NEW ISSUE—BOOK ENTRY ONLY

In the opinion of Bond Counsel to the Authority, under existing statutes and court decisions and assuming continuing compliance with certain tax covenants described herein, (i) interest on the Series 2007 A Bonds and Series 2007 C Bonds is excluded from gross income for Federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), (ii) interest on the Series 2007 A Bonds and Series 2007 C Bonds is not treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code; such interest, however, is included in the adjusted current earnings of certain corporations for purposes of calculating the alternative minimum tax imposed on such corporations, and (iii) interest on the Series 2007 B Bonds is wholly includable in the gross income of the owners thereof for Federal income tax purposes. See "Tax Matters" herein. In addition, in the opinion of Bond Counsel, under existing statutes, interest on the Series 2007 A Bonds, Series 2007 B Bonds and Series 2007 C Bonds is exempt from personal income taxes imposed by the State of New York or any political subdivision thereof (including The City of New York), and the Series 2007 A Bonds, Series 2007 B Bonds and Series 2007 C Bonds are exempt from all taxation directly imposed thereon by or under the authority of the State, except estate or gift taxes and taxes on transfers.

$602,445,000
Power Authority of the State of New York
Revenue Bonds
$82,025,000 Series 2007 A
$256,710,000 Series 2007 B (Federally Taxable)
$263,710,000 Series 2007 C

Dated: Date of Delivery **Due: November 15, as shown on inside cover page**

The Series 2007 A Bonds ("2007 A Bonds"), the Series 2007 B Bonds ("2007 B Bonds") and the Series 2007 C Bonds ("2007 C Bonds"), collectively referred to as the "2007 Bonds," will be issued only as fully registered bonds registered in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"), New York, New York, which will act as securities depository for the 2007 Bonds. Individual purchases will be made in book-entry-only form, in the principal amount of $5,000 or integral multiples thereof. Purchasers will not receive certificates representing their interest in the 2007 Bonds purchased. So long as DTC or its nominee is the registered owner of the 2007 Bonds, payments of the principal of, premium, if any, and interest on the 2007 Bonds will be made directly to DTC. Disbursement of such payments to DTC Participants is the responsibility of DTC, and disbursements of such payments to the beneficial owners is the responsibility of DTC Participants and Indirect Participants. See "PART 1—APPENDIX B—Book-Entry-Only System Procedures" herein. The Bank of New York is the Trustee under the General Resolution Authorizing Revenue Obligations, herein described. Interest on the 2007 A Bonds and 2007 B Bonds will be payable on May 15, 2008 and semiannually thereafter on November 15 and May 15. Interest on the 2007 C Bonds will be payable on November 15, 2007 and semiannually thereafter on May 15 and November 15. Certain of the 2007 Bonds are subject to optional and mandatory redemption prior to maturity as described herein.

The 2007 Bonds will be payable from and secured by a pledge of the Trust Estate (subject to no prior pledge or lien), after the payment of Operating Expenses, including all revenues derived directly or indirectly from any of the Authority's operations other than those revenues attributable directly or indirectly to the ownership or operation of any Separately Financed Projects as described herein. The 2007 Bonds are on a parity with other Obligations and the Parity Debt of the Authority. See "PART 1—SECURITY FOR THE 2007 BONDS" herein.

The scheduled payment of principal and interest on the 2007 Bonds when due will be guaranteed under a financial guaranty insurance policy to be issued concurrently with the delivery of the 2007 Bonds by MBIA Insurance Corporation

mbia

WISDOM IN ACTION[SM]

as more fully described under "PART 1—BOND INSURANCE".

The Authority has no taxing power and its obligations are not debts of the State of New York or of any political subdivision of the State, other than the Authority.

The 2007 Bonds are offered when, as and if issued and accepted by the Underwriters, and subject to the approval of legality by Hawkins Delafield & Wood LLP, Bond Counsel to the Authority. Certain legal matters are subject to the approval of Nixon Peabody LLP, Special Counsel to the Authority. Certain legal matters will be passed upon for the Underwriters by their counsel, Winston & Strawn LLP. It is expected that the 2007 Bonds in definitive form will be available for delivery in New York, New York, on or about October 29, 2007.

Citi

JPMorgan Goldman, Sachs & Co. Merrill Lynch & Co.

October 11, 2007, as supplemented October 12, 2007

$82,025,000
Series 2007 A Bonds

TERM BONDS

$41,000,000 5.00% Term Bonds Due November 15, 2047 – Yield 4.63%* CUSIP Number 64989KGJ9†
$41,025,000 4.50% Term Bonds Due November 15, 2047 – Yield 4.75% CUSIP Number 64989KGH3†

$256,710,000
Series 2007 B Bonds (Federally Taxable)

SERIAL BONDS

Maturity November 15	Principal Amount	Interest Rate	Price or Yield	CUSIP† (64989K)
2013	$3,175,000	5.253%	100%	GK6
2014	3,345,000	5.373	100	GL4
2015	3,520,000	5.503	100	GM2
2016	3,715,000	5.553	100	GN0
2017	3,920,000	5.603	100	GP5

TERM BONDS

$150,815,000 5.905% Term Bonds Due November 15, 2037 – Price 100% CUSIP Number 64989KGQ3†
$88,220,000 5.985% Term Bonds Due November 15, 2043 – Price 100% CUSIP Number 64989KGR1†

$263,710,000
Series 2007 C Bonds

SERIAL BONDS

Maturity November 15	Principal Amount	Interest Rate	Price or Yield	CUSIP† (64989K)
2014	$ 5,000,000	4.00%	3.73%	GS9
2014	22,220,000	5.00	3.73	GT7
2015	28,520,000	5.00	3.81	GU4
2016	31,675,000	5.00	3.89	GV2
2017	31,760,000	5.00	3.97	GW0
2018	5,000,000	4.00	4.05	GX8
2018	29,900,000	5.00	4.05*	GY6
2019	5,000,000	4.00	4.11	GZ3
2019	30,670,000	5.00	4.11*	HA7
2020	10,000,000	4.00	4.15	HB5
2020	26,170,000	5.00	4.15*	HC3
2021	10,000,000	4.00	4.20	HD1
2021	27,795,000	5.00	4.20*	HE9

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* Priced at the stated yield to the November 15, 2017 optional redemption date at a redemption price of 100%.

† CUSIP numbers have been assigned by an organization not affiliated with the Authority and are included solely for the convenience of the holders of the 2007 Bonds. The Authority is not responsible for the selection or uses of these CUSIP numbers, nor is any representation made as to their correctness on the 2007 Bonds or as indicated on the cover hereof.

No dealer, broker, salesperson or other person has been authorized by the Power Authority of the State of New York (the "Authority") to give any information or to make representations, other than as contained in this Official Statement, and if given or made, such other information or representations must not be relied upon as having been authorized by the Authority. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the 2007 Bonds by any person, in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale.

The information set forth herein has been furnished by the Authority and includes information obtained from other sources, all of which are believed to be reliable. The information and expressions of opinion contained herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Authority since the date hereof. Such information and expressions of opinion are made for the purpose of providing information to prospective investors and are not to be used for any other purpose or relied on by any other party.

This Official Statement contains statements which, to the extent they are not recitations of historical fact, constitute "forward-looking statements." In this respect, the words "estimate", "project", "anticipate", "expect", "intend", "believe" and similar expressions are intended to identify forward-looking statements. A number of important factors affecting the Authority's business and financial results could cause actual results to differ materially from those stated in the forward-looking statements.

In connection with the offering of the 2007 Bonds, the Underwriters may overallot or effect transactions which stabilize or maintain the market price of such bonds at levels above those which might otherwise prevail in the open market. Such stabilization, if commenced, may be discontinued at any time.

THESE SECURITIES HAVE NOT BEEN RECOMMENDED BY ANY FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE NOT CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THIS DOCUMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

THIS OFFICIAL STATEMENT CONSISTS OF THE COVER PAGE, THE INSIDE FRONT COVER, THE TABLES OF CONTENTS, THE SUMMARY AND THIS PART 1, INCLUDING THE APPENDICES TO THIS PART 1 (ALL OF THE FOREGOING ARE REFERRED TO COLLECTIVELY AS "PART 1"), AND THE ATTACHED PART 2, INCLUDING ALL APPENDICES THERETO (COLLECTIVELY, "PART 2"). BOTH THIS PART 1 AND PART 2 ARE DATED OCTOBER 11, 2007, AS SUPPLEMENTED OCTOBER 12, 2007. THIS PART 1, TOGETHER WITH PART 2, CONSTITUTES THE AUTHORITY'S OFFICIAL STATEMENT RELATING TO THE 2007 BONDS (AND ONLY SUCH BONDS). BOTH PART 1 AND PART 2 MUST BE READ IN THEIR ENTIRETY.

The Underwriters have provided the following sentence for inclusion in this Official Statement: The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, their respective responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

Other than with respect to information concerning MBIA Insurance Corporation (the "Bond Insurer" or "MBIA") contained under the captions "PART 1—BOND INSURANCE—The MBIA Insurance Corporation Insurance Policy," "—MBIA Insurance Corporation" and "—Financial Strength Ratings of MBIA," and "PART 1—APPENDIX E—SPECIMEN OF FINANCIAL GUARANTY INSURANCE POLICY" herein, none of the information in this Official Statement has been supplied or verified by the Bond Insurer and the Bond Insurer makes no representation or warranty, express or implied, as to (i) the accuracy or completeness of such information or (ii) the validity of the 2007 Bonds or the exclusion of interest on the 2007 A Bonds and 2007 C Bonds from gross income for Federal income tax purposes.

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SUMMARY

The following summary does not purport to be complete and is qualified in its entirety by, and should be read in conjunction with, the more detailed information appearing elsewhere in this Official Statement and any supplement or amendment hereto. Capitalized terms used in this Summary and not defined herein have the meanings given to such terms elsewhere in this Official Statement.

Issuer	Power Authority of the State of New York (the "Authority") is a corporate municipal instrumentality and political subdivision of the State of New York. The Authority generates, transmits and sells electric power and energy principally at wholesale. The Authority's primary customers are municipal and investor-owned utilities and rural electric cooperatives located throughout New York State, high load factor industries and other businesses, various public corporations located within the metropolitan area of New York City, and certain out-of-state customers. The Authority owns and operates six major generating facilities, 11 small electric generating facilities, and five small hydroelectric facilities, with a total installed capacity of 6,846 MW, and a number of transmission lines, including major 765-kV and 345-kV transmission facilities.
The 2007 Bonds	The 2007 Bonds are being offered in the principal amount per maturity and bearing the interest rates set forth on the cover and inside front cover pages of this Official Statement. The 2007 Bonds will be issued pursuant to the Authority's General Resolution Authorizing Revenue Obligations, adopted on February 24, 1998, as amended and supplemented (the "General Resolution").
Denominations	$5,000 or any integral multiple thereof.
Interest Payment Dates	2007 A Bonds and 2007 B Bonds: May 15, 2008 and semiannually thereafter on each November 15 and May 15. 2007 C Bonds: November 15, 2007 and semiannually thereafter on each May 15 and November 15.
Redemption	Certain of the 2007 Bonds are subject to optional and mandatory redemption prior to maturity on the dates and at the redemption prices described herein under the caption "PART 1—THE 2007 BONDS—Redemption."
Security for the 2007 Bonds	The 2007 Bonds will be payable from and secured by a pledge of the Trust Estate (subject to no prior pledge or lien), including all revenues derived directly or indirectly from any of the Authority's operations other than those revenues attributable directly or indirectly to the ownership or operation of any Separately Financed Projects and not including any Federal or State grant moneys the receipt of which is conditioned upon their expenditure for a particular purpose. The General Resolution provides that the amounts in the Operating Fund are to be used to pay debt service on the Obligations, including the 2007 Bonds, and to pay Parity Debt after the payment of Operating Expenses. See "PART 1—SECURITY FOR THE 2007 BONDS."

Rate Covenant	The Authority has covenanted in the General Resolution that it shall at all times maintain rates, fees or charges sufficient, together with other moneys available therefor, to pay all Operating Expenses of the Authority and to pay the debt service on all Obligations, including the 2007 Bonds. See "PART 1—SECURITY FOR THE 2007 BONDS." The Authority is a party to various power sales agreements which impose limitations on the Authority's discretion to establish rate increases. See "PART 2—POWER SALES."
Application of Proceeds	The proceeds of the 2007 A Bonds will be used to refund approximately $16 million of the Authority's Commercial Paper Notes, finance a portion of the costs of the relicensing of the Niagara Project, and to pay the costs of issuance of the 2007 A Bonds. The proceeds of the 2007 B Bonds will be used to refund approximately $86 million of the Authority's Commercial Paper Notes, finance a portion of the costs of the relicensing and modernization of the Authority's St. Lawrence-FDR Project and the relicensing of the Niagara Project, and to pay the costs of issuance of the 2007 B Bonds. The proceeds of the 2007 C Bonds will be used to refund a portion of the Authority's outstanding Series 2002 A Revenue Bonds and to pay the costs of issuance of the 2007 C Bonds. See "Part 1—APPLICATION OF THE 2007 BOND PROCEEDS."
General Resolution Funds	Two funds are established under the General Resolution: the Operating Fund and the Capital Fund, both held by the Authority. The Authority may also establish additional funds and accounts. Amounts in the Operating Fund shall be used in the following order of priority: to pay Operating Expenses; to pay debt service on Obligations, which includes the 2007 Bonds and Parity Debt; to pay debt service on any Subordinated Indebtedness and Subordinated Contract Obligations; for withdrawal and deposit in the Capital Fund; and for withdrawal for any lawful corporate purpose, provided that such amounts are not needed at the time of such withdrawal to pay Operating Expenses or debt service as described above. See "PART 1—SECURITY FOR THE 2007 BONDS." The Authority shall from time to time, and in all events prior to any withdrawal of moneys from the Operating Fund for lawful corporate purposes, as described above, determine the amount, if any, to be held for reserves in the Operating Fund. Amounts in the Capital Fund shall be applied for the Capital Costs of the Authority, but must be applied to the payment of debt service on the Obligations, including the 2007 Bonds and Parity Debt, if needed.
Additional Indebtedness; Parity Debt	As of June 30, 2007, the Authority had outstanding $1,103,405,000 in principal amount of Revenue Bonds, which are Obligations on a parity with the 2007 Bonds. As of June 30, 2007, the Authority

had outstanding $150,000,000 of Adjustable Rate Tender Notes issued in 1985 (the "ART Notes"), which are on a parity with the Revenue Bonds, including the 2007 Bonds.

