), to $953 million in 2002 from $1,120 million in 2001, primarily reflecting decreased power purchases, ancillary service charges and transmission congestion charges from the ISO. Due to increased hydroelectric production, less energy was purchased to meet the requirements of the Authority's customers. Ancillary service costs were lower in 2002 due to a reduction in local reliability charges incurred by the Authority in the SENY region. Fuel costs increased by $8 million in 2002 primarily due to higher fossil-fuel plant generation. The increase was mitigated by lower prices for oil and gas consumed.

Operations and Maintenance

O&M expenses increased by $7 million in 2003 to a total of $339 million. This increase included higher maintenance costs at the Flynn and Niagara facilities partially offset by a lower voluntary contribution to the State of New York related to the Authority's Power for Jobs program. Higher maintenance costs at Flynn were incurred during a scheduled maintenance outage. The increased costs at Niagara reflected the scheduled overhaul of two units at the Lewiston Pumped Generating Plant. During 2003, the Authority incurred a $52 million charge relating to the voluntary contribution associated with the Power for Jobs program, compared to $67 million recognized in 2002.

During 2002, O&M expenses increased to $332 million from $213 million in 2001, primarily due to the cost of an aforementioned $67 million voluntary contribution to the State and a provision of $30 million for accrued retiree health and insurance benefits. Effective January 1, 2002, the Authority implemented accrual accounting for its Other Postemployment Benefits (OPEB) obligations, based on the approach provided in GAS No. 27, "Accounting for Pensions by State and Local Government Employers." The Authority previously recorded such retiree benefits as expenses when paid.

Depreciation and Asset Impairment Charge

To meet capacity deficiencies and ongoing local reliability requirements in the New York City metropolitan area, the Authority installed eleven 44-MW natural-gas-fueled SCPPs at various sites in New York City and in the service territory of the Long Island Power Authority (LIPA) during the summer of 2001.

The Authority has performed asset impairment analyses on these units on an ongoing basis and recognized charges of $63 million in 2002 and $62 million in 2001.

Depreciation expense for the year 2003 was less than 2002 primarily due to a significant reduction in the book value of the SCPPs during the 2-year period. This reduction results from the aforementioned 2002 asset impairment provision and the continued application of accelerated depreciation to these units. During 2002, depreciation expense was $40 million higher than 2001 due to the inclusion of depreciation charges related to the SCPPs for a full year compared to a partial year in 2001.

Cash Flows

During 2003, the Authority generated cash flows of $190 million from operations compared to $323 million in 2002 and $72 million in 2001. Cash flows from operating activities for 2003 were lower than 2002 primarily due to higher purchased power and fuel costs incurred by the Authority . Cash flows from operating activities for 2002 were higher than 2001 primarily due to an increase in production at the hydroelectric facilities and a full year of operation at the SCPPs.

Net Generation

Net generation for the year 2003 was 22.4 billion kilowatt-hours (KWh), a decrease of 1.8 billion KWh (8%) as compared to the 24.2 billion kilowatt-hours generated in 2002. The decrease was primarily attributable to lower production at the Authority's Niagara and St. Lawrence-FDR projects. During 2002, the Authority's total net generation increased by 2.6 billion KWh (12%) primarily due to an increase in production at these projects.

Beginning in 1999, 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 curtailment of the electricity supplied to the Authority's customers from these projects. Flow conditions improved somewhat in 2002; however, hydroelectric generation continued to be below average in 2002 and 2003.

Summary Balance Sheet

(in Millions)

	2003	2002	2001
Capital Assets	**$3,190**	$2,973	$2,807
Other Assets	**2,852**	2,913	2,451
Total Assets	**$6,042**	$5,886	$5,258
Long-term Liabilities	**$3,643**	$3,568	$2,985
Other Liabilities	**643**	635	674
Total Liabilities	**4,286**	4,203	3,659
Equity			
Invested in capital assets, net of related debt	**1,523**	1,408	1,392
Restricted	**172**	173	131
Unrestricted	**61**	102	76
Total Equity	**1,756**	1,683	1,599
Total Liabilities and Equity	**$6,042**	$5,886	$5,258

Capital Asset and Long-term Debt Activity - 2003

The Authority currently estimates that it will expend approximately $1,357 million for various capital improvements over the five-year period 2004-2008. The Authority anticipates that these expenditures will be funded using existing construction funds, internally-generated funds and additional borrowings of approximately $271 million. Such additional borrowings are expected to be accomplished through the issuance of additional commercial paper notes. Projected capital requirements during this period include:

Projects	*(in Millions)*
Niagara Upgrade	$ 71
Niagara Relicensing	104
St. Lawrence-FDR Modernization Program	91
St. Lawrence-FDR Relicensing	81
500-MW Project	257
Blenheim-Gilboa Modernization Program	104
Energy Services and Technology Projects	388
Transmission	36
Other	225
Total	$ 1,357

In connection with the licensing of its 500-MW electric generating project, currently under construction, the Authority has entered into an agreement which will require the closure of its existing Poletti project by no later than 2010 and possibly as early as 2008. The agreement also imposes restrictions on the Authority's fuel oil use at the existing Poletti project and limitations on the overall amount of potential generation from such project each year.

On October 23, 2003, the Federal Energy Regulatory Commission (FERC) issued to the Authority a new 50-year license (New License) for the St. Lawrence-FDR project, effective November 1, 2003. The Authority estimates that the total costs associated with the relicensing of the St. Lawrence-FDR project for a period of 50 years will be approximately $210 million of which approximately $108 million has already been spent or will be spent in near future. These total costs could increase in the future as a result of additional requirements that may be imposed by FERC under the New License.

Capital Structure

(In Millions)

	2003	2002	2001
Long-term debt			
Senior			
Revenue bonds	**$1,421**	$1,265	$1041
Adjustable rate tender notes	**167**	172	177
Subordinated			
Subordinate revenue bonds	**232**	438	504
Commercial paper	**444**	451	238
Total long-term debt	**2,264**	2,326	1,960
Equity	**1,756**	1,683	1,599
Total Capitalization	**$4,020**	$4.009	$3,559

During 2003, long-term debt, net of current maturities, decreased by $62 million, primarily due to: early extinguishments of debt ($209 million) and scheduled maturities ($66 million) offset by the issuance of $213 million Series 2003 A Revenue Bonds, which will be used principally to finance certain costs associated with the relicensing of the Authority's St. Lawrence-FDR project and its modernization program for this project. During 2002, long-term debt, net of current maturities, increased by $366 million, primarily due to the issuance of $532 million Series 2002 A Revenue Bonds, which will be used to finance the construction of the 500-MW electric generating plant at the Authority's Poletti plant site in New York City; early extinguishments of debt; and scheduled maturities. Total Debt to Equity as of December 31, 2003, decreased to 1.51 to 1 from 1.56 to 1 as of December 31, 2002.

Debt Ratings

	Moody's	Standard & Poor's	Fitch
Long-term debt	Aa2	AA-	AA
Adjustable Rate Tender Notes	Aa2/VMIG1	AA-/A-1+	N/A
Commercial Paper	P-1	A-1	F1+
Weekly Rate Bonds and Commercial Paper Bonds	Aa3/VMIG1	A+/A-1	AA-/F1+
Auction Rate Bonds	Aaa	AAA	AAA

It should be noted that the Series 2003 A Revenue Bonds and the Auction Rate Bonds are rated "AAA" by Standard & Poor's, "Aaa" by Moody's, and "AAA" by Fitch based upon the municipal bond insurance policies issued by Financial Security Assurance, Inc.

The Authority has an $800 million line of credit with a syndicate of banks supporting the Commercial Paper Notes and the Weekly Rate Bonds. The line expires February 1, 2007.

Risk Management

In April 2002, the Authority created the position of Vice President, Chief Risk Officer - Energy Risk Assessment and Control (CRO). The CRO reports to the President and Chief Executive Officer and is responsible for establishing policies and procedures for identifying, reporting and controlling energy price and fuel price related risk exposure and risk exposure connected with energy and fuel related hedging transactions. This type of assessment and control has assumed greater importance in light of the Authority's participation in the ISO energy markets.

The objective of the Authority's risk management program is to manage the impact of interest rate, energy price and fuel cost changes on its earnings and cash flows. To achieve these objectives, the Authority's trustees have authorized the use of various interest rate, energy and fuel hedging instruments.

New York State Budget Matters

The State is currently facing a difficult financial situation, with various projections reported in the media showing significant deficits for the State fiscal years commencing April 1, 2004 and April 1, 2005. The Authority is currently authorized under legislation to make voluntary contributions to the State of up to $125 million for the duration of the P4J program for certain gross receipt tax revenues lost as a result of the P4J program. The intent of the legislation is for the contributions to offset revenue lost due to tax credits taken by the State's investor-owned utilities as part of the P4J program. The Authority's Trustees have authorized pursuant to the legislation a transfer of $125 million to the State, of which $119 million was transferred through December 31, 2003. The Governor's proposed Budget Bill for fiscal year 2004-2005 would authorize the Authority to make additional voluntary contributions, above the $125 million, to the New York State General Fund in the period 2004 to 2006, which additional voluntary contributions would not in the aggregate exceed $110 million. It is uncertain whether such bill will be enacted, either in its present form or in some modified form. However, given the State's projected financial condition for the next two fiscal years, if such legislation is enacted, the Authority expects to consider making such additional voluntary contributions to the State. The Authority's Trustees would only provide such additional financial assistance if and to the extent that monies are available to the Authority for such purpose and are not required for Authority purposes.

Blackout of 2003

On August 14, 2003, a massive power failure occurred which caused the shutdown of over one hundred power plants, including twenty-two nuclear reactors, in the United States and Canada. The power outage affected major cities such as New York, Detroit, Cleveland and Ontario, and was deemed to be the biggest power failure ever to hit North America. It is estimated that up to sixty million people in an area stretching from New England to Michigan, were affected. Investigations by Canadian, Federal, State and other authorities are being undertaken to discover the cause of the power failure.

The Authority's Niagara and St. Lawrence-FDR projects and its cross-state 345-kv transmission line from the Niagara project, its 765-kv line from Canada and one of its two 345-kv Marcy-South circuits remained in service throughout the emergency. In the New York City area, the Authority's Poletti project and its SCPPs in New York City and on Long Island helped local utilities restore power.

The Authority estimates that it suffered a financial loss from the power failure of approximately $7 million. The investigations of the causes of the power failure may result in electric utilities, including the Authority, having to upgrade their electric systems to prevent a similar power failure in the future. It is currently uncertain whether such upgrading by the Authority will be necessary and what the extent and cost of any such upgrading would be.

BALANCE SHEETS

December 31, 2003 and 2002 (in Thousands)

Assets		**2003**	2002
Utility Plant	Electric plant in service	**$4,585,343**	$4,536,346
	Less accumulated depreciation	**1,887,442**	1,752,378
		2,697,901	2,783,968
	Construction work in progress	**617,112**	314,427
	Less allowance for asset impairment (Note B(7))	**125,000**	125,000
	Net Utility Plant	**3,190,013**	2,973,395
Restricted Funds	Cash and cash equivalents	**64,281**	53,976
	Investment in securities, at fair value (Notes D, I and K)	**816,094**	736,224
		880,375	790,200
Capital Funds	Cash and cash equivalents	**10,005**	840
	Investment in securities, at fair value	**428,836**	459,292
	Interest receivable on investments	**1,879**	1,944
		440,720	462,076
Current Assets	Cash and cash equivalents	**62,067**	378
	Investment in securities, at fair value	**430,039**	506,423
	Interest receivable on investments	**8,827**	9,177
	Receivables-customers (net)	**200,417**	181,188
	Materials and supplies, at average cost:		
	Plant and general	**49,859**	46,862
	Fuel (Notes G and L(4))	**14,067**	14,887
	Prepayments, miscellaneous receivables and other	**116,237**	122,223
		881,513	881,138
Other Noncurrent Assets	Unamortized debt expense	**18,619**	16,467
	Deferred charges, long-term receivables and other	**315,727**	309,206
	Notes receivable-nuclear plant sale (Note K)	**314,775**	453,182
		649,121	778,855
	Total Assets	**$6,041,742**	$5,885,664

Liabilities and Capitalization			
Capitalization	Long-term debt (Notes C and E):		
	Senior		
	Revenue bonds	**$1,420,684**	$1,264,900
	Adjustable rate tender notes	**167,100**	171,975
	Subordinated		
	Subordinate revenue bonds	**232,075**	438,290
	Commercial paper	**444,437**	450,889
		2,264,296	2,326,054
	Equity		
	Invested in capital assets, net of related debt	**1,523,377**	1,408,088
	Restricted	**171,924**	173,372
	Unrestricted	**60,685**	101,923
		1,755,986	1,683,383
	Total Capitalization	**4,020,282**	4,009,437
Current Liabilities	Long-term debt due within one year	**65,397**	103,334
	Short-term debt (Note F)	**216,737**	199,092
	Accounts payable and accrued liabilities	**361,344**	332,698
		643,478	635,124
Other Noncurrent Liabilities	Liability to decommission divested nuclear facilities (Note K)	**770,853**	702,501
	Disposal of spent nuclear fuel (Note K)	**184,445**	182,529
	Deferred revenues and other	**422,684**	356,073
		1,377,982	1,241,103
Commitments and Contingencies (Note L)			
	Total Liabilities and Capitalization	**$6,041,742**	$5,885,664

The accompanying notes are an integral part of these financial statements.

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN EQUITY

Years ended December 31, 2003 and 2002 (in Thousands)

		2003	2002
Operating Revenues	Power sales	**$1,870,346**	$1,643,275
	Transmission charges	**143,792**	143,484
	Wheeling charges	**277,599**	273,608
	Total Operating Revenues	**2,291,737**	2,060,367
Operating Expenses	Purchased power	**1,132,298**	952,673
	Operations	**279,175**	286,934
	Fuel oil and gas (Notes G and L(4))	**281,165**	195,937
	Maintenance	**59,417**	45,360
	Wheeling	**277,599**	273,608
	Depreciation	**158,537**	175,518
	Asset impairment charge (Note B (7))		63,000
	Total Operating Expenses	**2,188,191**	1,993,030
	Net Operating Revenue	**103,546**	67,337
Other Income	Investment income (Note D)	**47,237**	90,995
	Other	**14,788**	3,397
	Total Other Income	**62,025**	94,392
Other Deductions	Interest on long-term debt	**92,690**	84,069
	Interest-other	**4,901**	5,574
	Interest capitalized	**(16,017)**	(9,174)
	Amortization of debt discount/(premium) and expense	**(4,368)**	(2,299)
	Total Other Deductions	**77,206**	78,170
	Net Revenues, before cumulative effect of change in accounting principle	**88,365**	83,559
	Cumulative effect of change in accounting principle (Note B(6))	**(15,762)**	
	Net Revenues	**72,603**	83,559
	Equity at January 1	**1,683,383**	1,599,824
	Equity at December 31	**$1,755,986**	$1,683,383

The accompanying notes are an integral part of these financial statements.

STATEMENTS OF CASH FLOW

Years ended December 31, 2003 and 2002 (in Thousands)

		2003	2002
Cash Flows From Operating Activities	Received from customers for the sale of power, transmission and wheeling	**$ 2,241,155**	$ 2,060,341
	Paid to suppliers and employees for:		
	Purchased power	**(1,130,894)**	(953,296)
	Operations and maintenance	**(357,490)**	(315,690)
	Fuel oil and gas	**(287,098)**	(195,937)
	Wheeling of power by other utilities	**(275,847)**	(272,809)
	Net Cash Provided by Operating Activities	**189,826**	322,609
Cash Flows From Capital and Related Financing Activities	Earnings received on Capital Fund investments	**10,597**	2,827
	Sale of commercial paper	**134,673**	411,930
	Issuance of Series 2003 and 2002 A Revenue Bonds	**213,240**	532,250
	Repayment of notes	**(4,515)**	(4,180)
	Tender of Series 1998 B Revenue Bonds (at face value)		(243,915)
	Retirement of Bonds (2003: $301,240 and 2002: $168,673 principal amount)	**(301,240)**	(168,725)
	Repayment of commercial paper	**(141,632)**	(199,999)
	Gross additions to utility plant	**(228,806)**	(259,482)
	Interest paid, net	**(98,188)**	(80,026)
	Net Cash Used in Capital and Related Financing Activities	**(415,871)**	(9,320)
Cash Flows From Noncapital-Related Financing Activities	Energy conservation program payments received from participants	**38,401**	51,258
	Energy conservation program costs	**(50,431)**	(47,579)
	Sale of commercial paper	**57,200**	30,000
	Repayment of commercial paper	**(39,555)**	(52,507)
	Interest paid on commercial paper	**(5,417)**	(6,426)
	Entergy notes receivable	**83,715**	108,120
	Entergy Fuel Payment Note	**105,400**	
	Entergy payment (Entergy acquisition of IP-2 - Note K(1))	**10,000**	
	POCR funds received from New York State (Note I)	**2,422**	
	CAS funds received from New York State (Note I)		24,366
	Payment to New York State (Note I)	**(2,422)**	
	Net Cash Provided by Noncapital-Related Financing Activities	**199,313**	107,232
Cash Flows From Investing Activities	Earnings received on investments	**26,538**	37,361
	Purchase of investment securities	**(4,956,117)**	(9,314,629)
	Sale of investment securities	**5,037,470**	8,824,285
	Net Cash Provided by/(Used in) Investing Activities	**107,891**	(452,983)
	Net increase/(decrease) in cash	**81,159**	(32,462)
	Cash and cash equivalents, January 1	**55,194**	87,656
	Cash and Cash Equivalents, December 31	**$ 136,353**	$ 55,194
Reconciliation to Net Cash Provided by Operating Activities	Net Revenues	**$ 72,603**	$ 83,559
	Adjustments to reconcile net revenues to net cash provided by operating activities:		
	Earnings received on investments	**(37,135)**	(37,361)
	Provision for depreciation	**158,451**	175,518
	Asset impairment charge		63,000
	Cumulative effect of change in accounting principle (Note B(6))	**15,762**	
	Provision for retiree health benefits	**23,200**	23,100
	Provision for spent fuel disposal	**1,917**	3,091
	Amortization of deferred revenues	**(5,780)**	(9,944)
	Amortization of debt discount and expenses	**1,866**	4,040
	Other amortization & non-cash charges	**(71,765)**	(63,824)
	DOE decommissioning and decontamination costs charged to expense	**1,881**	1,669
	Interest paid	**103,605**	86,452
	Net increase in prepayments and other	**(20,883)**	(5,950)
	Net increase in receivables and inventory	**(21,072)**	(7,563)
	Net increase/(decrease) in accounts payable and accrued liabilities and other deferred credits	**(33,269)**	6,134
	Other	**445**	688
	Net Ccash Provided by Operating Activities	**$ 189,826**	$ 322,609

The accompanying notes are an integral part of these financial statements.

NOTES TO FINANCIAL STATEMENTS

Note 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 by Chapter 772 of the Laws of 1931, as last amended by Chapter 62 of the Laws of 2003.

The Authority is authorized by the Power Authority Act (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, to serve five-year terms. 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. Under the criteria set forth in Governmental Accounting Standards Board (GASB) Statement No. 14, "The Financial Reporting Entity," as amended by GAS No. 39, "Determining Whether Certain Organizations Are Component Units," 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.

Note B - Accounting Policies

(1) Accounts of the Authority are maintained substantially in accordance with the Uniform System of Accounts prescribed by the Federal Energy Regulatory Commission (FERC). 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 non-governmental entities [i.e., Financial Accounting Standards Board (FASB) statements] that do not conflict with GASB pronouncements.

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.

(2) Effective January 1, 2002, the Authority adopted GAS No. 34, "Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments," as amended by GAS No. 37, "Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus," which establishes standards for external financial reporting. These reporting standards include a Management's Discussion and Analysis (MD&A) section; a Balance Sheet; a Statement of Revenues, Expenses, and Changes in Equity; and a Statement of Cash Flows. It requires the classification of Equity into three components: Invested in Capital Assets; Restricted; and Unrestricted.

In conjunction with GAS No. 34, the Authority adopted GAS No. 38, "Certain Financial Statement Note Disclosures." GAS No. 38 modifies, establishes, and rescinds certain financial statement disclosure requirements including requiring the disclosure of debt service requirements (principal and interest) to maturity; terms by which interest payments change for variable rate debt; minimum payments related to capital and noncancelable operating leases to the end of the lease term; and gross increases and decreases in short-term debt.

(3) Utility plant is stated at original cost and consists 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 utility plant retired less salvage is charged to accumulated depreciation.

(4) With the exception of the Authority's SCPPs, depreciation of plant assets is provided on a straight-line basis over the estimated useful lives of the various classes of plant, as determined by independent engineers. The Authority is providing for depreciation of the SCPPs using the double-declining balance method based on the expectation that the revenue- earning power of those units will be greater during the earlier years of the units' lives. The Authority installed these eleven 44-MW natural-gas-fueled electric generation units at various sites in New York City and in the service territory of the Long Island Power Authority (LIPA) during the Summer of 2001 to meet capacity deficiencies and to meet ongoing local reliability requirements in the New York City metropolitan area, which could have adversely affected the statewide electric pool.