The Authority may issue additional Obligations pursuant to the General Resolution, payable and secured on a parity with the 2007 Bonds, for any purpose of the Authority authorized by the Act, as amended from time to time, or by other then-applicable State statutory provisions. The principal amount of the Obligations which may be delivered under the General Resolution is not limited, and there is no debt service coverage or historical or projected earnings test that must be satisfied as a precondition to any such delivery.

The Authority may also incur additional Parity Debt payable and secured on a parity with Obligations, including the 2007 Bonds.

Parity Debt currently includes the ART Notes, any notes issued under a revolving credit agreement providing liquidity support for the ART Notes, and the scheduled payments to be made by the Authority under several interest-rate swap agreements (see "PART 1—SECURITY FOR THE 2007 BONDS—Additional Debt Issuance"). Parity Debt may also be incurred in connection with, among other things, Credit Facilities, Qualified Swaps and certain take-or-pay fuel or power contracts. See "PART 2—APPENDIX 1—SUMMARY OF CERTAIN PROVISIONS OF THE GENERAL RESOLUTION—Credit Facilities; Qualified Swaps and Other Similar Arrangements; Parity Debt."

The Authority may issue Subordinated Indebtedness or incur Subordinated Contract Obligations payable from the Trust Estate subject and subordinate to the payments to be made with respect to the Obligations, including the 2007 Bonds, and any Parity Debt, and secured by a lien on and pledge of the Trust Estate junior and inferior to the lien on and pledge of the Trust Estate created for the payment of the Obligations, including the 2007 Bonds, and any Parity Debt.

As of June 30, 2007, the Authority had outstanding $854,339,000 of Subordinated Indebtedness.

The Authority may issue bonds, notes, or other obligations or evidences of indebtedness, other than Obligations, for any project authorized by the Act or by other then applicable State statutory provisions. The Authority also may finance any such project from other available funds (any project so financed is referred to herein as a "Separately Financed Project"), if such bonds, notes, or other obligations or evidences of indebtedness, if any, and the Authority's share of any operating expenses related to such Separately Financed Project, are payable solely from the revenues or other income derived from the ownership or operation of such Separately Financed Project or from other available funds of the Authority released from the lien on the Trust Estate in accordance with the General Resolution. There are currently no Separately Financed Projects.

Registration of the 2007 Bonds....	The 2007 Bonds will be issuable as fully registered bonds in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"). No person acquiring an interest in the 2007 Bonds (a "Beneficial Owner") will be entitled to receive a 2007 Bond in certificated form (a "Definitive Obligation"), except under the limited circumstances described in this Official Statement under "PART 1— APPENDIX B—BOOK-ENTRY-ONLY SYSTEM PROCEDURES." Unless and until Definitive Obligations are issued, all references to actions by Owners will refer to actions taken by DTC, upon instructions from DTC Participants, and all references herein to distributions, notices, reports and statements to Owners shall refer to distributions, notices, reports and statements, respectively, to DTC or Cede & Co., as the registered owner of the 2007 Bonds, or to DTC Participants for distribution to Beneficial Owners in accordance with DTC procedures.
Financial Guaranty Insurance Policy........................	Payment of the principal and interest on the 2007 Bonds will be insured by a financial guaranty insurance policy to be issued by MBIA Insurance Corporation ("MBIA" or the "Bond Insurer"). See "PART 1—BOND INSURANCE."
Tax Considerations	In the opinion of Bond Counsel to the Authority, under existing statutes and court decisions and assuming continuing compliance with certain tax covenants described herein, (i) interest on the 2007 A Bonds and 2007 C Bonds is excluded from gross income for Federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the "Code") and (ii) interest on the 2007 A Bonds and 2007 C Bonds will not be treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code; such interest, however, is included in the adjusted current earnings of certain corporations for purposes of calculating the alternative minimum tax imposed on such corporations. Interest on the Series 2007 B Bonds is wholly includable in the gross income of the owners thereof for Federal income tax purposes. See "PART 1—TAX MATTERS." In addition, in the opinion of Bond Counsel under existing statutes, interest on the 2007 Bonds is exempt from personal income taxes imposed by the State of New York or any political subdivision thereof (including The City of New York), and the 2007 Bonds are exempt from all taxation directly imposed thereon by or under the authority of the State, except estate or gift taxes and taxes on transfers. See "PART 1—TAX MATTERS."

Recent Developments	By order issued March 15, 2007, the Federal Energy Regulatory Commission ("FERC") issued the Authority a new, 50-year license for the Niagara Project effective September 1, 2007. In mid-April 2007, two petitions for rehearing were filed by certain entities with FERC regarding its March 15, 2007 order, which petitions were denied by FERC in its order issued September 21, 2007. See "PART 2—THE AUTHORITY'S FACILITIES—Niagara Relicensing."
Trustee	The Bank of New York.
Financial Advisor	Public Financial Management, Inc.
Ratings	The 2007 Bonds are insured by MBIA, and are expected to be rated "Aaa" by Moody's Investors Service, Inc. ("Moody's"), "AAA" by Standard & Poor's Ratings Services ("S&P"), a division of The McGraw-Hill Companies, Inc., and "AAA" by Fitch Ratings ("Fitch"), on the date of issuance of the 2007 Bonds. Such 2007 Bonds are expected to be assigned these ratings upon, and solely as a result of, the issuance of a financial guaranty insurance policy by the Bond Insurer. See "PART 1—BOND INSURANCE." Moody's, S&P, and Fitch have also assigned underlying ratings of "Aa2", "AA–", and "AA", respectively, to such 2007 Bonds.

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of the
OFFICIAL STATEMENT
of the
POWER AUTHORITY OF THE STATE OF NEW YORK
$602,445,000
REVENUE BONDS
$82,025,000 Series 2007 A
$256,710,000 Series 2007 B (Federally Taxable)
$263,710,000 Series 2007 C

This Official Statement provides certain information concerning the Power Authority of the State of New York (the "Authority") in connection with the issuance of the Authority's Series 2007 A Bonds ("2007 A Bonds"), Series 2007 B Bonds ("2007 B Bonds") and Series 2007 C Bonds ("2007 C Bonds"), collectively referred to as the "2007 Bonds." This Official Statement is dated October 11, 2007 to reflect the execution of a Contract of Purchase for the 2007 A Bonds and 2007 B Bonds on that date, and it was supplemented October 12, 2007 to reflect the execution of a Contract of Purchase for the 2007 C Bonds on October 12, 2007. The 2007 Bonds are authorized to be issued pursuant to the Power Authority Act of the State of New York (the "State"), Title 1 of Article 5 of the Public Authorities Law, Chapter 43-A of the Consolidated Laws of the State of New York, as amended from time to time (the "Act"), and the Authority's "General Resolution Authorizing Revenue Obligations," adopted on February 24, 1998, as amended and supplemented, including, in regard to the 2007 Bonds, an Eighth Supplemental Resolution adopted on September 25, 2007, which authorized the issuance of the 2007 Bonds. The General Resolution Authorizing Revenue Obligations, as amended and supplemented, is herein collectively referred to as the "General Resolution." The outstanding bonds, notes, and other obligations (including the 2007 Bonds) of the Authority hereafter issued as parity obligations and outstanding pursuant to the General Resolution are referred to herein as the "Obligations." All words and terms which are defined in the General Resolution are used herein as so defined.

INTRODUCTION

The Authority is a corporate municipal instrumentality and political subdivision of the State created in 1931 by the Act, which has its principal office located at 30 South Pearl Street, Albany, New York 12207-3425. The Authority generates, transmits and sells electric power and energy, principally at wholesale, as permitted or required by applicable law. The Authority's primary customers are municipal and investor-owned utilities and rural electric cooperatives located throughout New York State, high load factor industries, the Authority's Power for Jobs Program customers, 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 owns and operates six major generating facilities, 11 small electric generating facilities, and five small hydroelectric facilities, with a total installed capacity of 6,846 megawatts ("MW"), and a number of transmission lines, including major 765-kilovolt ("kV") and 345-kV transmission facilities (see "PART 2—THE AUTHORITY'S FACILITIES").

The Authority's generating facilities consist of two large hydroelectric facilities (Niagara and St. Lawrence-FDR), a large pumped-storage hydroelectric facility (Blenheim-Gilboa), three oil-and-gas-fired facilities (Poletti, Flynn, and the combined-cycle electric generating plant located at the Poletti site, referred to herein as the "500-MW Plant"), 11 small electric generating facilities, and various small hydroelectric facilities. The Authority's net generation in 2006 by energy source was as follows: hydroelectric 75%; and oil/gas 25%. In 2006, the Authority generated approximately 17% of the electric energy used in New York State. The Authority also supplied a significant portion of its customers' needs through purchased power (see "PART 2—POWER SALES"). In addition to Authority-supplied energy, electric energy consumed in New York State came from New York generating companies, municipal electric systems, and out-of-state utilities, with a small amount of such energy being derived from consumer-owned generation. Although the Authority's rates for power and energy vary depending upon a number of factors, overall, the Authority provides low cost power and energy to its customers.

The customers served by the Authority and the rates paid by such customers vary with the facility or other source supplying the power and energy (see "PART 2—POWER SALES"). The following is a brief description of the customers served by the Authority.

St. Lawrence-FDR and Niagara Customers. Power and energy from the St. Lawrence-FDR and Niagara hydroelectric facilities are sold to New York investor-owned electric utilities, municipal electric systems, rural electric cooperatives, industrial customers, certain public bodies, and out-of-state customers.

Blenheim-Gilboa Customers. Blenheim-Gilboa power and energy are used to meet the requirements of the Authority's business and governmental customers and to provide services in the New York Independent System Operator ("NYISO") markets. In addition, 50 MW of the Blenheim-Gilboa output is sold to a wholly-owned subsidiary of the Long Island Power Authority, which subsidiary is doing business as "LIPA" (hereinafter such subsidiary is referred to as "LIPA").

Southeastern New York ("SENY") Governmental Customers. Power and energy purchased by the Authority in the capacity and energy markets, as supplemented by Authority resources, are sold to various municipalities, school districts and public agencies in the New York City and Westchester County area.

Flynn. The output of Flynn is being sold to LIPA.

Certain Purchased Power and Energy Customers. The Authority also sells power and energy purchased in the capacity and energy markets to industrial customers, the United States Department of Energy ("DOE"), New York investor-owned electric utilities, Power for Jobs Program customers, businesses, municipal electric systems, rural electric cooperatives, and various municipal utility service agencies.

Transmission Facilities. The Authority owns approximately 1,400 circuit miles of high voltage transmission lines, more than any other utility in New York State, with the major lines being the 765-kV Massena-Marcy line, the 345-kV Marcy-South line, the 345-kV Niagara-to-Edic transmission line, and the 345-kV Long Island Sound Cable (the "Cable"). With the implementation of the NYISO arrangement in November 1999, all transmission service over the Authority's facilities is either pursuant to the NYISO tariffs or pre-existing Authority contracts (see "PART 2—NEW YORK INDEPENDENT SYSTEM OPERATOR").

Energy Services Program. The Authority is also carrying out an energy services program for certain of its customers and other entities in New York State, with outstanding aggregate expenditures under this program of $300.4 million as of June 30, 2007 (see "PART 2—ENERGY SERVICES").

Indebtedness. As of June 30, 2007, $1,103,405,000 of senior lien Obligations (the "Revenue Bonds"), issued under the General Resolution, were outstanding.

As of June 30, 2007, $150,000,000 of Adjustable Rate Tender Notes (the "ART Notes"), were outstanding (see "PART 2—CERTAIN FINANCIAL AND OPERATING MATTERS—Outstanding Indebtedness"). The ART Notes are on a parity with the Revenue Bonds and other Obligations to be issued by the Authority under the General Resolution, including the 2007 Bonds.

As of June 30, 2007, $684,489,000 of Commercial Paper Notes ("CP Notes") and $74,850,000 of the Series 3 and 4 Subordinate Revenue Bonds ("Subordinate Bonds") were outstanding. The CP Notes and the Subordinate Bonds are Subordinated Indebtedness of the Authority as provided in the General Resolution.

As of June 30, 2007, $95,000,000 of Extendible Municipal Commercial Paper Notes (the "EMCP Notes") were outstanding. The EMCP Notes are Subordinated Indebtedness of the Authority as provided in the General Resolution.