(5) Net electric plant in service at December 31, 2003 and 2002, and the related depreciation provisions expressed as a percentage of average depreciable electric plant on an annual basis were:

(In Millions)	Net Electric Plant in Service		Average Depreciation Rate	
Type of Plant	**2003**	2002	**2003**	2002
Production:				
Steam	**$ 97.4**	$ 116.7	**4.5%**	3.7%
Hydro	**943.6**	921.8	**1.7%**	1.7%
Other	**486.0**	531.5	**7.6%**	10.9%
Transmission	**980.8**	1,017.7	**2.7%**	2.9%
General	**190.1**	196.3	**6.2%**	6.1%
	$ 2,697.9	$ 2,784.0	**3.5%**	4.0%

Changes in Capital Assets *(In Millions)*	**2003**	2002
Gross utility plant, beginning balance	**$4,536.4**	$ 4,411.0
Add: Acquisitions	**62.0**	144.6
Less: Dispositions (including sales and retirements)	**13.1**	19.2
Gross utility plant, ending balance	**4,585.3**	4,536.4
Less: Accumulated depreciation	**1,887.4**	1,752.4
Add: Construction work in progress	**617.1**	314.4
Less: Allowance for asset impairment	**125.0**	125.0
Net utility plant, ending balance	**$3,190.0**	$ 2,973.4

(6) Effective January 1, 2003, the Authority implemented FAS No. 143, "Accounting for Asset Retirement Obligations" (FAS No. 143) 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 has determined that it has legal liabilities for the retirement of certain SCPPs in New York City. As of January 1, 2003 the liability calculated under the provisions of FAS No. 143 is approximately $15.8 million, which was charged to the cumulative effect of a change in accounting principle. This charge represents the

amount that would have been recorded at January 1, 2003 if FAS No. 143 had always been applied to the existing legal obligations.

In addition to the FAS No. 143 asset retirement obligations, the Authority has other cost of removal obligations that are being collected from customers, and, under the provisions of FAS No. 71, "Accounting for the Effects of Certain Types of Regulation" were previously included in accumulated depreciation. The Authority has estimated that the balance of such regulatory liabilities included in accumulated depreciation at December 31, 2003 and 2002 were approximately $159.0 million and $149.1 million, respectively, and has reclassified such amounts to Other Noncurrent Liabilities on the Balance Sheet.

Asset retirement obligations and regulatory amounts included in Other Noncurrent Liabilities are as follows:

(in Thousands)	ARO Amounts	Regulatory Amounts
Balance - December 31, 2002	$ 15,762	$ 149,125
Accretion expense	662	--
Depreciation expense	--	9,867
Balance - December 31, 2003	$ 16,424	$ 158,992

(7) Management assesses the economic value of the Authority's operating facilities on an ongoing basis in light of increasing competition in the utility industry. An asset is considered impaired, and is reduced to estimated fair value, if the future undiscounted net cash flows expected to be generated by the use of the asset are insufficient to recover the carrying amount of that asset. The Authority determines fair value by estimating the net present value of future cash inflows and outflows over the life of the project.

The impairment analysis requires estimates of possible future market prices, load, competition and many other factors. The recorded impairment charge is the result of utilizing these underlying assumptions in the analysis.

The Authority has performed asset impairment analyses on its facilities on an ongoing basis and recognized a charge of $63 million in 2002.

(8) At December 31, 2003 and 2002, deferred charges included $61.7 million and $57.1 million, respectively, of energy-services-program costs and $10.2 million and $11.1 million, respectively, of fixed gas costs in excess of current recoveries. These deferred costs are being recovered from customers.

(9) Cash includes cash and cash equivalents and short-term investments with maturities, when purchased, of three months or less.

(10) 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."

(11) Revenues are recorded when billed. 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 three Southeastern New York (SENY) governmental customers and three investor-owned utilities operating in the State accounted for approximately 67 and 70 percent of the Authority's operating revenues in 2003 and 2002, respectively.

(12) 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 has adopted FAS No. 133, "Accounting for Derivatives and Hedging Activities," as amended by FAS No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities," to the extent appropriate under Governmental Accounting Standards. These financial accounting standards establish accounting and reporting requirements for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. The standard requires that the Authority recognize the fair value of all derivative instruments as either an asset or liability on the Balance Sheet with the offsetting gains or losses recognized in earnings or deferred charges. Application of FAS No. 133 may increase the volatility of reported earnings.

(13) Certain prior year amounts have been reclassified to conform with the current year's presentation.

Note C - Bond Resolution

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

The Bond Resolution also provides for withdrawal for any lawful corporate purpose as determined by the Authority, including but not limited to the retirement of Obligations issued under the Bond Resolution, from amounts in the Operating Fund in excess of the operating expenses, debt service on Obligations and Parity Debt issued under the Bond Resolution, and subordinated debt service requirements. The Authority has periodically reacquired Series 1998 Revenue Bonds when available at favorable prices.

Note D - 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. 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. All investments are held by designated custodians 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 interest, and the agreements are limited to a maximum fixed term of five business days. At December 31, 2003 and 2002, the Authority had investments in repurchase agreements of $2.5 million and $4.4 million, respectively. The bank balances were $12.9 million and $4.9 million, respectively, of which $11.7 million and $3.5 million, respectively, were collateralized.

A summary of unexpended funds for projects in progress included in the Capital Fund at December 31, 2003 and 2002, is in the Investment Summary.

The Authority does not engage in securities lending or reverse repurchase agreements.

As of December 31, 2003, the Authority implemented disclosure requirements of GAS No. 40, "Deposit and Investment Risk Disclosures," an amendment of GAS No. 3, "Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements." The significant change for the Authority relates to the "concentration of credit risk" disclosure requirement which requires the identification of investments in any one (non-U.S. Government/Agency) issuer that represent 5 percent or more of total investments in each fund. For the Authority, such investments are the "other debt securities" included in the following Investment Summary:

Investment Summary

(in Thousands)

Estimated Fair Market Value(1)

December 31, 2003

	Total	Total Restricted Funds	Restricted Funds: Decommissioning Trust Fund	Restricted Funds: POCR & CAS Projects Funds	Restricted Funds: ART Note Debt Reserve	Capital Fund	Current Assets
U.S. Government/Agencies	$ 963,948	$ 337,667	$ 323,001		$ 14,666	$ 373,431	$ 252,850
Other debt securities							
FNMA Project Loans	35,223						35,223
GNMA Project Loans	100,115						100,115
All other	344,292	249,495	218,920	$ 25,216	5,359	55,405	39,392
Total other debt securities	479,630	249,495	218,920	25,216	5,359	55,405	174,730
Repurchase agreements	2,459						2,459
Equity securities	228,932	228,932	228,932				
Cash and equivalents (3)	136,353	64,281		63,931	350	10,005	62,067
	$ 1,811,322	$ 880,375	$ 770,853	$ 89,147	$ 20,375	$ 438,841	$ 492,106
Summary of Maturities(2)							
Years							
0-1	$ 527,123	$ 121,940	$ 28,804	$ 89,147	$ 3,989	$ 280,218	$ 124,965
1-5	470,923	106,021	89,635		16,386	158,623	206,279
5-10	141,668	139,711	139,711				1,957
10+	442,676	283,771	283,771				158,905
Common stock	228,932	228,932	228,932				
	$ 1,811,322	$ 880,375	$ 770,853	$ 89,147	$ 20,375	$ 438,841	$ 492,106

Estimated Fair Market Value(1)

December 31, 2002

	Total	Total Restricted Funds	Restricted Funds: Decommissioning Trust Fund	Restricted Funds: POCR & CAS Projects Funds	Restricted Funds: ART Note Debt Reserve	Capital Fund	Current Assets
U.S. Government/Agencies	$ 1,102,523	$ 330,005	$ 303,162	$ 11,564	$ 15,279	$ 357,047	$415,471
Other debt securities							
California State Dept. of Water	101,750					71,750	30,000
FNMA Project Loans	36,223						36,223
All other	302,656	251,799	244,919	1,395	5,485	30,495	20,362
Total other debt securities	440,629	251,799	244,919	1,395	5,485	102,245	86,585
Repurchase agreements	4,367						4,367
Equity securities	154,420	154,420	154,420				
Cash and equivalents (3)	55,194	53,976		53,562	414	840	378
	$ 1,757,133	$ 790,200	$ 702,501	$ 66,521	$ 21,178	$ 460,132	$ 506,801
Summary of Maturities(2)							
Years							
0-1	$ 382,345	$ 141,692	$ 65,905	$ 66,521	$ 9,266	$ 173,938	$ 66,715
1-5	433,510	104,677	92,765		11,912	209,600	119,233
5-10	185,724	99,035	99,035				86,689
10+	601,134	290,376	290,376			76,594	234,164
Common stock	154,420	154,420	154,420				
	$ 1,757,133	$ 790,200	$ 702,501	$ 66,521	$ 21,178	$ 460,132	$ 506,801

(1) Realized and unrealized gains and losses on investments in these funds are recognized as investment income in accordance with GAS No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools."

(2) The estimated fair values of these investments, by stated maturities, are presented on this schedule. Actual maturities are likely to differ from stated maturities since the issuers of certain securities have the right to prepay obligations without penalty.

(3) Cash equivalents include investment securities, with original maturities of three months or less, of $136 million at December 31, 2003 and $55 million at December 31, 2002. These securities were purchased primarily to meet projected cash expenditures during the first quarter of the subsequent year.