Information Included in this Official Statement. Part 1 of this Official Statement contains a description of the 2007 Bonds and the security for the 2007 Bonds, and a discussion of other matters relating to the 2007 Bonds. In Part 2 of this Official Statement, there is a description of the Authority, its operations and financial condition and a discussion of the evolving New York electric utility industry, along with relevant developments nationwide. The financial statements of the Authority for the year ended December 31, 2006, along with those for the years ended December 31, 2005 and December 31, 2004, have been filed with the Nationally Recognized Municipal Securities Information Repositories ("NRMSIRs") approved by the Securities and Exchange Commission (the "SEC") and identified on the SEC website at "http://www.sec.gov/info/municipal/nrmsir.htm#state." The Authority's financial statements for the year ended December 31, 2006, are hereby incorporated by reference in this Official Statement. Such information may be obtained directly from the NRMSIRs. Informational copies of the Authority's financial statements for the years ended December 31, 2006, 2005, and 2004 are available on the Authority's website at "http://www.nypa.gov/financial/default.htm." No information on the Authority's website is deemed incorporated by reference in this Official Statement. A discussion of certain litigation pending or threatened against the Authority, or involving or adversely affecting the property or assets of or under the control of the Authority, is set forth in Appendix D to Part 1 of this Official Statement. A summary of certain provisions of the General Resolution is set forth in Appendix 1 to Part 2 of this Official Statement. The proposed form of the approving opinion of Bond Counsel is set forth in Appendix A to Part 1 of this Official Statement. Extracts from the schedule of The Depository Trust Company ("DTC") entitled "Sample Official Statement Language Describing Book-Entry-Only Issuance" are set forth in Appendix B to Part 1 of this Official Statement. The form of the Financial Guaranty Insurance Policy relating to the 2007 Bonds is set forth in Appendix E to Part 1 of this Official Statement. Backgrounds of the Authority's Trustees and certain senior management staff are set forth in Appendix 2 to Part 2 of this Official Statement. The form of the Continuing Disclosure Agreement that the Authority will execute in connection with the issuance of the 2007 Bonds is set forth in Appendix C to Part 1 of this Official Statement.

SECURITY FOR THE 2007 BONDS

The General Resolution authorizes the issuance of the Obligations for any purpose authorized by the Act or other New York State statutory provision then applicable. All Obligations, including the 2007 Bonds, are payable from Revenues and secured by a pledge of the Trust Estate, subject to no prior pledge or lien.

Revenues

Revenues consist of all revenues, rates, fees, charges, rents, proceeds from the sale of Authority assets, insurance proceeds, and other income and receipts, as derived in cash by or for the account of the Authority directly or indirectly from any of the Authority's operations, including but not limited to the ownership or operation of any Project, but not including any such income or receipts attributable directly or indirectly to the ownership or operation of any Separately Financed Project (see "PART 2—APPENDIX 1—SUMMARY OF CERTAIN PROVISIONS OF THE GENERAL RESOLUTION—Conditions for Issuance of Obligations") and not including any federal or State grant moneys the receipt of which is conditioned upon their expenditure for a particular purpose.

Trust Estate

The Trust Estate consists of, collectively, (i) all Revenues; (ii) the proceeds of sale of the Obligations until expended for the purposes authorized by the Supplemental Resolution authorizing such Obligations; (iii) all funds, accounts and subaccounts established by the General Resolution, including investment earnings thereon; and (iv) all funds, moneys and securities and any and all other rights and interests in property, whether tangible or intangible, from time to time conveyed, mortgaged, pledged, assigned or transferred as and for additional security for the Obligations by the Authority, or by anyone on its behalf, or with its written consent, to the Trustee. Currently, the Trust Estate does not include any real property, structures, facilities, or equipment owned by the Authority.

Application of Revenues

The General Resolution requires that all Revenues, and such portion of the proceeds of any Obligations issued to pay Operating Expenses, be deposited into the Operating Fund. Amounts in the Operating Fund are to be paid out, accumulated or withdrawn from time to time for the following purposes and, as of any time, in the following order of priority:

(1) payment of reasonable and necessary Operating Expenses or accumulation in the Operating Fund as a reserve (i) for working capital, (ii) for such Operating Expenses the payment of which is not immediately required, including, but not limited to, amounts determined by the Authority to be required as an operating reserve, or (iii) deemed necessary or desirable by the Authority to comply with orders or other rulings of an agency or regulatory body having lawful jurisdiction;

(2) payment of, or accumulation in the Operating Fund as a reserve for the payment of, interest on and the principal or Redemption Price of Obligations, which includes the 2007 Bonds, and payments due under any Parity Debt, on a parity basis, on their respective due dates or redemption dates, as the case may be;

(3) payment of principal of and interest on any Subordinated Indebtedness or payment of amounts due under any Subordinated Contract Obligation;

(4) withdrawal and deposit in the Capital Fund; and

(5) withdrawal for any lawful corporate purpose as determined by the Authority, including but not limited to the purchase or redemption of Obligations or Subordinated Indebtedness, provided, that prior to any such withdrawal, the Authority shall have determined, taking into account anticipated future receipts of Revenues or other moneys constituting part of the Trust Estate, that the funds to be so withdrawn are not needed for any of the purposes set forth in paragraphs (1), (2) or (3) above (see "PART 2—APPENDIX 1—SUMMARY OF CERTAIN PROVISIONS OF THE GENERAL RESOLUTION").

In April 1998, the Authority adopted a resolution establishing an Operating Reserve of $150 million in the Operating Fund to support Authority operations if one of the Authority's plants were to become inoperative and require major expenditures to restore operations. In May 2007, in recognition of the increased volatility in recent years in the electricity and other commodity markets, and in consideration of certain broader enterprise-wide risks, the Authority by resolution increased the Operating Reserve to $175 million. While the Authority intends to maintain the $175 million Operating Reserve, the maintenance of the Reserve is at the discretion of the Authority's Board of Trustees and may at any time be modified or eliminated at the discretion of the Board.

Rate Covenant

The Authority has covenanted in the General Resolution that it shall at all times 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 moneys available therefor (including the anticipated receipt of proceeds of sale of Obligations or other bonds, notes or other obligations or evidence of indebtedness of the Authority that will be used to pay the principal of Obligations issued in anticipation of such receipt),

(i) to pay all Operating Expenses of the Authority,

(ii) to pay the debt service on all Obligations, including the 2007 Bonds, then Outstanding and the debt service on all Subordinated Indebtedness then outstanding, and all Parity Debt and Subordinated Contract Obligations, all as the same respectively become due and payable, and

(iii) to maintain any reserve established by the Authority pursuant to the General Resolution, in such amount as may be determined from time to time by the Authority in its judgment.

The Authority is a party to various power sales agreements which impose limitations on the Authority's discretion to establish rate increases (see "PART 2—POWER SALES").

The rates for firm power and associated energy from the St. Lawrence-FDR and Niagara hydroelectric facilities sold by the Authority have been established for certain customers in the context of an agreement settling litigation (see "PART 2—POWER SALES—St. Lawrence-FDR and Niagara").

The rates for power generated and transmission service provided by the Authority are not subject to the provisions of the New York Public Service Law nor to regulation by or the jurisdiction of the New York Public Service Commission ("PSC"). In connection with the establishment of rates or charges for the use of the Authority's transmission system, see the discussion of the NYISO arrangement in "PART 2—NEW YORK INDEPENDENT SYSTEM OPERATOR."

Covenant Regarding Projects

The General Resolution also requires the Authority to operate or cause to be operated each Project in a sound and economical manner and to maintain, preserve and keep the same or cause the same to be maintained, preserved and kept, in good repair, working order and condition, and from time to time to make all necessary and proper repairs, replacements and renewals so that at all times the operations thereof may be properly and advantageously conducted. The General Resolution permits the Authority to cease operating or maintaining, and to lease or dispose of, any Projects (other than, subject to the renewal of all operating licenses, the Niagara and St. Lawrence-FDR Projects (see "PART 2—CERTAIN FINANCIAL AND OPERATING MATTERS—New License for the Niagara Project" and "—St. Lawrence-FDR Project Relicensing")) if, in the judgment of the Authority, it is advisable to lease, dispose of, or not to operate and maintain the same and the operation thereof is not essential to the maintenance and continued operation of the rest of the Authority's Projects. See "PART 2—APPENDIX 1—SUMMARY OF CERTAIN PROVISIONS OF THE GENERAL RESOLUTION."

Additional Debt Issuance

The General Resolution permits the Authority to issue additional Obligations for any purpose authorized by the Act or other applicable New York State statutory provision, without restriction as to amount and without having to satisfy any debt service coverage or historical or projected earnings test. The Authority has covenanted in the General Resolution not to issue any bonds or evidences of indebtedness, other than the Obligations, secured by a pledge of the Trust Estate, and not to create or cause to be created any lien or charge on the Trust Estate, except to the extent provided in the General Resolution; provided that the Authority may, at any time, or from time to time, incur Subordinated Indebtedness or enter into Subordinated Contract Obligations payable from Revenues and secured by a pledge of the Trust Estate, and such pledge shall be subordinate in all respects to the pledge created by the General Resolution as security for payment of the Obligations, including the 2007 Bonds. As of the date of this Official Statement, the Subordinated Indebtedness issued by the Authority and outstanding consists of the CP Notes, the EMCP Notes, and the Subordinate Bonds (see "PART 2—CERTAIN FINANCIAL AND OPERATING MATTERS—Outstanding Indebtedness"). For a discussion of additional debt the Authority expects to issue in the period 2007-2011, see "PART 2—CERTAIN FINANCIAL AND OPERATING MATTERS—Projected Capital and Financing Requirements."

The Authority may also incur Parity Debt payable and secured on a parity with Obligations, including the 2007 Bonds. Parity Debt currently consists of the ART Notes, notes issued under a revolving credit agreement providing liquidity support for the ART Notes (such notes having no amounts currently outstanding), and the scheduled payments to be made under several interest-rate swap agreements entered into by the Authority, as discussed below. Parity Debt may also be incurred in connection with, among other things, Credit Facilities, Qualified Swaps and certain take-or-pay fuel or power contracts (see "PART 2—APPENDIX 1—SUMMARY OF CERTAIN PROVISIONS OF THE GENERAL RESOLUTION—Credit Facilities; Qualified Swaps and Other Similar Arrangements; Parity Debt").

In 1998, the Authority entered into several forward floating-to-fixed interest-rate swap agreements (collectively, the "1998 Swap Agreements") in connection with proposed future bond issues, of which a notional amount of approximately $252,135,000 remains outstanding. Pursuant to the General Resolution, payments to the counterparties relating to regularly scheduled payments under the 1998 Swap Agreements are on a parity with the principal and interest payments on the Obligations, including the 2007 Bonds, and the payment of any termination, or other fees, expenses, indemnification or other obligations to the counterparties under such 1998 Swap Agreements are payable as Subordinated Contract Obligations.

The Authority entered into a ten-year floating-to-fixed interest rate swap agreement which commenced in September 2006 relating to its ART Notes (the "ART Notes Swap Agreement"), having an initial notional amount of approximately $156 million which declines over the term of the agreement to approximately $75 million. The ART Notes Swap Agreement and the payments relating to any termination or other fees, expenses, indemnification or other obligations to the counterparty under such agreement are subordinate to the Obligations, including the 2007 Bonds.

In February 2006, the Authority entered into a forward floating-to-fixed interest rate swap agreement relating to the 2007 B Bonds ("2006 Swap Agreement"). The 2006 Swap Agreement has an initial notional amount of $290 million, a commencement date of October 16, 2007, an end date of November 15, 2037, and provides for early optional termination as well as for a mandatory termination on October 16, 2007. Contemporaneously with the pricing of the 2007 B Bonds, the 2006 Swap Agreement was terminated (on October 10, 2007), with the Authority receiving a termination payment of $7.57 million.

See the Authority's financial statements for the year ended December 31, 2006, Note H(1), for further discussion of these and other interest rate swap agreements entered into by the Authority.

In connection with future or outstanding debt, the Authority may enter into additional interest rate swap agreements, either of the fixed-to-floating rate or floating-to-fixed rate variety, which may also include forward swaps (see "PART 2—CERTAIN FINANCIAL AND OPERATING MATTERS—Outstanding Indebtedness"). The regularly scheduled payments under any such swap agreements could be either on a parity with the Obligations, including the 2007 Bonds, or subordinate to the Obligations, including the 2007 Bonds, as determined by the Authority. The payments relating to any termination or other fees, expenses, indemnification or other obligations to the counterparties under such swap agreements would be subordinate to the Obligations, including the 2007 Bonds.

The General Resolution also permits the Authority to issue bonds, notes, or any other obligations under another and separate resolution to finance a Separately Financed Project.

General

The Authority has no taxing power and its obligations are not debts of the State or of any political subdivision of the State, other than the Authority. The 2007 Bonds will not constitute a pledge of the faith and credit of the State or of any political subdivision thereof, other than the Authority. The issuance of the 2007 Bonds will not obligate the State or any of its political subdivisions to levy or pledge the receipts from any form of taxation for the payment of the 2007 Bonds.

For a description of other provisions of the General Resolution related to the security for the Obligations, including the 2007 Bonds, see "PART 2—APPENDIX 1—SUMMARY OF CERTAIN PROVISIONS OF THE GENERAL RESOLUTION."

USE OF PROCEEDS

The proceeds of the 2007 A Bonds will be used to refund approximately $16 million of the Authority's Commercial Paper Notes, finance a portion of the costs of the relicensing of the Niagara Project, and to pay the costs of issuance of the 2007 A Bonds. The proceeds of the 2007 B Bonds will be used to refund approximately $86 million of the Authority's Commercial Paper Notes, finance a portion of the costs of the relicensing and modernization of the Authority's St. Lawrence-FDR Project and the relicensing of the Niagara Project, and to pay the costs of issuance of the 2007 B Bonds. The proceeds of the 2007 C Bonds will be used to refund a portion of the Authority's Series 2002 A Revenue Bonds and to pay the costs of issuance of the 2007 C Bonds.

Moneys will be derived from the sources and applied to the uses approximately as set forth below:

Sources of Funds	
Principal Amount of the 2007 Bonds	$602,445,000.00
Net Original Issue Premium	16,603,151.40
2006 Swap Termination Payment	7,570,000.00
Available Authority Funds	6,205,304.44
Total	$632,823,455.84
Application of Funds	
Refunding of Commercial Paper Notes	101,831,600.00
Deposit into Niagara Construction Fund	118,402,425.00
Deposit into St. Lawrence-FDR Construction Fund	119,774,853.62
Deposit into Escrow Fund	283,808,814.08
Financing Costs (1)	9,005,763.14
Total	$632,823,455.84

(1) Includes costs of issuance, underwriters' discount, State bond issuance fee, and financial guaranty insurance policy premium.