Note E - Long-term Debt

Components

Long-term debt at December 31, 2003 and 2002 consists of:

(in Thousands)	**2003**	2002
Senior Debt		
1. Revenue Bonds	**$ 1,420,684**	$ 1,264,900
2. Adjustable Rate Tender Notes	**167,100**	171,975
Subordinated Debt		
3. Subordinate Revenue Bonds	**232,075**	438,290
4 Commercial Paper	**444,437**	450,889
	$ 2,264,296	$ 2,326,054

Senior Debt	**2003 Amount**	2002 Amount	Interest Rate	Maturity	Earliest Redemption Date Prior to Maturity
1. Revenue Bonds *(in Thousands)*					
Series 1998 A	**$ 257,390**	$ 300,565	4.25% to 5.50%	2/15/2004 to 2016	2/15/2008 (a)
Series 1998 D (b)		39,985			
Series 2000 A Revenue Bonds					
Serial Bonds	**203,145**	210,785	4.30% to 5.50%	11/15/2004 to 2020	11/15/2005 (a)
Term Bonds	**10,365**	10,365	5.25%	11/15/2030	11/15/2010 (a)
Term Bonds	**66,850**	66,850	5.25%	11/15/2040	11/15/2010 (a)
Series 2001 A Revenue Bonds					
Serial Bonds	**185,140**	188,055	3.50% to 5.50%	11/15/2004 to 2008	Non-callable
Series 2002 A Revenue Bonds					
Serial Bonds	**520,095**	520,095	2.00% to 5.25%	11/15/2005 to 2022	11/15/2012 (a)
Series 2003 A Revenue Bonds (c)					
Serial Bonds	**27,575**		3.69% to 4.83%	11/15/2008 to 2013	Any date (a)
Term Bonds	**185,665**		5.230% to 5.749%	11/15/2018 to 2033	Any date (a)
	1,456,225(d)	1,336,700(d)			
Plus: Unamortized premium	**45,806**	52,261			
Less: Deferred refinancing costs	**25,522**	30,346			
	1,476,509	1,358,615			
Less: Due within one year	**55,825**	93,715			
	$ 1,420,684	$ 1,264,900			

Notes to Revenue Bonds (table above) and Subordinate Revenue Bonds (table on following page)

(a) 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, at principal amount or at various redemption prices according to the date of redemption, together with accrued interest to the redemption date. Subordinate Revenue Bonds, Series 2 through 5 and 12, may be redeemed on any interest payment date. Series 2003 A Revenue Bonds (2003 A Bonds) are subject to optional redemption on any date. The 2003 A Term Bonds are subject to sinking fund redemptions in specified amounts beginning four years prior to their respective maturities.

(b) Series 1998 D Revenue bonds matured on February 15, 2003.

(c) Interest not excluded from gross income for bondholders' Federal income tax purposes.

(d) At December 31, 2003 and 2002, the current market value of these bonds (both senior and subordinate revenue bonds) was approximately $1.8 billion and $1.9 billion, respectively. Market values were obtained from a third party that utilized a matrix-pricing model.

(e) During 2003, Subordinate Revenue Bonds, Series 1, 8, 9 and 10, were redeemed. During 2002, Subordinate Revenue Bonds Series 13 was redeemed.

(f) Interest is paid weekly.

(g) Interest is paid on the first business day of the month.

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, 2003 and 2002, $600 million and $700 million, respectively, of outstanding bonds were considered defeased.

Senior Debt	2003 Amount	2002 Amount	Interest Rate	Maturity	Earliest Redemption Date Prior to Maturity
2. Adjustable Rate Tender Notes (Notes) *(in Thousands)*					
2007 Notes	**$ 21,975**	$ 26,490	At 12/31/03: 2.95%	3/1/2007	May be tendered
2016 Notes	**75,000**	75,000	At 12/31/03: 2.90%	3/1/2016	by holder on any
2020 Notes	**75,000**	75,000	At 12/31/03: 2.90%	3/1/2020	adjustment date.
	171,975	176,490			
Less: Due within one year	**4,875**	4,515			
	$ 167,100	$ 171,975			

Adjustable Rate Tender Notes (Notes)

The Notes may be tendered to the Authority by the holders on any adjustment date. The next rate adjustment dates are March 1, 2004 and September 1, 2004.

The Authority has entered into a revolving credit agreement (Agreement) with Dexia Credit Local, acting through its New York Agency, to provide a supporting line of credit. Under the Agreement, which terminates on September 5, 2006, the Authority may borrow up to $172.0 million for the purpose of repaying, redeeming or purchasing the Notes. The Agreement provides for interest on outstanding borrowings (none outstanding at December 31, 2003 and 2002) at either (i) the Federal Funds Rate plus a percentage, or (ii) a rate based on the London Interbank Offered Rate plus a percentage. The Authority is confident 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.

Subordinated Debt	2003 Amount	2002 Amount	Interest Rate At 12/31/03	Maturity	Earliest Redemption Date Prior to Maturity
3. Subordinate Revenue Bonds (e) *(in Thousands)*					
Series 1		$ 30,000		2/15/2021	(a)
Series 2	**$ 54,700**	57,225	Auction Rate: .95% (f)	2/15/2018	(a)
Series 3	**40,000**	40,000	Auction Rate: .92% (f)	2/15/2025	(a)
Series 4	**40,000**	40,000	Auction Rate: 1.23% (f)	2/15/2025	(a)
Series 5	**75,000**	75,000	Variable: 1.10% (g)	11/15/2011	(a)
Series 8		25,000		11/15/2011	(a)
Series 9		75,000		11/15/2011	(a)
Series 10		75,000		11/15/2011	(a)
Series 12	**25,000**	25,000	Auction Rate: 1.00% (f)	11/15/2011	(a)
	234,700(d)	442,225(d)			
Less: Deferred refinancing costs		1,410			
	234,700	440,815			
Less: Due within one year	**2,625**	2,525			
	$ 232,075	$ 438,290			

See Notes to Revenue Bonds and Subordinate Revenue Bonds on the preceding page.

4. Commercial Paper (Long-term portion) *(in Thousands)*	Availability	2003 Amount	2002 Amount	At 12/31/03	Maturity	Earliest Redemption Date Prior to Maturity
EMCP (Series 1)*	$ 50,000	**$ 50,000**		1.05%****	2008 to 2011	Not Applicable.
CP (Series 2)*	450,000	**297,085**	$ 369,710	1.06%****	2013	Not Applicable.
CP (Series 3)**	350,000	**99,424**	83,758	1.10%****	2004 to 2017	Not Applicable.
CP (Series 4)***	220,000					
	$1,070,000	**446,509**	453,468			
Less: Due within one year		**2,072**	2,579			
		$ 444,437	$ 450,889			

Commercial Paper (Long-term portion)

Under the Extendible Municipal Commercial Paper (EMCP) Note Resolution, adopted December 17, 2002, the Authority has issued a series of notes, designated EMCP Notes, Series 1, in the principal amount of $50 million (EMCP Notes).

The proceeds of the Series 2, 3, and 4 Commercial Paper Notes (CP Notes) were used to refund General Purpose Bonds. The proceeds of the EMCP Notes were used to refund Series 2 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 2004 to 2017, as indicated in table above.

The Authority has a line of credit under a revolving credit agreement (the RCA) to provide liquidity support for the Series 1-3 CP Notes, with a syndicate of banks, providing $800 million for such CP Notes and for other purposes until February 1, 2007, which succeeded another revolving credit agreement (the Prior RCA) in January 2004. No borrowings have been made under the RCA or the Prior 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 1998 Revenue Bonds, the Series 2000 A Revenue Bonds, the Series 2001 A Revenue Bonds, the Series 2002 A Revenue Bonds, the Series 2003 A Revenue Bonds, and the Adjustable Rate Tender Notes.

* Interest excluded from gross income for noteholders' Federal income tax purposes. Average interest rates for notes for 2003 and 2002 were 1.23% and 1.60%, respectively. Average interest rate for the EMCP Notes in 2003 was 1.09%. Average interest rates for both years include the cost for remarketing fees and, if applicable, liquidity support.

** Interest not excluded from gross income for noteholders' Federal income tax purposes. Average interest rates for 2003 and 2002 were 1.41% and 2.00%, respectively. Average interest rates for both years include the cost for remarketing fees and liquidity support.

*** Interest excluded from gross income for noteholders' Federal income tax purposes.

**** For CP Notes, interest payment dates vary from 1 to 270 days from date of issuance. For the EMCP Notes, interest payment dates vary from 1 to 90 days including the date of issuance or, if extended, 270 days including the date of issuance.

Long-term Debt
Maturities and Interest Expense
(in Millions)

	Total	2004	2005	2006	2007	2008	2009 to 2013	2014 to 2018	2019 to 2023	2024 to 2028	2029 to 2033	2034 to 2038	2039 to 2040
Maturities													
Bonds	$1,690.9	$ 58.4	$122.5	$ 135.4	$ 120.2	$ 133.7	$ 348.8	$ 319.1	$ 246.2	$ 66.0	$ 86.7	$26.4	$ 27.5
Plus: Unamortized premium	45.8												
Less: Deferred refinancing costs	25.5												
	1,711.2												
ART Notes	172.0	4.9	5.3	5.7	6.1	6.0	38.0	65.6	40.4				
CP (LT)	446.5	2.1	2.7	5.7	3.9	36.3	379.5	16.3					
Face Value	2,309.4	$ 65.4	$130.5	$ 146.8	$ 130.2	$ 176.0	$ 766.3	$401.0	$ 286.6	$ 66.0	$ 86.7	$26.4	$27.5
Book Value	$2,329.7												
Interest													
Bonds		$ 74.5	$ 71.9	$ 66.6	$ 60.6	$ 55.1	$ 223.7	$ 157.1	$ 82.5	$ 48.5	$ 29.4	$11.5	$ 2.1
ART Notes		1.5	1.5	1.5	1.4	1.4	5.8	3.8	.6				
CP (LT)		4.8	4.7	4.7	4.6	4.6	18.7	.4					
		$ 80.8	$ 78.1	$ 72.8	$ 66.6	$ 61.1	$ 248.2	$ 161.3	$ 83.1	$ 48.5	$ 29.4	$11.5	$ 2.1

Interest rate used to calculate future interest expense on variable rate debt is the interest rate at December 31, 2003.

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 (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.

Subordinate Revenue Bonds
The Authority determines the rate period (or auction rate period) based on needs and/or advice of the Remarketing Agent (or the Auction Agent).
Series 5 Bonds - The Remarketing Agent appointed under the Subordinate Resolution determines the rate for each rate period which, in the Agent's opinion, is the minimum rate necessary to remarket the Bonds at par.

Series 2 to 4 and 12 Bonds - The Auction Agent appointed under the Subordinate Resolution determines the Auction Rate for each Auction Period based on the Auction Procedures set forth in the supplemental resolution authorizing the issuance of the Bonds.

CP Notes and EMCP Notes (Long-term portion)
The Authority determines the rate for each rate period which is the minimum rate necessary to remarket the Notes at par in the Dealer's opinion. If the Authority exercises its option to extend the maturity of the EMCP Notes, the reset rate will be (1.35 X BMA)+ E, where BMA is the Bond Market Association Municipal Swap Index, which is calculated weekly, and "E" which is a fixed percentage rate expressed in basis points (each basis point being 1/100 of one percent) that is determined based on the Authority's debt ratings. As of December 31, 2003, the reset rate would have been 2.83%.

Changes in Long-term Liabilities
(in Thousands)

Changes in Long-term Debt	**2003**	2002
Long-term debt, beginning balance	**$2,326,054**	$ 1,959,795
Increases	**354,343**	990,757
Decreases	**(350,704)**	(521,164)
	2,329,693	2,429,388
Due within one year	**65,397**	103,334
Long-term debt, ending balance	**$2,264,296**	$2,326,054

Changes in Other Long-term Liabilities	**2003**	2002
Other long-term liabilities, beginning balance	**$ 1,241,103**	$ 1,025,395
Increases	**204,484**	294,326
Decreases	**(67,605)**	(78,618)
Other long-term liabilities, ending balance	**$ 1,377,982**	$ 1,241,103

Net Operating Leases (Amounts due under non-cancelable operating leases)
(in Thousands)

	2004	2005	2006	2007	2008	2009 to 2013	2014 to 2015
Gross Operating Leases	$ 9,116	$ 8,790	$ 7,287	$ 6,645	$ 6,606	$ 4,405	$ 198
Less: Subleases/Assignments(1)	7,399	7,482	6,279	5,874	6,407	1,995	
Net Operating Leases	$ 1,717	$ 1,308	$ 1,008	$ 771	$ 199	$ 2,410	$ 198

(1) Subleases/assignments resulted primarily from consolidation of Authority headquarters' offices and assignment of a certain office lease to an Entergy subsidiary.

Note F - Short-term Debt

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

(in Millions)	December 31, 2003 Availability	Outstanding	December 31, 2002 Availability	Outstanding
CP Notes (Series 1)	**$ 350.0**	**$ 216.7**	$ 350.0	$ 199.1

Under the Commercial Paper Note Resolution adopted June 28, 1994, as amended and restated on November 25, 1997, and as subsequently amended, 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 $350 million (Series 1 CP Notes). See Note E - 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:
(in Millions)

Year	Beginning Balance	Increases	Decreases	Net Increase/ (Decrease)	Ending Balance
2003	**$ 199.1**	**$ 90.5**	**$ 72.9**	**$ 17.6**	**$ 216.7**
2002	221.6	30.0	52.5	(22.5)	199.1

CP Notes are subordinate to the Series 1998 Revenue Bonds, the Series 2000 A Revenue Bonds, the Series 2001 A Revenue Bonds, the Series 2002 A Revenue Bonds, the Series 2003 A Revenue Bonds, and the Adjustable Rate Tender Notes.

Note G - Risk Management and Hedging Activities

The objective 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 this objective the Authority's trustees have authorized the use of various interest rate, energy, and fuel hedging instruments that are considered derivatives under FAS No. 133, "Accounting for Derivatives and Hedging Activities," as amended by FAS No. 138, "Accounting for Certain Derivatives Instruments and Certain Hedging Activities". These standards establish accounting and reporting requirements for derivative instruments and hedging activities (see Note B (12)). The fair values of all Authority derivative instruments are reported in Assets or Liabilities on the Balance Sheet.

(1) Interest Rate Risk Management

(a) Series 1998 B Revenue Bonds

In 1998, the Authority entered into forward interest rate swaps to fix rates on long-term obligations expected to be issued to refinance $499.4 million of Series 1998 B Revenue Bonds required to be tendered in the years 2002 and 2001. Based upon these forward interest rate swaps, the Authority would pay interest calculated at fixed rates (4.7 percent to 5.1 percent) to the counterparties. In return, the counterparties would pay interest to the Authority based upon the BMA on the established reset dates. In 2001, upon completion of the $231.2 mandatory redemption of the 1998 B Revenue Bonds, the Authority terminated the 2001 forward interest rate swaps at a cost of $12.7 million. On November 15, 2002 the Authority completed the remaining mandatory payment on the 1998 B Revenue Bonds from the proceeds of the issuance of Series 2 and Series 3 CP Notes. The 2002 forward interest swaps became active on November 15, 2002 and are designated as a hedge on the interest cost of the Series 2 and Series 3 CP Notes. The Authority intends to refinance the Series 2 and Series 3 CP Notes with fixed rate debt when it is advantageous to do so in the future.

On December 31, 2003 and 2002, the unrealized losses on the 2002 forward interest rate swaps were $31 million and $38 million (in addition to accrued settlement obligations of $1.4 million in 2003 and $1.4 million in 2002), respectively. Since the Authority anticipates the recovery of the unamortized $7.7 million termination cost and the future settlement costs of the 2002 interest rate swaps from customers, these amounts have been deferred in Other Noncurrent Assets on the Balance Sheet. The cost of terminating the 2001 forward interest rate swaps is being amortized as an adjustment to the hedged debt's interest cost over the shorter of the original Series 1998 B Revenue Bonds debt (hedged) period or the refinanced period. Settlement payments and receipts from the open interest rate swaps are being recorded as an adjustment to the hedged debt's interest cost.

(b) Series 2000 A Revenue Bonds

In 2000, the Authority entered into fixed-to-floating interest rate swaps related to the issuance of the fixed rate Series 2000 A Revenue Bonds. The Authority's objective was to create a synthetic floating rate issue to reduce the cost of the debt issue over its life. The swaps require the counterparties to pay the Authority a rate of 5.03 percent on the notional amount ($296 million) of the swap and for the Authority to pay a rate based upon the Bond Market Association Index. In 2003 and 2002 the net settlement payments and receipts of these fixed-to-floating interest rate swaps resulted in reductions of $11.0 million and $10.2 million, respectively, to hedged debt's interest cost. On August 15, 2001 and January 15, 2002, the Authority entered into floating-to-fixed interest rate swaps designed to mirror the 2000 A interest rate swaps notional amounts. The objective was to lock-in the lower interest costs on the 2000 A interest rate swaps resulting from lower interest rate trends since their execution through July of 2001. The swaps require the Authority to pay the counterparties rates ranging between 3.149 percent and 3.50 percent on the total notional amount ($296 million) of the swaps and for the counterparties to pay a rate based upon the BMA. In 2003 and 2002, the net settlement payments and receipts of these floating-to-fixed interest rate swaps resulted in charges of $6.8 million and $5.8 million, respectively, to interest cost. As of December 31, 2003 and 2002, unrealized losses on all these interest rate swaps were $1.2 million and $1.4 million, respectively. These unrealized losses on the 2001 and 2000 interest rate swaps have been deferred in Other Noncurrent Assets on the Balance Sheet as recoverable from customers.

(c) Adjustable Rate Tender Notes

On June 13, 2002 the Authority entered into a forward interest rate swap with the objective of limiting exposure to rising interest rates on the Authority's Adjustable Rate Tender Notes (Notes) for the period September 2, 2003 to September 1, 2006. Based upon the forward interest rate swap, the Authority would pay interest calculated at a fixed rate of 3.48 percent. In return the counterparty would pay interest to the Authority based upon 66 percent of the six-month London Interbank Offered Rate (LIBOR) established on the reset dates that coincide with the Notes rate reset dates. In 2003 the net settlement payments and receipts on this forward interest rate swap resulted in a charge $1.5 million. On December 31, 2003 and 2002 the unrealized losses on the forward interest rate swap were $9.2 million and $7.1 million, respectively. These unrealized losses have been deferred in Other Noncurrent Assets on the Balance Sheet as recoverable from customers.

If any of the underlying hedged debt were retired prior to maturity, the unamortized gain or loss of the related interest rate swaps would be included in the gain or loss on the extinguishment of the obligation.

(d) Series 1 CP Notes and Certain Subordinate Revenue Bonds

During 2001, the Authority purchased interest rate caps with the objective of limiting exposure to rising interest rates relating to the Series 1 CP Notes and certain Subordinate Revenue Bonds. The interest rate for the Series 1 CP Notes is capped at 5.9 percent based upon the BMA for an initial notional amount ($250 million) through July 1, 2004. The interest rate for the affected Subordinate Revenue Bonds was capped between 4.0 percent and 6.0 percent based upon the BMA for notional amounts ($200 to $400 million) through December 31, 2004. In 2003 and 2002 interest rate market conditions did not exceed any of the contractual caps. The fair values of the interest rate caps as of December 31, 2003 and 2002 were not significant. Interest costs for 2002 include $1.0 million resulting from a decrease in the fair value of these caps. Interest costs for 2003 were not impacted.

(2) Energy Market Risk Management

(a) Customer Load Requirements

In 2001, the Authority entered into a long-term forward energy-related swap agreement (energy swap) to fix the cost of energy to meet certain long-term customer load requirements between 2004 and 2007. On December 31, 2003 and 2002, the fair values of this forward energy swap were a $21.0 million unrealized gain and a $4.2 million unrealized loss, respectively. Since the Authority anticipates recovery of any net settlement costs of this forward energy swap from customers, these unrealized gains and losses have been deferred in Other Noncurrent Liabilities or Other Noncurrent Assets on the Balance Sheet.

On December 23, 2003, the Authority entered into a long-term forward energy swap to fix the cost of energy to meet certain long-term customer load requirements between 2005 and 2008. On December 31, 2003 the fair value of this forward energy swap was a $2.0 million unrealized loss. Since the Authority anticipates recovery of any net settlement costs of this forward energy swap from customers, this unrealized loss has been deferred in Other Noncurrent Assets on the Balance Sheet.

On December 23, 2003, the Authority entered into a long-term forward energy swap to fix the yearly cost to effectively purchase a maximum 26.5 megawatts of wind power energy between 2005 and 2014, the effectiveness of the swap being conditioned upon certain events occurring. The intent of this wind- power-related energy swap is, among other things, to promote the development of renewable power consistent with the New York State Energy Plan and to assist the Authority's governmental customers in meeting the requirements of the Governor's Executive Order 111. On December 31, 2003 the fair value of this forward energy swap was a $0.2 million unrealized gain. Since the Authority anticipates recovery of any net settlement costs of this forward energy swap from customers, this unrealized gain has been deferred in Other Noncurrent Liabilities on the Balance Sheet.

During 2003 and 2002, the Authority entered into a number short-term energy swaps. The objective of these short-term energy swaps is 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. On December 31, 2003 and 2002, the fair values of these short-term energy swaps were unrealized gains of $2.5 million and a $2.2 million, respectively. During 2002, the net settlements and fair value fluctuations of these short-term energy swaps resulted in a reduction in Purchased Power costs of $6.4 million. During 2003, net settlements resulted in a reduction in Purchased Power costs of $1.9 million. Since the Authority anticipates recovery of future purchased power costs (including settlements of the short-term energy swaps) from customers, the unrealized gain at December 31, 2003 has been deferred in Other Noncurrent Liabilities on the Balance Sheet.