THE 2007 BONDS

General Terms

The 2007 Bonds will be in the principal amount and will be dated, will mature at the times and in the principal amounts, will bear interest at the rates, and will be in the form of serial and term bonds, as set forth on the cover page of this Official Statement.

The 2007 Bonds are issuable in fully registered form in the denominations of $5,000 or any integral multiple thereof, registered only in the name of Cede & Co., as nominee of DTC (see "PART 1—APPENDIX B—BOOK-ENTRY-ONLY SYSTEM PROCEDURES"). So long as the 2007 Bonds are registered in the name of Cede & Co., principal and interest will be payable solely to Cede & Co., as nominee of DTC, as the sole registered owner of the 2007 Bonds, and, except under the caption "PART 1—TAX MATTERS," references herein to the registered owner or owner shall be to DTC and not the beneficial owners.

The 2007 A Bonds and 2007 B Bonds will bear interest payable on May 15, 2008 and semiannually on each November 15 and May 15 thereafter and the 2007 C Bonds will bear interest payable on November 15, 2007 and semiannually thereafter on each May 15 and November 15 thereafter, to the registered owners as of the close of business on the first day (whether or not a business day) of the month in which such interest payment date occurs by check or draft mailed to the address as it appears on the books of registry maintained by The Bank of New York, the Registrar pursuant to the General Resolution, at its principal corporate trust office.

Redemption

Optional Redemption – 2007 A Bonds

The 2007 A Bonds will be redeemable prior to maturity at the option of the Authority on or after November 15, 2017 at any time as a whole or in part as determined by the Authority, at a redemption price equal to the principal amount of the 2007 A Bonds to be redeemed, plus accrued interest to the redemption date.

Sinking Fund Redemption – 2007 A Bonds

Certain 2007 A Bonds will be subject to mandatory redemption through application of sinking fund installments prior to maturity in part by lot at 100% of the principal amount thereof plus accrued interest to the date of redemption, on the date and in the amounts of the sinking fund installments shown on the following schedule:

4.50% Term Bonds Due November 15, 2047

November 15	Principal Amount
2043	2,765,000
2044	8,200,000
2045	9,085,000
2046	10,005,000
2047	10,970,000

5.00% Term Bonds Due November 15, 2047

November 15	Principal Amount
2044	10,250,000
2045	10,250,000
2046	10,250,000
2047	10,250,000

In the event that a principal amount of 2007 A Bonds of any maturity is deemed to be no longer Outstanding, except by mandatory redemption pursuant to the preceding paragraph, such principal amount shall be applied to reduce the remaining sinking fund installments for such 2007 A Bonds, and in such order of maturity, as may be determined by the Authority.

Optional Redemption – 2007 B Bonds

The 2007 B Bonds are subject to redemption prior to their maturity at any time, at the option of the Authority, from any source available for such purpose, in whole or in part (and pro rata if less than all of a maturity is to be redeemed), at a redemption price equal to the principal amount of the 2007 B Bonds to be redeemed plus the Applicable Premium, if any, together with accrued interest to the redemption date. The "Applicable Premium" of any redeemed 2007 B Bond equals the excess of: (a) the present value at the date of redemption of 100% of the principal amount of such 2007 B Bond plus all required interest payments due on such 2007 B Bond through its Stated Maturity date (excluding accrued but unpaid interest), calculated by the Authority (which calculation shall be conclusive), using a discount rate equal to the Treasury Rate plus 12.5 basis points minus (b) the principal amount of such 2007 B Bond. The Applicable Premium cannot be less than $0.00. If the period from the date of redemption to the Stated Maturity date is greater than one year, the "Treasury Rate" will be equal to the yield to maturity (as compiled and published in the most recent Federal Reserve Statistical Release H. 15(519) that becomes publicly available at least two business days prior to the date of redemption (or, if such publication is no longer published, any publicly available source of similar market data) most nearly equal to the period from the date of redemption to the Stated Maturity date. If the period from the date of redemption to the Stated Maturity date is less than one year, the "Treasury Rate" will be equal to the weekly average yield of actually traded United States Treasury securities adjusted to a constant maturity of one year. The "Stated Maturity" date of any 2007 B Bond is the maturity date shown on the inside front cover hereof.

Sinking Fund Redemption – 2007 B Bonds

Certain 2007 B Bonds will be subject to mandatory redemption through application of sinking fund installments prior to maturity in part by lot at 100% of the principal amount thereof plus accrued interest to the date of redemption, on the date and in the amounts of the sinking fund installments shown on the following schedule:

Term Bonds Due November 15, 2037

November 15	Principal Amount
2018	4,140,000
2019	4,385,000
2020	4,645,000
2021	4,920,000
2022	5,210,000
2023	5,520,000
2024	5,845,000
2025	6,190,000
2026	6,555,000
2027	6,940,000
2028	7,350,000
2029	7,785,000
2030	8,245,000
2031	8,730,000
2032	9,250,000
2033	9,795,000
2034	10,370,000
2035	10,985,000
2036	11,635,000
2037	12,320,000

Term Bonds Due November 15, 2043

November 15	Principal Amount
2038	13,050,000
2039	13,830,000
2040	14,655,000
2041	15,535,000
2042	16,465,000
2043	14,685,000

In the event that a principal amount of 2007 B Bonds of any maturity is deemed to be no longer Outstanding, except by mandatory redemption pursuant to the preceding paragraph, such principal amount shall be applied to reduce the remaining sinking fund installments for such 2007 B Bonds, and in such order of maturity, as may be determined by the Authority.

Optional Redemption – 2007 C Bonds

Those 2007 C Bonds maturing on or after November 15, 2018 will be redeemable prior to maturity at the option of the Authority on or after November 15, 2017 at any time as a whole or in part as determined by the Authority, at a redemption price equal to the principal amount of the 2007 C Bonds to be redeemed, plus accrued interest to the redemption date.

Selection of 2007 Bonds to be Redeemed

In the event that less than all of the 2007 Bonds of a maturity are redeemed, the 2007 Bonds of such maturity to be redeemed will be selected by the Trustee in such manner as the Trustee shall deem appropriate and fair. In such event, for so long as a book-entry-only system is in effect with respect to the 2007 Bonds, DTC or its successor, and direct and indirect DTC participants, will determine the particular ownership interests of 2007 Bonds of such maturity to be redeemed. Any failure of DTC or its successor, or of a direct or indirect DTC participant, to make such determination will not affect the sufficiency or the validity of the redemption of 2007 Bonds to be redeemed (see "PART 1—APPENDIX B—BOOK-ENTRY-ONLY SYSTEM PROCEDURES").

Notice of Redemption

For so long as a book-entry-only system is in effect with respect to the 2007 Bonds, notice of redemption of 2007 Bonds to be redeemed is to be mailed, not less than 30 days nor more than 45 days prior to the redemption date, to DTC or its nominee or its successor. Any failure of DTC or its successor, or of a direct or indirect DTC participant, to notify a beneficial owner of a 2007 Bond of any redemption will not affect the sufficiency or the validity of the redemption of the 2007 Bonds to be redeemed (see "PART 1—APPENDIX B—BOOK-ENTRY-ONLY SYSTEM PROCEDURES").

Neither the Authority nor the Trustee can give any assurance that DTC or its successor, or direct or indirect DTC participants, will distribute such redemption notices to the beneficial owners of the 2007 Bonds, or that they will do so on a timely basis.

BOND INSURANCE

General

The Authority has received a commitment from MBIA Insurance Corporation ("MBIA" or the "Bond Insurer") to issue a financial guaranty insurance policy (the "Policy") to insure the scheduled payment of the principal of and interest on the 2007 Bonds (the "Insured Bonds") when due. The Bond Insurer has agreed, subject to the provisions of its commitment, to issue the Policy concurrently with the initial issuance of the Insured Bonds.

The following provisions of the General Resolution will apply to the Bond Insurer. The Trustee may, only with the consent of the Bond Insurer, and shall at the direction of the Bond Insurer, pursue remedies under the General Resolution with respect to the Insured Bonds. So long as the Bond Insurer is not in default of its payment obligations under the Policy insuring the Insured Bonds, the Bond Insurer shall, under the terms of the General Resolution, at all times be deemed to be the exclusive owner of the Insured Bonds for the purpose of all approvals, consents, waivers or institution of any action and the direction of all remedies. If the Bond Insurer pays the principal of or interest on the Insured Bonds, it will be subrogated to all of the rights of the owners of the Insured Bonds granted under the General Resolution, including the right to receive payment of principal of and interest on the Insured Bonds. The Bond Insurer shall have no rights under the General Resolution with respect to the Insured Bonds (except to the extent of amounts previously paid by the Bond Insurer and due and owing to the Bond Insurer) in the event the Bond Insurer is in default on its payment obligations under the Policy insuring the Insured Bonds.

There follows under this caption certain information concerning the Bond Insurer and the Policy which has been supplied by the Bond Insurer. The Bond Insurer has also supplied the specimen of the Policy attached to this Official Statement as APPENDIX E to this PART 1. No representation is made by the Authority, the Underwriters or any of their counsel as to the accuracy, completeness of adequacy of such information, or as to the absence of material adverse changes in such information subsequent to the date hereof. Neither the Authority, the Underwriters, or any of their counsel has made any independent investigation of the Bond Insurer or the Policy. Except for payment of the premium for the Policy by the Authority, neither the Authority nor the Underwriters have any responsibility whatsoever with respect to the Policy, including the maintenance or enforcement therefor or the collection of amounts payable thereunder.

Other than with respect to the accuracy of the information following under the next six captions and the specimen of the Policy included in APPENDIX E to PART 1 of this Official Statement, MBIA does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein or omitted herefrom. Additionally, MBIA makes no representation regarding the Insured Bonds or the advisability of investing in the Insured Bonds.

The MBIA Insurance Corporation Insurance Policy

The Policy unconditionally and irrevocably guarantees the full and complete payment required to be made by or on behalf of the Authority to the Paying Agent or its successor of an amount equal to (i) the principal of (either at the stated maturity or by an advancement of maturity pursuant to a mandatory sinking fund payment) and interest on, the Insured Bonds as such payments shall become due but shall not be so paid (except that in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments guaranteed by the Policy shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration, unless MBIA elects in its sole discretion, to pay in whole or in part any principal due by reason of such acceleration); and (ii) the reimbursement of any such payment which is subsequently recovered from any Owner of the Insured Bonds pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such Owner within the meaning of any applicable bankruptcy law (a "Preference").

The Policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Insured Bonds. The Policy does not, under any circumstance, insure against loss relating to: (i) optional or mandatory redemptions (other than mandatory sinking fund redemptions); (ii) any payments to be made on an accelerated basis; (iii) payments of the purchase price of Insured Bonds upon tender by an owner thereof; or (iv) any Preference relating to (i) through (iii) above. The Policy also does not insure against nonpayment of principal of or interest on the Insured Bonds resulting from the insolvency, negligence or any other act or omission of the Paying Agent or any other paying agent for the Insured Bonds.

Upon receipt of telephonic or telegraphic notice, such notice subsequently confirmed in writing by registered or certified mail, or upon receipt of written notice by registered or certified mail, by MBIA from the Paying Agent or any owner of an Insured Bond the payment of an insured amount for which is then due, that such required payment has not been made, MBIA on the due date of such payment or within one business day after receipt of notice of such nonpayment, whichever is later, will make a deposit of funds, in an account with U.S. Bank Trust National Association, in New York, New York, or its successor, sufficient for the payment of any such insured amounts which are then due. Upon presentment and surrender of such Insured Bonds or presentment of such other proof of ownership of the Insured Bonds, together with any appropriate instruments of assignment to evidence the assignment of the insured amounts due on the Insured Bonds as are paid by MBIA, and appropriate instruments to effect the appointment of MBIA as agent for such owners of the Insured Bonds in any legal proceeding related to payment of insured amounts on the Insured Bonds, such instruments being in a form satisfactory to U.S. Bank Trust National Association, U.S. Bank Trust National Association shall disburse to such owners or the Paying Agent payment of the insured amounts due on such Insured Bonds, less any amount held by the Paying Agent for the payment of such insured amounts and legally available therefor.

MBIA Insurance Corporation

MBIA Insurance Corporation ("MBIA") is the principal operating subsidiary of MBIA Inc., a New York Stock Exchange listed company (the "Company"). The Company is not obligated to pay the debts of or claims against MBIA. MBIA is domiciled in the State of New York and licensed to do business in and subject to regulation under the laws of all 50 states, the District of Columbia, the Commonwealth of Puerto Rico, the Commonwealth of the Northern Mariana Islands, the Virgin Islands of the United States and the Territory of Guam. MBIA, either directly or through subsidiaries, is licensed to do business in the Republic of France, the United Kingdom and the Kingdom of Spain and is subject to regulation under the laws of those jurisdictions. In February 2007, MBIA Corp. incorporated a new subsidiary, MBIA México, S.A. de C.V. ("MBIA Mexico"), through which it intends to write financial guarantee insurance in Mexico beginning in 2007. To date, MBIA Mexico has had no operating activity.

The principal executive offices of MBIA are located at 113 King Street, Armonk, New York 10504 and the main telephone number at that address is (914) 273-4545.

Regulation

As a financial guaranty insurance company licensed to do business in the State of New York, MBIA is subject to the New York Insurance Law which, among other things, prescribes minimum capital requirements and contingency reserves against liabilities for MBIA, limits the classes and concentrations of investments that are made by MBIA and requires the approval of policy rates and forms that are employed by MBIA. State law also regulates the amount of both the aggregate and individual risks that may be insured by MBIA, the payment of dividends by MBIA, changes in control with respect to MBIA and transactions among MBIA and its affiliates.

The Policy is not covered by the Property/Casualty Insurance Security Fund specified in Article 76 of the New York Insurance Law.

Financial Strength Ratings of MBIA

Moody's Investors Service, Inc. rates the financial strength of MBIA "Aaa."

Standard & Poor's, a division of The McGraw-Hill Companies, Inc. rates the financial strength of MBIA "AAA."