(b) Generating Capacity

During 2003 and 2002, the Authority entered into a number of energy covered call options and fixed-to-floating energy swaps relating to a portion of the SCPPs' generation with the objectives of hedging prices in a rising market and mitigating the effect of falling market prices on revenue. In 2003 and 2002 the premiums received, net settlements with counterparties and fair value fluctuations of these energy call options resulted in increases of $2.1 million and $1.4 million, respectively, in Operating Revenues.

(3) Fuel Market Risk Management

During 2003, the Authority purchased a number of natural gas call options with the objective of limiting the exposure to the floating market price of natural gas required for electrical generation. None of these call options were exercised by the Authority. In 2003, the premiums paid for these natural gas call options resulted in an increase of $160,000 to fuel costs.

Note H - Pension Plans, Other Postemployment Benefits, Deferred Compensation and Savings Plans

Pension Plans:

Substantially all employees of the Authority are members of the New York State and Local Employees Retirement System (System), which is a cost-sharing, multiple-public-employer defined-benefit pension plan. Membership in and annual contributions to the System are required by the New York State Retirement and Social Security Law. The System offers plans and benefits related to years of service and final average salary, and, effective July 17, 1998, all benefits generally vest after five years of accredited service.

Members of the System with less than "10 years of service or 10 years of membership" contribute 3% of their gross salaries and the Authority pays the balance of the annual contributions for these employees. The Authority pays the entire amount of the annual contributions for employees with at least 10 years of service.

The Authority's contributions to the System are paid in December of each year on the basis of the Authority's estimated salaries for the System's fiscal year ending the following March 31. Contributions are made in accordance with funding requirements determined by the actuary of the System using the aggregate cost method.

In May, 2003, legislation was passed by the New York State legislature, and signed into law by the governor, that established, among other things, a minimum annual contribution by employers commencing with the System's fiscal year ending March 31, 2004. The new law will reduce the volatility of employer contributions, in future years, by requiring employers to make a minimum contribution of 4.5% of gross salaries every year, including years in which investment performance by the fund would make a lower contribution possible.

Under this plan, the Authority's required contributions to the System were $11.2 million, $0.9 million, and $5.8 million for the years ended March 31, 2004, 2003 and 2002, respectively (paid on or about December 15, 2003, 2002 and 2001). The $11.2 million contribution paid in 2003 and $5.8 million contribution paid in 2001 included $5.5 million and $4.6 million for the cost of participating in the System's early retirement incentive programs in the years 2002 and 2000, respectively.

For detailed information concerning the System, reference is made to the State of New York Comprehensive Annual Financial Report of the Comptroller for the fiscal year ended March 31, 2003.

Other Postemployment Benefits (OPEB):

The Authority provides certain health care and life insurance benefits for eligible retired employees and their dependents. Employees and/or their dependents become eligible for these benefits when the employee has 10 years of service and retires or dies while working at the Authority. Prior to January 1, 2002, the cost of these benefits was charged to expense as paid and totaled $6.4 million for the year ended December 31, 2001. Effective January 1, 2002, the Authority implemented accrual accounting for its OPEB obligations, based on the approach provided in GAS No. 27, "Accounting for Pensions by State and Local Government Employers." As of January 1, 2002, the present value of the Authority's OPEB obligation was $271.1 million (prior service obligation) utilizing the projected unit credit method and a discount rate of 6%. In 2002, the Authority began recognizing this prior service obligation over a 20-year period using level dollar amortization of $22.3 million annually. The 2003 and 2002 OPEB provisions of $31.2 million and $29.9 million, respectively, include the amortization of the prior service obligation, a provision for active employees as of the beginning of the year, and an interest charge on the unfunded balance at year end. The 2003 and 2002 OPEB provisions were funded at $8.0 million and $6.8 million, or 25.6% and 22.7%, respectively. as shown on the following table. Approximately 1,100 participants were eligible to receive these benefits at December 31, 2003.

(In millions)	**2003**	2002
Actuarial Accrued Liability (AAL)		
Beginning Balance	**$ 23.1**	—
Accrual	**31.2**	$ 29.9
Payments to retirees during year	**(8.0)**	(6.8)
Unfunded AAL (UAAL)	**$ 46.3**	$ 23.1
Funded ratio at year-end	**25.6%**	22.7%
Ratio of UAAL to covered payroll	**38.1%**	19.0%

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 Equity and in Other Noncurrent Liabilities on the Balance Sheet.

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 with a minimum of one year of service up to limits specified in the plan. Such matching contributions totaled $1.9 million annually for 2003 and 2002.

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 non-union employees and a committee of non-union 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.

Note I - Petroleum Overcharge Restitution (POCR) Funds and Clean Air for Schools (CAS) Projects Funds

Legislation enacted into State law from 1995 to 2002 authorizes the Authority to utilize $59.6 million in petroleum overcharge restitution (POCR) funds and $0.6 million in 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 $60.2 million to date took place annually from 1996 to 2003. The POCR funds are included in restricted funds in the Balance Sheet. The funds are held in a separate escrow account, and the Authority invests the funds 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. CAS Projects funds totaling $125 million to date were transferred to the Authority and held in an escrow account for the CAS Projects program.

Note J - Statewide ISO

Pursuant to FERC Order No. 888, the New York investor-owned electric utilities (the IOUs), LIPA and the Authority, and certain other entities established two not-for-profit organizations, the 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 non-discriminatory transmission services and to administer an open, competitive and non-discriminatory 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 for 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 market 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.

Under the NYISO Open Access Transmission Tariff certain charges for NYISO operating costs, congestion, losses, ancillary services and a portion of the Authority's transmission costs are assessed against the Authority and other entities responsible for serving ultimate customers. In the case of the Authority, such costs are significant. For 2003 and 2002, expenses associated with the Authority's participation in the NYISO have amounted to approximately $120 million and $106 million, respectively. The Authority expects that such charges will continue in the future and may increase with increases in NYISO operating costs.

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 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 Poletti unit because of its size, nature and location, and in connection with the Authority's purchase of power and energy from the Indian Point 3 and FitzPatrick nuclear plants (see Note (K) - Nuclear Plant Divestiture and Related Matters).

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.

Although FERC is currently considering issues related to independent system operators (ISOs) and the development of regional transmission operators (RTOs), it is uncertain whether any northeastern RTO will be formed, which entities, including the NYISO and the Authority, will ultimately be part of any such northeastern RTO, and how resolution of these ISO and RTO issues will impact the Authority's operations and financial condition.

Note K - Nuclear Plant Divestiture and Related Matters

(1) 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 Corp. (collectively Entergy or the Entergy Subsidiaries) for cash and non-interest 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.

On July 1, 2003, Entergy prepaid the remaining balance of its Fuel Payment Note to NYPA by paying NYPA $105.4 million. In November 2003, the Authority received a scheduled payment of $83.7 million from Entergy. As of December 31, 2003 and 2002, the present value of the notes receivable were:

(in Thousands)	**2003**	2002
Notes receivable - nuclear plant sale	**$371,289**	$522,911
Less: Due within one year	**56,514**	69,729
	$314,775	$453,182

The Authority entered into a power purchase agreement (PPA) to purchase energy and capacity from Entergy at rates that approximated future market prices as of the Closing Date. Under the PPA, the Authority is obligated to purchase 100% of IP3's output through December 2004, and fixed amounts of JAF's output for the same period (303 MW, year 2002; 255 MW, year 2003; and 255 MW, year 2004).

The Authority agreed to purchase the remaining output of JAF through the year 2003 on a unit contingent basis under an additional power purchase agreement. This output was purchased at a lower price than the fixed amounts purchased under the PPA.

On September 6, 2001, a subsidiary of Entergy Corp. 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 Corp. 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, 2003 payment was received and is included in Other Income.

(2) 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 and retains the funds collected from customers to cover such fee. As of December 31, 2003, the liability to Entergy totaled $184.4 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.

The Authority will bear the cost of the remaining DOE charges for the decontamination and decommissioning of DOE nuclear enrichment facilities related to IP3 and JAF, amounting to approximately $12.8 million as of December 31, 2003, to be paid from 2004 to 2006.

(3) 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.

Some 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 Corp. 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.

Decommissioning Funds of $770.9 million and $702.5 million are included in Restricted Funds and Other Noncurrent Liabilities in the Balance Sheets at December 31, 2003 and 2002, 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.

Note L - Commitments and Contingencies

(1) Competition

The electric utility industry, including the utility industry in New York State, has undergone a fundamental transformation, leading to a deregulated and more competitive environment through changes in Federal and State laws and actions by regulatory bodies that permit competition for sales of electricity at the wholesale and retail levels. In addition, the restructuring has resulted in industry mergers and acquisitions, open-access transmission service and competition among utilities, marketers and the independent power producers in the sale of power and energy.

The Authority is a provider of low-cost power and energy in New York State. To maintain its position in a changing environment, the Authority has undertaken and continues to carry out a multifaceted program, including:

(a) the sale of its two nuclear plants to eliminate the risks associated with their operation;

(b) the upgrade and relicensing of the Niagara and St. Lawrence-FDR Projects;

(c) the commencement of discussions with its SENY governmental customers to develop long term agreements to succeed those in existence;

(d) the implementation of modifications to existing power sales arrangements with 79 business customers, resulting in the extension of the terms of such arrangements to either 2005 or 2007;

(e) construction of a 500-MW combined-cycle electric generating plant at the Authority's Poletti plant site;

(f) the reduction of the Authority's outstanding debt by $982 million from 1994-2003; and

(g) the appointment of a officer responsible for energy and fuel risk management and control.

In addition, to meet capacity deficiencies in the New York City metropolitan area during the summer of 2001, the Authority completed the installation of 11 electric generating units at various sites in New York City and in the service territory of LIPA. The SCPPs were used to meet capacity deficiencies during the summer of 2001, and are meeting ongoing local reliability requirements in the New York City metropolitan area.

The adoption and implementation of the Bond Resolution (see Note C) in 1998 is also part of this program. The Bond Resolution provides the Authority with greater flexibility to manage its business with fewer restrictions. The less restrictive provisions of the Bond Resolution have increased the ability of the Authority to retain its existing customer base and to more efficiently manage its cash flows and investments. The Authority is also now free to determine whether to sell or retain certain of its assets on the basis of its judgment regarding the effect of such sale or retention on its overall business and apply the proceeds in a way which best meets the current needs of the Authority.