Fitch Ratings rates the financial strength of MBIA "AAA."

Each rating of MBIA should be evaluated independently. The ratings reflect the respective rating agency's current assessment of the creditworthiness of MBIA and its ability to pay claims on its policies of insurance. Any further explanation as to the significance of the above ratings may be obtained only from the applicable rating agency.

The above ratings are not recommendations to buy, sell or hold the Insured Bonds, and such ratings may be subject to revision or withdrawal at any time by the rating agencies. Any downward revision or withdrawal of any of the above ratings may have an adverse effect on the market price of the Insured Bonds. MBIA does not guaranty the market price of the Insured Bonds nor does it guaranty that the ratings on the Insured Bonds will not be revised or withdrawn.

MBIA Financial Information

As of December 31, 2006, MBIA had admitted assets of $10.9 billion (audited), total liabilities of $6.9 billion (audited), and total capital and surplus of $4.0 billion (audited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities. As of June 30, 2007, MBIA had admitted assets of $10.8 billion (unaudited), total liabilities of $6.8 billion (unaudited), and total capital and surplus of $4.0 billion (unaudited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities.

For further information concerning MBIA, see the consolidated financial statements of MBIA and its subsidiaries as of December 31, 2006 and December 31, 2005 and for each of the three years in the period ended December 31, 2006, prepared in accordance with generally accepted accounting principles, included in the Annual Report on Form 10-K of the Company for the year ended December 31, 2006 and the consolidated financial statements of MBIA and its subsidiaries as of June 30, 2007 and for the six month periods ended June 30, 2007 and June 30, 2006 included in the Quarterly Report on Form 10-Q of the Company for the quarter ended June 30, 2007, which are hereby incorporated by reference into this Official Statement and shall be deemed to be a part hereof.

Copies of the statutory financial statements filed by MBIA with the State of New York Insurance Department are available over the Internet at the Company's web site at http://www.mbia.com and at no cost, upon request to MBIA at its principal executive offices.

Incorporation of Certain Documents by Reference

The following documents filed by the Company with the Securities and Exchange Commission (the "SEC") are incorporated by reference into this Official Statement:

(1) The Company's Annual Report on Form 10-K for the year ended December 31, 2006; and

(2) The Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2007.

Any documents, including any financial statements of MBIA and its subsidiaries that are included therein or attached as exhibits thereto, filed by the Company pursuant to Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act after the date of the Company's most recent Quarterly Report on Form 10-Q or Annual Report on Form 10-K, and prior to the termination of the offering of the Insured Bonds offered hereby shall be deemed to be incorporated by reference in this Official Statement and to be a part hereof from the respective dates of filing such documents. Any statement contained in a document incorporated or deemed to be incorporated by reference herein, or contained in this Official Statement, shall be deemed to be modified or superseded for purposes of this Official Statement to the extent that a statement contained herein or in any other subsequently filed document which also is or is deemed to be incorporated by reference herein modifies or supersedes such statement. Any such statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Official Statement.

The Company files annual, quarterly and special reports, information statements and other information with the SEC under File No. 1-9583. Copies of the Company's SEC filings (including (1) the

Company's Annual Report on Form 10-K for the year ended December 31, 2006, and (2) the Company's Quarterly Reports on Form 10-Q for the quarters ended March 31, 2007 and June 30, 2007) are available (i) over the Internet at the SEC's web site at http://www.sec.gov; (ii) at the SEC's public reference room in Washington D.C.; (iii) over the Internet at the Company's web site at http://www.mbia.com; and (iv) at no cost, upon request to MBIA at its principal executive offices.

TAX MATTERS

Opinion of Bond Counsel

In the opinion of Hawkins Delafield & Wood LLP, Bond Counsel to the Authority, under existing statutes and court decisions and assuming continuing compliance with certain tax covenants described herein, (i) interest on the 2007 A Bonds and the 2007 C Bonds (collectively, the "Tax-Exempt Bonds") is excluded from gross income for Federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), and (ii) interest on the Tax-Exempt Bonds is not treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code; such interest, however, is included in the adjusted current earnings of certain corporations for purposes of calculating the alternative minimum tax imposed on such corporations. In rendering its opinion, Bond Counsel has relied on certain representations, certifications of fact, and statements of reasonable expectations made by the Authority in connection with the Tax-Exempt Bonds, and Bond Counsel has assumed compliance by the Authority with certain ongoing covenants to comply with applicable requirements of the Code to assure the exclusion of interest on the Tax-Exempt Bonds from gross income under Section 103 of the Code.

In addition, in the opinion of Bond Counsel to the Authority, under existing statutes, interest on the 2007 Bonds is exempt from personal income taxes imposed by the State of New York or any political subdivision thereof (including The City of New York), and the 2007 Bonds are exempt from all taxation directly imposed thereon by or under the authority of the State, except estate or gift taxes and taxes on transfers.

Bond Counsel expresses no opinion regarding any other Federal or state tax consequences with respect to the 2007 Bonds. Bond Counsel renders its opinion under existing statutes and court decisions as of the issue date, and assumes no obligation to update its opinion after the issue date to reflect any future action, fact or circumstance, or change in law or interpretation, or otherwise. Bond Counsel expresses no opinion on the effect of any action hereafter taken or not taken in reliance upon an opinion of other counsel on the exclusion from gross income for Federal income tax purposes of interest on the Tax-Exempt Bonds, or under state and local tax law.

2007 A Bonds and 2007 C Bonds

Certain Ongoing Federal Tax Requirements and Covenants

The Code establishes certain ongoing requirements that must be met subsequent to the issuance and delivery of the Tax-Exempt Bonds in order that interest on the Tax-Exempt Bonds be and remain excluded from gross income under Section 103 of the Code. These requirements include, but are not limited to, requirements relating to use and expenditure of gross proceeds of the Tax-Exempt Bonds, yield and other restrictions on investments of gross proceeds, and the arbitrage rebate requirement that certain excess earnings on gross proceeds be rebated to the Federal government. Noncompliance with such requirements may cause interest on the Tax-Exempt Bonds to become included in gross income for Federal income tax purposes retroactive to their issue date, irrespective of the date on which such noncompliance occurs or is discovered. The Authority has covenanted under the General Resolution to comply with certain applicable requirements of the Code to assure the exclusion of interest on the Tax-Exempt Bonds from gross income under Section 103 of the Code.

Certain Collateral Federal Tax Consequences

The following is a brief discussion of certain collateral Federal income tax matters with respect to the Tax-Exempt Bonds. It does not purport to address all aspects of Federal taxation that may be relevant to a particular owner of a Tax-Exempt Bond. Prospective investors, particularly those who may be subject to special rules, are advised to consult their own tax advisors regarding the Federal tax consequences of owning and disposing of the Tax-Exempt Bonds.

Prospective owners of the Tax-Exempt Bonds should be aware that the ownership of such obligations may result in collateral Federal income tax consequences to various categories of persons, such as corporations (including S corporations and foreign corporations), financial institutions, property and casualty and life insurance companies, individual recipients of Social Security and railroad retirement benefits, individuals otherwise eligible for the earned income tax credit, and taxpayers deemed to have incurred or continued indebtedness to purchase or carry obligations the interest on which is excluded from gross income for Federal income tax purposes. Interest on the Tax-Exempt Bonds may be taken into account in determining the tax liability of foreign corporations subject to the branch profits tax imposed by Section 884 of the Code.

Original Issue Discount

"Original issue discount" ("OID") is the excess of the sum of all amounts payable at the stated maturity of a Tax-Exempt Bond (excluding certain "qualified stated interest" that is unconditionally payable at least annually at prescribed rates) over the issue price of that maturity. In general, the "issue price" of a maturity means the first price at which a substantial amount of the Tax-Exempt Bonds of that maturity was sold (excluding sales to bond houses, brokers, or similar persons acting in the capacity as underwriters, placement agents, or wholesalers). In general, the issue price for each maturity of Tax-Exempt Bonds is expected to be the initial public offering price set forth on the cover page of this Official Statement. Bond Counsel further is of the opinion that, for any Tax-Exempt Bonds having OID (a "Discount Bond"), OID that has accrued and is properly allocable to the owners of the Discount Bonds under Section 1288 of the Code is excludable from gross income for Federal income tax purposes to the same extent as other interest on the Tax-Exempt Bonds.

In general, under Section 1288 of the Code, OID on a Discount Bond accrues under a constant yield method, based on periodic compounding of interest over prescribed accrual periods using a compounding rate determined by reference to the yield on that Discount Bond. An owner's adjusted basis in a Discount Bond is increased by accrued OID for purposes of determining gain or loss on sale, exchange, or other disposition of such Discount Bond. Accrued OID may be taken into account as an increase in the amount of tax-exempt income received or deemed to have been received for purposes of determining various other tax consequences of owning a Discount Bond even though there will not be a corresponding cash payment.

Owners of Discount Bonds should consult their own tax advisors with respect to the treatment of original issue discount for Federal income tax purposes, including various special rules relating thereto, and the state and local tax consequences of acquiring, holding, and disposing of Discount Bonds.

Bond Premium

In general, if an owner acquires a Tax-Exempt Bond for a purchase price (excluding accrued interest) or otherwise at a tax basis that reflects a premium over the sum of all amounts payable on the Bond after the acquisition date (excluding certain "qualified stated interest" that is unconditionally payable at least annually at prescribed rates), that premium constitutes "bond premium" on that Bond (a "Premium Bond"). In general, under Section 171 of the Code, an owner of a Premium Bond must amortize the bond premium over the remaining term of the Premium Bond, based on the owner's yield over the remaining term of the Premium Bond determined based on constant yield principles (in certain cases involving a Premium Bond callable prior to its stated maturity date, the amortization period and yield may be required to be determined on the basis of an earlier call date that results in the lowest yield on such bond). An owner of a Premium Bond must amortize the bond premium by offsetting the qualified stated interest allocable to each interest accrual period under the owner's regular method of accounting against the bond premium allocable to that period. In the case of a tax-exempt Premium Bond, if the bond premium allocable to an accrual period exceeds the qualified stated interest allocable to that accrual period, the excess is a nondeductible loss. Under certain circumstances, the owner of a Premium Bond may realize a taxable gain upon disposition of the Premium Bond even though it is sold or redeemed for an amount less than or equal to the owner's original acquisition cost. Owners of any Premium Bonds should consult their own tax advisors regarding the treatment of bond premium for Federal income tax purposes, including various special rules relating thereto, and state and local tax consequences, in connection with the acquisition, ownership, amortization of bond premium on, sale, exchange, or other disposition of Premium Bonds.

Information Reporting and Backup Withholding

Information reporting requirements apply to interest on tax-exempt obligations, including the Tax-Exempt Bonds. In general, such requirements are satisfied if the interest recipient completes, and provides the payor with, a Form W-9, "Request for Taxpayer Identification Number and Certification," or unless the recipient is one of a limited class of exempt recipients, including corporations. A recipient not otherwise exempt from information reporting who fails to satisfy the information reporting requirements will be subject to "backup withholding," which means that the payor is required to deduct and withhold a tax from the interest payment, calculated in the manner set forth in the Code. For the foregoing purpose, a "payor" generally refers to the person or entity from whom a recipient receives its payments of interest or who collects such payments on behalf of the recipient.

If an owner purchasing a Tax-Exempt Bond through a brokerage account has executed a Form W-9 in connection with the establishment of such account, as generally can be expected, no backup withholding should occur. In any event, backup withholding does not affect the excludability of the interest on the Tax-Exempt Bonds from gross income for Federal income tax purposes. Any amounts withheld pursuant to backup withholding would be allowed as a refund or a credit against the owner's Federal income tax once the required information is furnished to the Internal Revenue Service.

Miscellaneous

Tax legislation, administrative action taken by tax authorities, and court decisions, whether at the federal or state level, may adversely affect the tax-exempt status of interest on the 2007 Bonds under Federal or state law and could affect the market price or marketability of the 2007 Bonds.

Prospective purchasers of the 2007 Bonds should be aware that the United States Supreme Court has agreed to review *Davis v. Dep't. of Revenue of the Finance and Admin. Cabinet*, 197 S.W. 3d 557 (Ky. App. 2006), *cert. granted* 2007 U.S. LEXIS 5914 (May 21, 2007), a decision of a Kentucky appellate court, which held that provisions of Kentucky tax law that provided more favorable income tax treatment for holders of bonds issued by Kentucky municipal bond issuers than for holders of non-Kentucky municipal bonds violated the Commerce Clause of the United States Constitution. New York statutes provide more favorable New York income tax treatment for holders of bonds issued by New York State and its political subdivisions, including the 2007 Bonds, than for bonds issued by other states and their political subdivisions. If the United States Supreme Court were to affirm the holding of the Kentucky appellate court, subsequent New York judicial decisions or legislation designed to ensure the constitutionality of New York tax law could, among other alternatives, adversely affect the New York State tax exemption of outstanding bonds, including the 2007 Bonds, to the extent constitutionally permissible, or result in the exemption from personal income taxes imposed by New York State and its political subdivisions, including The City of New York, of interest on certain bonds issued by other states and their political subdivisions, either of which actions could affect the market price or marketability of the 2007 Bonds.

Prospective purchasers of the 2007 Bonds should consult their own tax advisors regarding the foregoing matters.

2007 B Bonds (Federally Taxable)

In the opinion of Bond Counsel to the Authority, interest on the 2007 B Bonds (the "Taxable Bonds") (i) is included in gross income for Federal income tax purposes pursuant to the Code and (ii) is exempt, under existing statutes, from personal income taxes imposed by the State of New York or any political subdivision thereof (including The City of New York).

The following discussion is a brief summary of the principal United States Federal income tax consequences of the acquisition, ownership and disposition of Taxable Bonds by original purchasers of the Taxable Bonds who are "U.S. Holders", as defined herein. This summary (i) is based on the Code, Treasury Regulations, revenue rulings and court decisions, all as currently in effect and all subject to change at any time, possibly with retroactive effect; (ii) assumes that the Taxable Bonds will be held as "capital assets"; and (iii) does not discuss all of the United States Federal income tax consequences that may be relevant to a holder in light of its particular circumstances or to holders subject to special rules, such as insurance companies, financial institutions, tax-exempt organizations, dealers in securities or foreign currencies, persons holding the Taxable Bonds as a position in a "hedge" or "straddle", or holders whose functional currency (as defined in Section 985 of the Code) is not the United States dollar, or holders who acquire Taxable Bonds in the secondary market.

Holders of Taxable Bonds should consult with their own tax advisors concerning the United States Federal income tax and other consequences with respect to the acquisition, ownership and disposition of the Taxable Bonds as well as any tax consequences that may arise under the laws of any state, local or foreign tax jurisdiction.

Original Issue Discount

In general, if Original Issue Discount ("OID") is greater than a statutorily defined *de minimis* amount, a holder of a Taxable Bond having a maturity of more than one year from its date of issue must include in Federal gross income (for each day of the taxable year, or portion of the taxable year, in which such holder holds such Taxable Bond) the daily portion of OID, as it accrues (generally on a constant yield method) and regardless of the holder's method of accounting. "OID" is the excess of (i) the "stated redemption price at maturity" over (ii) the "issue price". For purposes of the foregoing: "issue price" means the first price at which a substantial amount of the Taxable Bond is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers).; "stated redemption price at maturity" means the sum of all payments, other than "qualified stated interest", provided by such Taxable Bond; "qualified stated interest" is stated interest that is unconditionally payable in cash or property (other than debt instruments of the issuer) at least annually at a single fixed rate; and "d*e minimis* amount" is an amount equal to 0.25 percent of the Taxable Bond's stated redemption price at maturity multiplied by the number of complete years to its maturity. A holder may irrevocably elect to include in gross income all interest that accrues on a Taxable Bond using the constant-yield method, subject to certain modifications.

Disposition and Defeasance

Generally, upon the sale, exchange, redemption, or other disposition (which would include a legal defeasance) of a Taxable Bond, a holder generally will recognize taxable gain or loss in an amount equal to the difference between the amount realized (other than amounts attributable to accrued interest not previously includable in income) and such holder's adjusted tax basis in the Taxable Bond.

The Authority may cause the deposit of moneys or securities in escrow in such amount and manner as to cause the Taxable Bonds to be deemed to be no longer outstanding under the resolution of the Taxable Bonds (a "defeasance"). (*See* Part 2—Appendix 1, "SUMMARY OF CERTAIN PROVISIONS OF THE GENERAL RESOLUTION" herein). For Federal income tax purposes, such defeasance could result in a deemed exchange under Section 1001 of the Code and a recognition by such owner of taxable income or loss, without any corresponding receipt of moneys. In addition, the character and timing of receipt of payments on the Taxable Bonds subsequent to any such defeasance could also be affected.

Backup Withholding and Information Reporting

In general, information reporting requirements will apply to non-corporate holders with respect to payments of principal, payments of interest, and the accrual of OID on a Taxable Bond and the proceeds of the sale of a Taxable Bond before maturity within the United States. Backup withholding may apply to holders of Taxable Bonds under Section 3406 of the Code. Any amounts withheld under the backup withholding rules from a payment to a beneficial owner, and which constitutes over-withholding, would be allowed as a refund or a credit against such beneficial owner's United States Federal income tax provided the required information is furnished to the Service.

U.S. Holders

The term "U.S. Holder" means a beneficial owner of a Taxable Bond that is: (i) a citizen or resident of the United States, (ii) a corporation, partnership or other entity created or organized in or under the laws of the United States or of any political subdivision thereof, (iii) an estate the income of which is subject to United States Federal income taxation regardless of its source or (iv) a trust whose administration is subject to the primary jurisdiction of a United States court and which has one or more United States fiduciaries who have the authority to control all substantial decisions of the trust.

IRS Circular 230 Disclosure

The advice under the caption, “Taxable Bonds”, concerning certain income tax consequences of the acquisition, ownership and disposition of the Taxable Bonds, was written to support the marketing of the Taxable Bonds. To ensure compliance with requirements imposed by the Internal Revenue Service, Bond Counsel to the Authority informs you that (i) any Federal tax advice contained in this Official Statement (including any attachments) or in writings furnished by Bond Counsel to the Authority is not intended to be used, and cannot be used by any bondholder, for the purpose of avoiding penalties that may be imposed on the bondholder under the Code, and (ii) the bondholder should seek advice based on the bondholder’s particular circumstances from an independent tax advisor.

UNDERWRITING

The Underwriters listed on the front cover page of this Official Statement, for which Citigroup Global Markets Inc. is acting as Representative, have jointly and severally agreed, subject to certain conditions, to purchase from the Authority the 2007 A Bonds described on the cover of this Official Statement at a purchase price of $81,145,373.99, or approximately 98.9276% of the aggregate principal amount of the 2007 A Bonds. The purchase price reflects a net original issue discount of $624,725.75 and an underwriters discount of $254,900.26. The Underwriters will be obligated to purchase all 2007 A Bonds if any are purchased.

The Underwriters listed on the front cover page of this Official Statement, for which Citigroup Global Markets Inc. is acting as Representative, have jointly and severally agreed, subject to certain conditions, to purchase from the Authority the 2007 B Bonds described on the cover of this Official Statement at a purchase price of $255,912,249.97, or approximately 99.6892% of the aggregate principal amount of the 2007 B Bonds. The purchase price reflects an underwriters discount of $797,750.03. The Underwriters will be obligated to purchase all 2007 B Bonds if any are purchased.

The Underwriters listed on the front cover page of this Official Statement, for which Citigroup Global Markets Inc. is acting as Representative, have jointly and severally agreed, subject to certain conditions, to purchase from the Authority the 2007 C Bonds described on the cover of this Official Statement at a purchase price of $280,180,170.17, or approximately 106.2456% of the aggregate principal amount of the 2007 C Bonds. The Purchase Price reflects a net original issue premium of $17,227,877.15 and an underwriters discount of $757,706.98. The Underwriters will be obligated to purchase all 2007 C Bonds if any are purchased.

The issuance of the 2007 A Bonds or 2007 B Bonds by the Authority and the obligation of the Underwriters to purchase the 2007 A Bonds or 2007 B Bonds are not contingent upon the issuance by the Authority and purchase by the Underwriters of any other series of Bonds. However, the issuance of the 2007 C Bonds by the Authority and the obligation of the Underwriters to purchase the 2007 C Bonds are contingent upon the issuance by the Authority and purchase by the Underwriters of the 2007 A Bonds but not the 2007 B Bonds.

The Underwriters have advised the Authority that the 2007 Bonds being reoffered may be offered and sold to certain dealers (including dealers depositing such Bonds into investment trusts) at prices lower than such initial public offering prices. After the initial public offering, the public offering prices may be changed from time to time by the Underwriters.

CONTINUING DISCLOSURE UNDERTAKINGS FOR THE 2007 BONDS

Pursuant to a Continuing Disclosure Agreement dated as of the date of the closing of the sale of the 2007 Bonds, to be entered into by and between the Authority and the Trustee, the Authority will covenant, for the benefit of the holders of the 2007 Bonds, to provide certain financial information and operating data relating to the Authority by no later than nine months after the end of each of the Authority's fiscal years (presently, by each September 30) (the "Annual Report"), and to provide notices of the occurrence of certain enumerated events with respect to the 2007 Bonds, if material. Any filing under the Continuing Disclosure Agreement will be made solely by transmitting such filing to the Texas Municipal Advisory Council as provided at http://www.disclosureusa.org, in its capacity as "central post office."

In filing in 2004 the annual financial information and operating data required pursuant to Continuing Disclosure Agreements entered into in connection with other debt issuances, the Authority inadvertently did not file certain generation and power sales information. In prior years, the Authority has satisfied such obligation by filing its official statements that included such data, but the Authority did not issue an official statement in 2004. The Authority has since filed the required information, and has not had any other failures to file, in any material respect, in the previous five years.

The specific nature of the information to be contained in the Annual Report and the notices of material events is set forth in the form of the Continuing Disclosure Agreement, which is included in its entirety in Appendix C to Part 1 of this Official Statement. The Authority's agreement will be made in order to assist the Underwriters in complying with Securities and Exchange Commission Rule 15c2-12.

CREDIT RATINGS

The 2007 Bonds are expected to be rated "Aaa" by Moody's Investors Service, Inc. ("Moody's"), "AAA" by Standard & Poor's Rating Services ("S&P"), a division of The McGraw-Hill Companies, Inc. and "AAA" by Fitch Ratings ("Fitch"), on the date of issuance of the 2007 Bonds. The 2007 Bonds are expected to be assigned these ratings upon, and solely as a result of, the issuance of the Policy. See "PART 1—BOND INSURANCE." Moody's, S&P, and Fitch have also assigned underlying ratings of "Aa2", "AA–", and "AA", respectively, to the 2007 Bonds.

General

The respective ratings by Moody's, S&P, and Fitch of the 2007 Bonds reflect only the views of such organizations and any desired explanation of the significance of such ratings and any outlooks or other statements given by the rating agencies with respect thereto should be obtained from the rating agency furnishing the same, at the following addresses: Moody's Investors Service, Inc., 7 World Trade Center at 250 Greenwich Street, New York, New York 10007, Standard & Poor's Ratings Service, 55 Water Street, New York, New York 10041, and Fitch Ratings, One State Street Plaza, New York, New York 10004. Generally, a rating agency bases its ratings and outlook (if any) on the information and materials furnished to it and on investigations, studies and assumptions of its own. There is no assurance such ratings for the 2007 Bonds will continue for any given period of time or that any of such ratings will not be revised downward or withdrawn entirely by any of the rating agencies, if, in the judgment of such rating agency or agencies, circumstances so warrant. Any such downward revision or withdrawal of such ratings may have an adverse effect on the market price of the 2007 Bonds.

LITIGATION

There is no litigation pending or threatened in any court (either State or federal) to restrain or enjoin the issuance or delivery of the 2007 Bonds or questioning the creation, organization or existence of the Authority, the title to office of the Trustees or officers of the Authority, the validity of the General Resolution, the pledge of the Trust Estate, the proceedings for the authorization, execution, authentication and delivery of the 2007 Bonds or the validity of the 2007 Bonds.

Litigation pending against the Authority (under the jurisdiction of either State or federal courts or agencies) or threatened against the Authority, or involving or adversely affecting any of the property or assets of or under the control of the Authority, includes, among other matters, the matters described in Appendix D to Part 1 of this Official Statement.

The Authority is unable to predict the outcome of matters described in Appendix D, as well as the other actions or proceedings referred to in this Official Statement, but believes that the Authority has meritorious defenses or positions with respect thereto. Adverse decisions or determinations of certain types could, however, delay or impede the Authority's construction and operation of its existing or planned projects and could require the Authority to incur substantial additional costs, and such decisions or determinations could also adversely affect the Authority's revenues. See "PART 2—CERTAIN FACTORS AFFECTING THE ELECTRIC UTILITY INDUSTRY" for information with respect to certain other regulatory and administrative matters.

LEGALITY FOR INVESTMENT

The Act provides that the 2007 Bonds will be legal investments under present provisions of New York law for public officers and bodies of the State of New York and municipalities and municipal subdivisions, insurance companies and associations and other persons carrying on an insurance business, banks, bankers and trust companies, savings banks and savings associations, including savings and loan associations, building and loan associations, investment companies, and other persons carrying on a banking business, and all other persons whatsoever who are now or may hereafter be authorized to invest in bonds of the State of New York; but the 2007 Bonds will not be eligible for the investment of funds, including capital, of trusts, estates or guardianships under the control of individual administrators, guardians, executors, trustees and other individual fiduciaries, except when such individual fiduciary is acting with a corporate co-fiduciary. Under the Act, the 2007 Bonds will be eligible for deposit with all public officers and bodies of the State of New York for any purpose for which the deposit of the State's obligations is or may be authorized.

APPROVAL OF LEGAL PROCEEDINGS

All legal matters incident to the authorization and issuance of the 2007 Bonds are subject to the approval of Hawkins Delafield & Wood LLP, Bond Counsel to the Authority. The approving opinion of Bond Counsel to be delivered with such Bonds will be in substantially the form attached to Part 1 of this Official Statement as Appendix A. Certain legal matters will be passed upon for the Underwriters by their counsel, Winston & Strawn LLP. Certain legal matters are subject to the approval of Nixon Peabody LLP, Special Counsel to the Authority.

MISCELLANEOUS

The references in this Official Statement (which consists of Part 1 and Part 2) to the General Resolution, the Act, the New York Public Service Law, the Niagara Redevelopment Act, the Federal Power Act, the Internal Revenue Code of 1986, as amended, certain legislation and court and Federal Energy Regulatory Commission decisions, orders and other actions, set forth in "PART 1—APPENDIX D—LITIGATION," "PART 2—POWER SALES," "PART 2—ENERGY SERVICES," "PART 2—NEW YORK INDEPENDENT SYSTEM OPERATOR," "PART 2—LEGISLATION AFFECTING THE AUTHORITY," "PART 2—REGULATION," and "PART 2—CERTAIN FACTORS AFFECTING THE ELECTRIC UTILITY INDUSTRY," the licenses, certifications and permits and certain contracts and leases are brief summaries and outlines of certain portions or provisions thereof. Such summaries and outlines do not purport to be complete, and reference is made to such documents, legislation, decisions, laws, licenses and contracts for full and complete statements of such portions or provisions. Copies of such documents are on file at the offices of the Authority. All estimates and opinions presented herein are intended only as such and not as representations of fact.

The agreements with the Owners of the 2007 Bonds are fully set forth in the General Resolution. This Official Statement does not constitute and is not intended to constitute a contract between the Authority and any Owner of any 2007 Bond.

All inquiries to the Authority relating to this Official Statement should be addressed to Brian McElroy, Treasurer, Power Authority of the State of New York, 123 Main Street, White Plains, New York 10601 (telephone number 914-287-3956).