The Authority has continued to prudently manage its capital structure. The Authority's restructuring of its long-term debt through open-market purchases and refundings, begun prior to the adoption of the Bond Resolution, has resulted in, and is expected to continue to result in, cost savings and increased financial flexibility. Since December 31, 1994, the Authority has reduced its total debt by $982 million, or 28% as reflected in the reduction of its debt/equity ratio from 2.52 to 1.51. During 2003, long-term debt decreased by $62 million, or 3%, primarily due to: early extinguishments of debt ($209 million) and scheduled maturities (i.e., reclassifications to long-term debt due within one year) ($66 million) offset by the issuance of $213 million Series 2003 A Revenue Bonds, which will be used principally to finance certain costs associated with the relicensing and modernization of the Authority's St. Lawrence-FDR project. The Authority expects to continue debt retirement in the future to the extent funds are available and not needed for the Authority's expenses or reserves.

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 Act that restrict the marketing of Poletti 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.

(2) Long-term Contracts

In 1995, the Authority entered into modifications to then existing power sales arrangements with substantially all of the SENY governmental customers, resulting in such modifications extending until December 2006, at which time, for the bulk of these customers, the underlying agreements will again become effective, including termination provisions therein.

These modifications include stabilized rate features through 2001, depending upon the contract, with rates thereafter adjusted based upon, in the case of some contracts, changes in the cost to provide service or, in the case of other contracts, a market-based electric price index (which the Authority has agreed to set at zero through 2004). Certain of the contracts provide for shared savings contingent upon the Authority's reducing the cost of service to the SENY service area. In other instances, rate rebates and economic development incentives were provided. Customers have the right to terminate their service if the Authority increases baseline demand and energy charges to meet bond covenant requirements. Customers may also reduce service by limited amounts under certain specified conditions and, under certain contracts, may exercise their right to transfer load not already transferred pursuant to the agreements to another supplier, if rate increases exceed specified amounts at specified times.

Pursuant to these contracts the Authority has agreed to undertake up to $401 million in energy-efficiency projects over the term of the contracts. Such projects must be approved by Authority management before being undertaken, and agreements for full repayment from customers of project costs must be in place. Through December 31, 2003, $164.6 million had been expended.

The Authority has begun discussions with certain of its SENY governmental customers concerning the development of long term agreements to succeed the agreements discussed above.

The Authority also entered into modifications to existing power sales arrangements with 79 business customers formerly served by power and energy from the Authority's JAF plant (now served by power and energy purchased from the Entergy Subsidiary owner of JAF (JAF Purchased Power and Energy)), as augmented by other Authority resources, which would extend the customers' purchases of Authority power and energy to either 2005 or 2007, and under which the Authority would provide the customers with rate discounts and other compensation and would forgo certain rate adjustment rights over the term of the agreements. These agreements encompass approximately 323 MW and 328 MW of power in 2003 and 2002, respectively, and accounted in 2003 and 2002 for an estimated $70 million and $69 million, respectively, in annual revenues.

The revenues from these SENY and business customers were approximately 35% and 38% of the Authority's 2003 and 2002 Operating Revenues (including wheeling charges), respectively.

(3) Power for Jobs

In 1997, 1998, 2000 and 2002, legislation was enacted into New York law which authorized the Power for Jobs program (the Program) to make available low-cost electric power to businesses, small businesses, and not-for-profit organizations. Under the Program, the New York State Economic Development Power Allocation Board (EDPAB) recommends for Authority approval allocations to eligible recipients of power from JAF Purchased Power and Energy, from power purchased by the Authority through a competitive procurement process and power from other sources. In the first three phases of the Program, 450 MW of power were made available, phased in over three years which ended in July 2000. In the fourth phase of the Program, 300 MW of power were made available beginning September 2000. Allocation of this 300 MW of power was completed in 2001. In the fifth phase of the Program, 183 MW of power were made available, beginning on September 17, 2002. The power was made available for allocation to phase two and phase three Program recipients. Any remaining power after these allocations were made available for new allocations. Under the 2000 legislation, the Authority is authorized to provide power through an alternate method to the competitive procurement process if the cost of the power through the alternate method is lower than the cost of power available through a competitive procurement process, provided that the use of power from Authority sources does not reduce the availability of, or cause an increase in the price of, power provided by the Authority for any other program. 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 Program power is sold to the local utilities of the eligible recipients pursuant to sale for resale agreements at rates which are an amalgamation of the rate for JAF Purchased Power and Energy and the cost of the competitive procurement (or alternative acquisition) power plus a charge for the transmission of such power. (See Note L(12), "New York State Budget Matters and Other Issues" for information on voluntary contributions to the State.)

(4) Natural Gas Contract

In 1990, the Authority entered into a long-term contract (Enron Contract) with Enron Gas Marketing, Inc., which was succeeded in interest by Enron North America Corp. (Enron NAC), under which it was obligated to purchase approximately 11.10 billion cubic feet of natural gas annually until April 30, 2014, or pay a penalty on the unused volumes.

On November 30, 2001, pursuant to the terms of the Enron Contract, the Authority issued its notice of termination of the Enron Contract, with an effective termination date of December 14, 2001. On December 2, 2001, Enron Corp. and certain of its subsidiaries, including Enron NAC, filed for Chapter 11 bankruptcy protection. It appears from bankruptcy court filings that Enron NAC has listed the Enron Contract as one of its executory contracts.

By letter to the Authority dated February 12, 2003, counsel to Enron NAC asserted that the Authority's attempted termination of the Enron Contract was invalid and that the Authority owes Enron NAC a termination payment. In the letter, it was asserted that the termination was invalid because of the intervening bankruptcy filing between the date that notice of termination was given by the Authority and the termination date. The letter also asserted that, even if the Enron Contract had terminated, Enron NAC should be entitled to a termination payment, notwithstanding the fact that the Enron Contract had no provision which would have allowed Enron NAC such a termination payment. The letter stated that "NYPA's failure to comply with its contractual provisions will force Enron to pursue its rights under the contract and the Bankruptcy Code."

By letter dated February 28, 2003, the Authority responded to Enron NAC's assertions by restating its view that the termination of the Enron Contract was valid and by asserting that no termination payment was due because the Enron Contract did not provide for such termination payment.

In a subsequent letter to the Authority dated March 21, 2003, counsel for Enron NAC proposed a reduction in Enron NAC's termination payment claim to settle the dispute. The Authority has not responded to this proposal.

No formal action in the bankruptcy proceeding or litigation has yet been commenced in this matter. The Authority is unable to predict the outcome of the matter described above, but believes that the Authority has meritorious defenses or positions with respect thereto. The Authority is not involved in any transaction with Enron Corp. or any of its subsidiaries, except for the terminated gas contract.

(5) Legal and Related Matters

a. In 1982 and again in 1989, several groups of Mohawk Indians 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. These islands are within the boundary of the Authority's St. Lawrence-FDR project. Settlement discussions were held periodically between 1992 and 1998. In 1998, the Federal Government intervened on behalf of the 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 the St. Regis American Mohawk Tribe (the American Tribe) 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 United States' 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. The tribal plaintiffs moved to strike certain affirmative defenses and, joined by the United States, moved to dismiss certain defense counterclaims. In an opinion, dated July 28, 2003, the Court left intact most of the Authority's defenses and all of its counterclaims. The next step in this litigation will likely be pretrial discovery.

On May 12, 2003, the Governor of the State announced that a Memorandum of Understanding (MOU) had been signed by the State and the American Tribe. The MOU provides for, among other things, the Authority's payment of $2 million a year for 35 years to the American Tribe, and the Authority's conveyance of Croil and Long Sault Islands and a 95-acre parcel on Massena Point in return for the American Tribe's release of its land claims in the State, including Barnhart Island. The land claims settlement was part of a more comprehensive accord with the State involving gambling and sales tax issues. Before it becomes effective, the accord will require approval by, among others, members of the American Tribe, the Federal government, the State legislature and Congress, as well as the other tribal plaintiffs should they decide to become parties to the settlement. In October 2003, the current St. Regis Tribal Council of the American Tribe, elected in June 2003, informed the Governor that it was withdrawing from the MOU, but also indicated that it wished to continue negotiating revisions to the terms of the MOU.

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 in the matters discussed above could adversely affect Authority operations and revenues.

b. In addition to the matters described above, other actions or claims against the Authority are pending or have been asserted relating to personal injury, contract, real estate, environmental, employment and other matters, including 77 individuals alleging exposure to asbestos. All 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 therefor and without any material adverse effect on the business of the Authority.

(6) Construction Contracts

Estimated costs to be incurred on outstanding contracts in connection with the Authority's construction programs aggregated approximately $277.5 million at December 31, 2003.

(7) Small, Clean Power Plants

To meet capacity deficiencies and ongoing local 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, eleven 44-MW natural-gas-fueled SCPPs at various sites in New York City and one site in the service territory of LIPA.

In December 2001, litigation relating to the SCPPs located at the Vernon Boulevard, Long Island City, site in Queens was settled, with the Authority agreeing under the settlement agreement to cease operations at the Vernon Boulevard site, which houses two units, as early as September 25, 2004, if certain conditions are met, and if the Mayor of New York City directs such cessation.

The Authority believes that cessation of operations and removal of the Vernon Boulevard units, if that should occur, will not have an adverse impact on the Authority's financial condition or operations.

The Authority has applied to the New York State Department of Environmental Conservation (DEC) for new 5-year operating air permits for the SCPPs to succeed the existing construction and operating air permits for the projects issued in January and February, 2001. Public hearings on the Authority's application for the Clean Air Act Title V air permits were held in September 2003, and the comment period relating to the application closed at the end of October 2003. Although the comments and public hearing statements included requests for the denial of the permits, the thrust of most of the comments and statements was to request the DEC to examine closely the effects of the operation of the units on the air quality of the area in which the units are located and impose conditions on the operation of the units to mitigate adverse effects. The Authority expects to receive the new air permits in the first half of 2004.

(8) 500-MW Project

As a result of the State electric utility industry restructuring, including the Authority's agreement to comply with an in-City capacity requirement in the New York City area, the Authority is currently constructing a 500-MW combined-cycle natural-gas-and-distillate-fueled power plant at the Poletti site (the 500-MW project) as the most cost-effective means of effectuating such compliance. The major components of the 500-MW project consist of two gas turbines, a heat recovery steam generator, a steam turbine, a dry cooling system, and a condenser. The Authority estimates that the total cost of the 500-MW project will be $650 million, with approximate cost of $393 million incurred as of December 31, 2003. The expected in-service date is February 2005.

In August 2000, the Authority filed applications with the New York State Board on Electric Generation Siting and the Environment (the Siting Board) and the DEC pursuant to Article X of the New York Public Service Law (Article X) for a Certificate of Environmental Compatibility and Public Need (the Certificate) to construct the proposed facility and for federally delegated water and air permits, respectively. A Certificate and federally delegated air permits were issued to the Authority by the Siting Board and DEC, respectively, as of October 2, 2002.