The delivery of this Official Statement has been duly authorized by the Authority.

POWER AUTHORITY OF THE STATE OF NEW YORK

By: /s/ Roger B. Kelley
President and Chief Executive Officer

October 11, 2007, as supplemented October 12, 2007

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APPENDIX A

FORM OF APPROVING OPINION OF HAWKINS DELAFIELD & WOOD LLP WITH RESPECT TO THE 2007 BONDS

October __, 2007

Power Authority of the State of New York
123 Main Street
White Plains, New York 10601

Ladies and Gentlemen:

We have examined a certified copy of a record of proceedings relating to the issuance of Revenue Bonds, Series 2007 A ("2007 A Bonds") in the principal amount of $82,025,000, Revenue Bonds, Series 2007 B ("2007 B Bonds") in the principal amount of $256,710,000, and Revenue Bonds, Series 2007 C ("2007 C Bonds") in the principal amount of $263,710,000 (all such Revenue Bonds being hereinafter collectively referred to as the "2007 Bonds") of Power Authority of the State of New York (the "Authority"), a body corporate and politic constituting a corporate municipal instrumentality and political subdivision of the State of New York (the "State").

The 2007 Bonds are issued under and pursuant to the Constitution and statutes of the State, including the Power Authority Act, being Title 1 of Article 5 of the Public Authorities Law, Chapter 43-A of the Consolidated Laws of the State of New York, as amended (herein called the "Act"), and under and pursuant to proceedings of the Authority duly taken, including a resolution of the Authority adopted on February 24, 1998, entitled "General Resolution Authorizing Revenue Obligations" (the "General Resolution"), as supplemented by an Eighth Supplemental Resolution adopted on September 25, 2007 (the "Supplemental Resolution", and together with the General Resolution, the "Resolution").

The 2007 Bonds are dated, mature, are payable, bear interest and are subject to redemption, all as provided in the Resolution.

The Authority reserves the right to issue additional bonds, notes and other obligations as parity obligations under the Resolution (collectively with the 2007 Bonds and all other outstanding parity obligations under the Resolution, the "Revenue Bonds") on the terms and conditions, and for the purposes, stated in the Resolution. Under the provisions of the Resolution, all such Revenue Bonds will rank equally as to security and payment with the 2007 Bonds.

We are of the opinion that:

1. The Authority is duly created and validly existing under the provisions of the Act.

2. The Authority has the right and power under the Act to adopt the Resolution, and the Resolution has been duly and lawfully adopted by the Authority, is in full force and effect and is valid and binding upon the Authority and enforceable in accordance with its terms, and no other authorization for the Resolution is required. The Supplemental Resolution has been duly and lawfully adopted in accordance with the provisions of the General Resolution, is authorized or permitted by the General Resolution, and is valid and binding upon the Authority and enforceable in accordance with its terms. The Resolution creates the valid pledge which it purports to create of the Trust Estate (as defined and to the extent provided in the Resolution), subject only to the provisions of the Resolution permitting the application thereof for the purposes and on the terms and conditions set forth in the Resolution.

3. The 2007 Bonds have been duly and validly authorized and issued in accordance with law and in accordance with the Resolution, and are valid, binding, direct and general obligations of the Authority, enforceable in accordance with their terms and the terms of the Resolution and entitled to the benefits of the Act, payable solely from the Trust Estate as and to the extent provided in the Resolution. The Authority has good right and lawful authority under the Act to effectuate the purposes for which the proceeds of such 2007 Bonds will be utilized, subject to obtaining such licenses, orders or other authorizations, if any, as, at the date hereof, may be required to be obtained from any agency or regulatory body having lawful jurisdiction in order to effectuate such purposes. The Authority has no taxing power,

the 2007 Bonds are not debts of the State or of any political subdivision of the State, other than the Authority, and the 2007 Bonds will not constitute a pledge of the faith and credit of the State or of any political subdivision thereof, other than the Authority.

4. Under existing statutes, interest on the 2007 Bonds is exempt from personal income taxes imposed by the State or any political subdivision thereof (including The City of New York) and the 2007 Bonds are exempt from all taxation directly imposed thereon by or under the authority of the State, except estate or gift taxes and taxes on transfers.

5. Under existing statutes and court decisions and assuming continuing compliance with certain tax covenants described herein, (i) interest on the 2007 A Bonds and 2007 C Bonds is excluded from gross income for Federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), and (ii) interest on the 2007 A Bonds and 2007 C Bonds is not treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code; such interest, however, is included in the adjusted current earnings of certain corporations for purposes of calculating the alternative minimum tax imposed on such corporations. In rendering the opinions in this paragraph 5, we have relied on certain representations, certifications of fact, and statements of reasonable expectations made by the Authority in connection with the 2007 Bonds, and we have assumed compliance by the Authority with certain ongoing covenants to comply with applicable requirements of the Code to assure the exclusion of interest on the 2007 A Bonds and 2007 C Bonds from gross income under Section 103 of the Code.

6. The original issue discount on the 2007 A Bonds and 2007 C Bonds, if any, that has accrued and is properly allocable to the owners thereof under Section 1288 of the Code is excludable from gross income for Federal income tax purposes to the same extent as other interest on the 2007 A Bonds and 2007 C Bonds.

7. Interest on the 2007 B Bonds is wholly includable in the gross income of the owners thereof for Federal income tax purposes.

The opinions expressed in paragraphs 1, 2 and 3 above are subject to applicable bankruptcy, insolvency, reorganization, moratorium and other laws heretofore or hereafter enacted affecting creditors' rights, and are subject to the application of principles of equity relating to or affecting the enforcement of contractual obligations, whether such enforcement is considered in a proceeding in equity or at law.

Except as expressly stated herein, we express no opinion regarding any other Federal or state tax consequences with respect to the 2007 Bonds. We express no opinion on the effect of any action hereafter taken or not taken in reliance upon an opinion of other counsel on the exclusion from gross income for Federal income tax purposes of interest on the 2007 Bonds, or under state and local tax law.

In rendering the foregoing opinions we have made a review of such legal proceedings as we have deemed necessary to approve the legality and validity of the 2007 Bonds. In rendering the foregoing opinions we have not been requested to examine any document or financial or other information concerning the Authority, other than the record of proceedings referred to above, and we express no opinion as to the accuracy, adequacy or sufficiency of any financial or other information which has been or will be supplied to purchasers of the 2007 Bonds.

We render this opinion under existing statutes and court decisions as of the issue date, and we assume no obligation to update, revise, or supplement this opinion after the issue date to reflect any future action, fact or circumstance, or change in law or interpretation, or otherwise that may hereafter occur, or for any other reason whatsoever.

Very truly yours,

APPENDIX B

BOOK-ENTRY-ONLY SYSTEM PROCEDURES

The information contained in the following paragraphs (1)-(11) of this Appendix has been extracted from a schedule prepared by the Depository Trust Company ("DTC"), entitled "SAMPLE OFFERING DOCUMENT LANGUAGE DESCRIBING BOOK-ENTRY-ONLY ISSUANCE." The Authority makes no representation as to the completeness or the accuracy of such information or as to the absence of material adverse changes in such information subsequent to the date hereof.

1. The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the 2007 Bonds. The 2007 Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond will be issued for each maturity of the 2007 Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC. If, however, the aggregate principal amount of any maturity of the 2007 Bonds exceeds $500 million, one Bond of such maturity will be issued with respect to each $500 million of principal amount, and an additional Bond will be issued with respect to any remaining principal amount of such maturity.

2. DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2.2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of the Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Fixed Income Clearing Corporation, and Emerging Markets Clearing Corporation, (NSCC, FICC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

3. Purchases of 2007 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the 2007 Bonds on DTC's records. The ownership interest of each actual purchaser of each 2007 Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the 2007 Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in 2007 Bonds, except in the event that use of the book-entry system for the 2007 Bonds is discontinued.

4. To facilitate subsequent transfers, all 2007 Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of 2007 Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the 2007 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such 2007 Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

5. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of 2007 Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the 2007 Bonds, such as redemptions, tenders, defaults, and proposed amendments to the 2007 Bond documents. For example, Beneficial Owners of 2007 Bonds may wish to ascertain that the nominee holding the 2007 Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

6. Redemption notices shall be sent to DTC. If less than all of the 2007 Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

7. Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to 2007 Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Authority as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts 2007 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

8. Redemption proceeds, distributions, and interest payments on the 2007 Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and correspondingly detail information from the Authority or the Trustee, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC nor its nominee or the Authority, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and interest payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Authority or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

9. DTC may discontinue providing its services as depository with respect to the 2007 Bonds at any time by giving reasonable notice to the Authority. Under such circumstances, in the event that a successor depository is not obtained, 2007 Bond certificates are required to be printed and delivered.

10. The Authority may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, 2007 Bond certificates will be printed and delivered.

11. The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the Authority believes to be reliable, but the Authority takes no responsibility for the accuracy thereof.

NEITHER THE AUTHORITY, THE TRUSTEE UNDER THE GENERAL RESOLUTION NOR THE UNDERWRITERS WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO PARTICIPANTS, TO INDIRECT PARTICIPANTS OR TO ANY BENEFICIAL OWNER WITH RESPECT TO (I) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC, ANY PARTICIPANT, OR ANY INDIRECT PARTICIPANT; (II) THE PAYMENT OR TIMELINESS OF PAYMENT BY DTC OR ANY PARTICIPANT OR INDIRECT PARTICIPANT OF ANY AMOUNT WITH RESPECT TO THE PRINCIPAL OF, OR PREMIUM, IF ANY, OR INTEREST ON, THE 2006 A BONDS; (III) ANY NOTICE WHICH IS PERMITTED OR REQUIRED TO BE GIVEN TO BONDHOLDERS; (IV) ANY CONSENT GIVEN BY DTC OR OTHER ACTION TAKEN BY DTC AS BONDHOLDER; OR (V) THE SELECTION BY DTC OR ANY PARTICIPANT OR INDIRECT PARTICIPANT OF ANY BENEFICIAL OWNERS TO RECEIVE PAYMENT IN THE EVENT OF A PARTIAL REDEMPTION OF THE 2007 BONDS.

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APPENDIX C

FORM OF CONTINUING DISCLOSURE AGREEMENT

This Continuing Disclosure Agreement (the "Agreement") dated October __, 2007 by and between the Power Authority of the State of New York (the "Issuer") and The Bank of New York, as trustee (the "Trustee") under a resolution adopted by the Issuer on February 24, 1998, as supplemented (the "Resolution"), is executed and delivered in connection with the issuance of the Issuer's $602,445,000 principal amount of Series 2007 A Bonds, Series 2007 B Bonds and Series 2007 C Bonds (collectively, the "Bonds"). Capitalized terms used in this Agreement which are not otherwise defined in the Resolution shall have the respective meanings specified above or in Article IV hereof. The parties agree as follows:

ARTICLE I
The Undertaking

Section 1.1. *Purpose*. This Agreement is being executed and delivered solely to assist the Underwriters in complying with subsection (b)(5) of the Rule.

Section 1.2. *Annual Financial Information*. (a) The Issuer shall provide Annual Financial Information with respect to each fiscal year of the Issuer, commencing with the fiscal year ending December 31, 2007, by no later than nine months after the end of the respective fiscal year, to each NRMSIR and the SID.

(b) The Issuer shall provide, in a timely manner, notice of any failure of the Issuer to provide the Annual Financial Information by the date specified in subsection (a) above to (i) either the MSRB or each NRMSIR, and (ii) the SID.

Section 1.3. *Audited Financial Statements*. If not provided as part of Annual Financial Information by the date required by Section 1.2(a) hereof, the Issuer shall provide Audited Financial Statements, when and if available, to each NRMSIR and the SID.

Section 1.4. *Material Event Notices*. (a) If a Material Event occurs, the Issuer shall provide, in a timely manner, notice of such Material Event to (i) either the MSRB or each NRMSIR, (ii) the SID, and (iii) the Trustee.

(b) Any such notice of a defeasance of Bonds shall state whether the Bonds have been escrowed to maturity or to an earlier redemption date and the timing of such maturity or redemption.

(c) The Trustee shall promptly advise the Issuer whenever, in the course of performing its duties as Trustee under the Resolution, the Trustee has actual notice of an occurrence which, if material, would require the Issuer to provide notice of a Material Event hereunder; provided, however, that the failure of the Trustee so to advise the Issuer shall not constitute a breach by the Trustee of any of its duties and responsibilities under this Agreement or the Resolution.

(d) Each Material Event Notice relating to the Bonds shall include the CUSIP numbers of the Bonds to which such Material Event Notice relates or, if the Material Event Notice relates to all bond issues of the Issuer including the Bonds, such Material Event Notice need only include the CUSIP number of the Issuer.

Section 1.5. *Additional Disclosure Obligations*. The Issuer acknowledges and understands that other state and federal laws, including but not limited to the Securities Act of 1933 and Rule 10b-5 promulgated under the Securities Exchange Act of 1934, may apply to the Issuer and that, under some circumstances, compliance with this Agreement without additional disclosures or other action may not fully discharge all duties and obligations of the Issuer under such laws.

Section 1.6. *Additional Information*. Nothing in this Agreement shall be deemed to prevent the Issuer from disseminating any other information, using the means of dissemination set forth in this Agreement or any other means of communication, or including any other information in any Annual Financial Information or notice of Material Event hereunder, in addition to that which is required by this Agreement. If the Issuer chooses to do so, the Issuer shall have no obligation under this Agreement to update such additional information or include it in any future Annual Financial Information or notice of a Material Event hereunder.

Section 1.7. *No Previous Non-Compliance*. The Issuer represents that it has previously entered into written contracts or agreements of the type referenced in paragraph (b)(5)(i) of the Rule and is in compliance with such agreements.