To resolve certain issues that arose in the course of the Siting Board proceeding, the Authority entered into a Supplemental Joint Stipulation (the Stipulation Agreement) with certain parties (the Signing Parties) whereby, among other things, the Signing Parties agreed not to oppose the issuance of a Certificate for the proposed plant. Among other things, the Stipulation Agreement will require the closure of the Authority's existing Poletti project by no later than 2010 and possibly as early as 2008. The Stipulation Agreement also imposes restrictions on the Authority's fuel oil use at the existing Poletti project and limitations on the overall amount of potential generation that could be generated from the existing Poletti project each year. On September 13, 2002, the Authority filed the Stipulation Agreement with the Siting Board.

The Authority believes that the restrictions on fuel use and capacity factor relating to the existing Poletti project set forth in the Stipulation Agreement and the closure of the existing Poletti project under the terms of the Stipulation Agreement will not have a material adverse effect on the Authority's financial condition or operations.

When the existing Poletti project ceases operation, the Authority will utilize other Authority resources, including the 500-MW project, to meet the energy and capacity needs of its customers in the metropolitan New York City area.

The Authority expects that by February 15, 2008, all debt associated with the Poletti project will have been retired.

(9) SENY Cost-of-Service

During 2003, higher statewide energy prices contributed to higher purchased power and fuel costs ($264 million) incurred by the Authority. These higher costs were substantially offset by higher operating revenues ($232 million) including increased revenues from market-based sales to the NYISO. During 2003, a substantial portion of the increased fuel and purchased power costs were incurred in providing service to the Authority's SENY governmental customers. The Authority has filed a notice under the State's Administrative Procedures Act indicating its intention to increase the rates charged to such customers for production service effective April 2004 to a level sufficient to recover future costs.

(10) NYISO System Upgrade Cost

In regard to the NYISO System Upgrade Cost Proceeding at FERC, the NYISO Open Access Transmission Tariff provides rules for the allocation of responsibility for the cost of interconnection facilities required for new generation projects and merchant transmission projects. Basically, the process allocates to transmission owners the costs of facilities they would have to build in the normal course of their operations, even without the project developers' proposals, and allocates to project developers the remaining costs.

The NYISO applied its cost allocation method for the first time to a group of project developers, including the Authority, known as the "Class of 2001". The projected costs of System Upgrade Facilities for Class 2001 were $72.7 million, with $59.7 million allocated to project developers and $13 million to Consolidated Edison Company of New York, Inc. (Con Edison). The Authority estimates that it would be responsible for approximately one third of the costs allocated to the developers.

On August 28, 2002, the Authority, KeySpan Corporation, the Electric Power Supply Association and the Independent Power Producers of New York, Inc. (the Complainants), filed a complaint with FERC. Among other things, the complaint argued that NYISO shifted costs that should be borne by the transmission owners to project developers.

In May 2003, a FERC Presiding Judge issued a Recommended Decision favorable to the Complainants. The situation changed markedly, however, in late April 2003 when Con Edison announced that the cost of the proposed interconnection facilities upgrades would be $52 million more than the original estimate. The Authority and the other developers are challenging Con Edison's claim for increased costs. Con Edison insists that any resolution of the issues in the litigation must address this increase.

After informal negotiations, it was agreed by all parties that a FERC Settlement Judge should be appointed to aid in reaching an agreement. The first meeting with the Settlement Judge was held on September 8, 2003, and meetings are ongoing.

(11) Sound Cable Repair

The Iroquois Gas Transmission System, L.P. (Iroquois) contracted with Horizon Offshore Contractors, Inc. (Horizon) for the construction of a 24-inch diameter gas pipeline between Northport, Long Island, and Hunts Point, New York. It appears that on February 27, 2003, while working on the project, an anchor from a barge owned by Horizon damaged one of the four underwater lines of the Authority's Sound Cable (the Cable). The Cable was out of service from February 28 to March 8, 2003. The power flow to Long Island has been operating at normal levels since March 8, 2003.

Under the terms of the Authority's contract with LIPA, the Authority was obligated to repair the Cable. The repair has been completed. The total costs of repair are estimated to be about $20 million. The Authority will rely on the indemnification provisions of the contract with Iroquois to seek compensation from Iroquois and may also seek compensation from Horizon and from other Iroquois contractors and subcontractors and their insurers. In addition, the Authority has insurance in the amount of $10 million, of which it has already received $5 million. The Authority expects to recover the full cost of the repairs.

(12) New York State Budget Matters and Other Issues

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. Several bills have been introduced into the State Legislature, some of 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 hereby. It is not possible to predict whether any of such bills or other bills of a similar type which may be introduced in the future will be enacted.

In May 2000, legislation was enacted into law, as part of the 2000-2001 State budget, which provides that the Authority "as deemed feasible and advisable by the Trustees, is authorized to make an additional annual voluntary contribution into the state treasury to the credit of the general fund." Such voluntary annual contributions shall be equal to 50% of the total amount of gross receipts tax credits relating to certain Power for Jobs energy deliveries. The legislation provides that in no case shall the amount of the total annual contributions for the years during which delivery and sale of phase four Power for Jobs power takes place exceed the aggregate total of $125 million. Certain additional legislation enacted into law in May 2002 modified the methodology so that, for State fiscal year (SFY) 2002-2003, the annual contribution shall be equal to the total amount of credit available in 2001 and 2002 under the fourth and fifth phases of the Program. However, this modification left intact the $125 million maximum amount of contributions. Provisions similar to the legislation enacted in 2002 were enacted in 2003 authorizing the Authority to make a payment to the State treasury equal to 100 percent of the gross receipts tax credit provided in 2003 under the fourth and fifth phases. The 2003 legislation allowed the Authority to make up to a $58 million voluntary contribution to the State treasury in SFY 2003-2004, while maintaining the $125 million statutory limit. The Authority made contributions of $67 million and $52 million pursuant to the 2002 and 2003 legislation in December 2002 and 2003, respectively. The Authority has authorized the transfer of the balance of $6 million and expects the payment to be made in 2004 if the monies are not needed for other Authority purposes.

The State is currently facing a difficult financial situation, with various projections reported in the media showing significant deficits for the State fiscal years commencing April 1, 2004 and April 1, 2005. The Governor's proposed Budget Bill for fiscal year 2004-2005 would authorize the Authority to make additional voluntary contributions, above the payments discussed above, to the New York State General Fund in the period 2004 to 2006, which additional voluntary contributions would not in the aggregate exceed $110 million. It is uncertain whether such bill will be enacted, either in its present form or in some modified form. However, given the State's projected financial condition for the next two fiscal years, if such legislation is enacted, the Authority expects to consider making such additional voluntary contributions to the State. The Authority's Trustees would only provide such additional financial assistance if and to the extent that monies are available to the Authority for such purpose and are not needed for Authority purposes.

(13) St. Lawrence Relicensing

On October 23, 2003, the Federal Energy Regulatory Commission (FERC) issued to the Authority a new 50-year license (New License) for the St. Lawrence-FDR project, effective November 1, 2003. The Authority estimates that the total costs associated with the relicensing of the St. Lawrence-FDR project for a period of 50 years will be approximately $210 million of which approximately $108 million has already been spent or will be spent in the near future. These total costs could increase in the future as a result of additional requirements that may be imposed by FERC under the New License.

KEY TO ABBREVIATIONS

A-C

Act - *Power Authority Act*

ART Notes - *Adjustable Rate Tender Notes*

Authority - *Power Authority of the State of New York or New York Power Authority*

B-G -*Blenheim-Gilboa Pumped Storage Power Project*

CAS Projects Funds - *Clean Air for Schools Projects Funds*

Con Ed - *Consolidated Edison Company of New York, Inc.*

CP - *Commercial Paper*

D-H

DOE - *U.S. Department of Energy*

EDPAB - *New York State Economic Development Power Allocation Board*

EMCP - *Extendible Municipal Commercial Paper*

Energy Act - *Energy Policy Act of 1992*

Entergy - *as used herein refers to Entergy Nuclear FitzPatrick, LLC and Entergy Nuclear Indian Point 3, LLC, which are subsidiaries of Entergy Nuclear Inc.*

FAS - Financial Accounting Standards

FASB - *Financial Accounting Standards Board*

FERC - *Federal Energy Regulatory Commission*

Flynn - *Richard M. Flynn Power Plant*

GAAP - *Generally Accepted Accounting Principles*

GAS - *Governmental Accounting Standards*

GASB - *Governmental Accounting Standards Board*

I-L

IP3 - *Indian Point 3 Nuclear Power Plant*

ISO - *Independent System Operator*

JAF - *James A. FitzPatrick Nuclear Power Plant*

KW - *Kilowatt: 1,000 watts*

KWh - *Kilowatt-hour: a unit of electrical energy equal to one kilowatt of power supplied or taken from an electric circuit steadily for one hour. A kilowatt-hour is the amount of electrical energy necessary to light ten 100-watt light bulbs for one hour.*

LIBOR - *London Interbank Offered Rate*

LILCO - *Long Island Lighting Company*

LIPA - *Subsidiary of Long Island Power Authority used to acquire the transmission and distribution system of LILCO.*

LISC - *Long Island Sound Cable transmission facility*

M-O

MD&A - *Management's Discussion & Analysis*

MDC - *Maximum Dependable Capability*

NERC - *Northeast Electric Reliability Council*

NRC - *U.S. Nuclear Regulatory Commission*

NYISO - *New York Independent System Operator*

NYPA - *New York Power Authority*

O&M - *Operations and Maintenance*

OPEB - *Other Postemployment Benefits*

P-Z

P&SA - *Purchase and Sale Agreement*

P4J - *Power for Jobs*

POCR Funds - *Petroleum Overcharge Restitution Funds*

Poletti - *Charles Poletti Power Project*

PPA - *Power Purchase Agreement*

PSC - *New York State Public Service Commission*

SCPPs - *Small, Clean Power Plants*

SENY - *Southeastern New York*

State - *State of New York*

ABOUT NYPA

The New York Power Authority is the nation's largest state-owned power organization and one of New York's leading electricity suppliers. NYPA provides lower-cost power to government agencies; to municipally owned and rural-cooperative electric systems; to job-producing companies and non-profit groups; to private utilities for resale—without profit—to their customers; and to neighboring states, under federal requirements. The Power Authority is also a national leader in promoting energy efficiency and the development of clean energy technologies and electric vehicles. A non-profit, public-benefit energy corporation, NYPA does not use tax revenues or state credits. It finances its projects through bond sales to private investors.

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