ARTICLE II
Operating Rules

Section 2.1. *Reference to Other Filed Documents*. It shall be sufficient for purposes of Section 1.2 hereof if the Issuer provides Annual Financial Information (but not Material Event Notices) by specific reference to documents (i) either (1) provided to each NRMSIR existing at the time of such reference and the SID or (2) filed with the SEC, or (ii) if such document is a "final official statement" as defined in paragraph (f)(3) of the Rule, available from the MSRB.

Section 2.2. *Submission of Information*. Annual Financial Information may be provided in one document or multiple documents, and at one time or in part from time to time.

Section 2.3. *Filing with Certain Dissemination Agents or Conduits*. The Issuer may satisfy its obligations hereunder to file any notice, document or information with a NRMSIR or SID (i) solely by transmitting such filing to the Texas Municipal Advisory Council (the "MAC") as provided at http://www.disclosureusa.org unless the SEC has withdrawn the interpretive advice in its letter to the MAC dated September 7, 2004, or (ii) by filing the same with any dissemination agent or conduit, including any "central post office" or similar entity, assuming or charged with responsibility for accepting notices, documents or information for transmission to such NRMSIR or SID, to the extent permitted by the SEC or SEC staff or required by the SEC. For this purpose, permission shall be deemed to have been granted by the SEC staff if and to the extent the agent or conduit has received an interpretive letter, which has not been withdrawn, from the SEC staff to the effect that using the agent or conduit to transmit information to the NRMSIRs and the SID will be treated for purposes of the Rule as if such information were transmitted directly to the NRMSIRs and the SID.

Section 2.4. *Transmission of Information and Notices*. Unless otherwise required by law and, in the Issuer's sole determination, subject to technical and economic feasibility, the Issuer shall employ such methods of information and notice transmission as shall be requested or recommended by the recipients of the Issuer's information and notices.

Section 2.5. *Fiscal Year*. (a) The Issuer's current fiscal year is January 1-December 31, and the Issuer shall promptly notify (i) each NRMSIR, (ii) the SID and (iii) the Trustee of each change in its fiscal year.

(b) Annual Financial Information shall be provided at least annually notwithstanding any fiscal year longer than 12 calendar months.

ARTICLE III
Effective Date, Termination, Amendment and Enforcement

Section 3.1. *Effective Date; Termination*. (a) This Agreement shall be effective upon the issuance of the Bonds.

(b) The Issuer's and the Trustee's obligations under this Agreement shall terminate upon a legal defeasance of all of the Bonds, prior redemption or payment in full of all of the Bonds.

(c) This Agreement, or any provision hereof, shall be null and void in the event that the Issuer (1) delivers to the Trustee an opinion of Counsel, addressed to the Issuer and the Trustee, to the effect that those portions of the Rule which require this Agreement, or such provision, as the case may be, do not or no longer apply to the Bonds, whether because such portions of the Rule are invalid, have been repealed, or otherwise, as shall be specified in such opinion, and (2) delivers copies of such opinion to each NRMSIR and the SID.

Section 3.2. *Amendment*. (a) This Agreement may be amended, by written agreement of the parties, without the consent of the holders of the Bonds (except to the extent required under clause (4)(ii) below), if all of the following conditions are satisfied: (1) such amendment is made in connection with a change in circumstances that arises from a change in legal (including regulatory) requirements, a change in law (including rules or regulations) or in interpretations thereof, or a change in the identity, nature or status of the Issuer or the type of business conducted thereby, (2) this Agreement as so amended would have complied with the requirements of the Rule as of the date of this Agreement, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances, (3) the Issuer shall have delivered to the Trustee an opinion of Counsel, addressed to the Issuer and the Trustee, to the same effect as set forth in clause (2) above, (4) either (i) the Issuer shall have delivered to the Trustee an opinion of Counsel or a determination by a person, in each case unaffiliated with the Issuer (such as bond counsel or the Trustee) and acceptable to the Issuer, addressed to the Issuer and the Trustee, to the effect that the amendment does not materially impair the interests of the holders of the Bonds or (ii) the holders of the Bonds consent to the amendment to this Agreement pursuant to the same procedures as are required for amendments to the Resolution with consent of holders of Bonds pursuant to the Resolution as in effect at the time of the amendment, and (5) the Issuer shall have delivered copies of such opinion(s) and amendment to each NRMSIR and the SID.

(b) This Agreement may be amended, by written agreement of the parties, without the consent of the holders of the Bonds, if all of the following conditions are satisfied: (1) an amendment to the Rule is adopted, or a new or modified official interpretation of the Rule is issued, after the effective date of this Agreement which is applicable to this Agreement, (2) the Issuer shall have delivered to the Trustee an opinion of Counsel, addressed to the Issuer and Trustee, to the effect that performance by the Issuer and the Trustee under this Agreement as so amended will not result in a violation of the Rule and (3) the Issuer shall have delivered copies of such opinion and amendment to each NRMSIR and the SID.

(c) To the extent any amendment to this Agreement results in a change in the type of financial information or operating data provided pursuant to this Agreement, the first Annual Financial Information provided thereafter shall include a narrative explanation of the reasons for the amendment and the impact of the change in the type of operating data or financial information being provided.

(d) If an amendment is made pursuant to Section 3.2(a) hereof to the accounting principles to be followed by the Issuer in preparing its financial statements, the Annual Financial Information for the fiscal year in which the change is made shall present a comparison between the financial statements or information prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles. Such comparison shall include a qualitative and, to the extent reasonably feasible, quantitative discussion of the differences in the accounting principles and the impact of the change in the accounting principles on the presentation of the financial information.

Section 3.3. *Benefit; Third-Party Beneficiaries; Enforcement*. (a) The provisions of this Agreement shall constitute a contract with and inure solely to the benefit of the holders from time to time of the Bonds, except that beneficial owners of Bonds shall be third-party beneficiaries of this Agreement. The provisions of this Agreement shall create no rights in any person or entity except as provided in this subsection (a) and in subsection (b) of this Section.

(b) The obligations of the Issuer to comply with the provisions of this Agreement shall be enforceable (i) in the case of enforcement of obligations to provide financial statements, financial information, operating data and notices, by any holder of Outstanding Bonds, or by the Trustee on behalf of the holders of Outstanding Bonds, or (ii) in the case of challenges to the adequacy of the financial statements, financial information and operating data so provided, by the Trustee on behalf of the holders of Outstanding Bonds; provided, however, that the Trustee shall not be required to take any enforcement action except at the direction of the holders of not less than a majority in aggregate principal amount of the Bonds at the time Outstanding who shall have provided the Trustee with adequate security and indemnity. The holders' and the Trustee's rights to enforce the provisions of this Agreement shall be limited solely to a right, by action in mandamus or for specific performance, to compel performance of the Issuer's obligations under this Agreement. In consideration of the third-party beneficiary status of beneficial owners of Bonds pursuant to subsection (a) of this Section, beneficial owners shall be deemed to be holders of Bonds for purposes of this subsection (b).

(c) Any failure by the Issuer or the Trustee to perform in accordance with this Agreement shall not constitute a default or an Event of Default under the Resolution, and the rights and remedies provided by the Resolution upon the occurrence of a default or an Event of Default shall not apply to any such failure.

(d) This Agreement shall be construed and interpreted in accordance with the laws of the State, and any suits and actions arising out of this Agreement shall be instituted in a court of competent jurisdiction in the State; provided, however, that to the extent this Agreement addresses matters of federal securities laws, including the Rule, this Agreement shall be construed in accordance with such federal securities laws and official interpretations thereof.

ARTICLE IV
Definitions

Section 4.1. *Definitions*. The following terms used in this Agreement shall have the following respective meanings:

(1) "Annual Financial Information" means, collectively, (I)(a) the following financial information and operating data contained in the Official Statement for each fiscal year of the Issuer, as follows: (i) net revenue and expense data of the type set forth in Part 2 of the Official Statement under the heading "CERTAIN FINANCIAL AND OPERATING MATTERS—Historical Net Revenues", specifically under the table "Summary Statement of Net Revenues", and (ii) outstanding indebtedness of the Issuer set forth in Part 2 of the Official Statement under the heading "CERTAIN FINANCIAL AND OPERATING MATTERS—Outstanding Indebtedness"; (b) generation, energy purchases, and power and energy sales of the Authority set forth in Part 2 of the Official Statement under the heading "POWER SALES", specifically under the table "Generation, Energy Purchases, and Power and Energy Sales 2006"; and (c) capacity factors or availability factors information by unit; and (II) the information regarding amendments to this Agreement required pursuant to Sections 3.2(c) and (d) of this Agreement. Annual Financial Information shall include Audited Financial Statements, if available, or Unaudited Financial Statements.

The descriptions contained in Section 4.1(1) financial information and operating data constituting Annual Financial Information are of general categories of financial information and operating data. When such descriptions include information that no longer can be generated because the operations to which it related have been materially changed or discontinued, a statement to that effect shall be provided in lieu of such information. Any Annual Financial Information containing modified financial information or operating data shall explain, in narrative form, the reasons for the modification and the impact of the modification on the type of financial information or operating data being provided.

(2) "Audited Financial Statements" means the annual financial statements, if any, of the Issuer, audited by such auditor as shall then be required or permitted by State law or the Resolution. Audited Financial Statements shall be prepared in accordance with GAAP; provided, however, that pursuant to Section 3.2(a) hereof, the Issuer may, if permitted by GAAP, modify the accounting principles to be followed in preparing its financial statements. The notice of any such modification required by Section 3.2(a) hereof shall include a reference to the specific provision describing such accounting principles, or other description thereof.

(3) "Counsel" means Hawkins Delafield & Wood LLP or other nationally recognized bond counsel or counsel expert in federal securities laws.

(4) "GAAP" means generally accepted accounting principles as prescribed from time to time for governmental units by the Governmental Accounting Standards Board, the Financial Accounting Standards Board, or any successor to the duties and responsibilities of either of them.

(5) "Material Event" means any of the following events with respect to the Bonds, whether relating to the Issuer or otherwise, if material:

(i) principal and interest payment delinquencies;

(ii) non-payment related defaults;

(iii) unscheduled draws on debt service reserves reflecting financial difficulties;

(iv) unscheduled draws on credit enhancements reflecting financial difficulties;

(v) substitution of credit or liquidity providers, or their failure to perform;

(vi) adverse tax opinions or events affecting the tax-exempt status of the Bonds;

(vii) modifications to rights of Bondholders;

(viii) Bond calls;

(ix) defeasances;

(x) release, substitution, or sale of property securing repayment of the Bonds; and

(xi) rating changes.

(6) "MSRB" means the Municipal Securities Rulemaking Board established pursuant to Section 15B(b)(1) of the Securities Exchange Act of 1934.

(7) "NRMSIR" means, at any time, a then-existing nationally recognized municipal securities information repository, as recognized from time to time by the SEC for the purposes referred to in the Rule. NRMSIRs currently are identified on the SEC website at "http://www.sec.gov/info/municipal/nrmsir.htm."

(8) "Official Statement" means the Official Statement dated October 11, 2007, as supplemented October 12, 2007 of the Issuer relating to the Bonds.

(9) "Rule" means Rule 15c2-12 promulgated by the SEC under the Securities Exchange Act of 1934 (17 CFR Part 240, ss.240.15c2-12), as in effect on the date of this Agreement, including any official interpretations thereof issued either before or after the effective date of this Agreement which are applicable to this Agreement.

(10) "SEC" means the United States Securities and Exchange Commission.

(11) "SID" means, at any time, a then-existing state information depository, if any, as operated or designated as such by or on behalf of the State for the purposes referred to in the Rule. As of the date of this Agreement, there is no SID.

(12) "State" means the State of New York.

(13) "Unaudited Financial Statements" means the same as Audited Financial Statements, except that they shall not have been audited.

(14) "Underwriters" means, collectively, Citigroup Global Markets Inc., J.P. Morgan Securities Inc., Goldman, Sachs & Co., and Merrill Lynch, Pierce, Fenner & Smith Incorporated.

ARTICLE V
Miscellaneous

Section 5.1. *Duties, Immunities and Liabilities of Trustee*. Article VII of the Resolution is hereby made applicable to this Agreement as if this Agreement were, solely for this purpose, contained in the Resolution.

Section 5.2. *Counterparts*. This Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

IN WITNESS WHEREOF, the parties have each caused this Agreement to be executed by their duly authorized representatives all as of the date first above written.

POWER AUTHORITY OF THE STATE
OF NEW YORK

By: ______________________________
An Authorized Representative

THE BANK OF NEW YORK, as Trustee

By: ______________________________

APPENDIX D

LITIGATION

Land Claims

(a) *Canadian St. Regis Band of Mohawk Indians (the "Band"), et al., and the St. Regis American Mohawk Tribe (the "Tribe"), et al. v. State of New York, et al.,* U.S. District Court, Northern District, New York.

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

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

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

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

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

The legislation was never enacted and once the Oneida and Cayuga appellate decisions were issued in 2005 and 2006, respectively, efforts to obtain legislative approval for the settlement ceased. Because the recently issued appellate decisions dismissed land claims by the Cayugas and Oneidas based on the lengthy delay in asserting such claims (i.e., the defense of laches), on November 26, 2006, the defense in the instant St. Regis litigation moved to dismiss the three Mohawk complaints as well as the United States' complaint on similar delay grounds. The Mohawks and the Federal government filed papers opposing those motions in July 2007. The defendants will file their reply papers by November 21, 2007, with plaintiffs filing surreply papers by December 21, 2007.

Project Operations, Power Sales and Related Matters

(b) Gas Marketing Contract Matters

In 1990, the Authority entered into a long-term gas purchase contract ("Enron Contract") with Enron Gas Marketing, Inc., which was succeeded in interest by Enron North America Corp. ("Enron NAC").

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 NAC Contract was valid and by asserting that no termination payment was owed 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 determined that it would not respond to this proposal.

On July 15, 2004, the Enron Contract was not included as an assumed executory contract in the reorganization plan for Enron Corp. and its subsidiaries confirmed by the bankruptcy court. By the terms of the reorganization plan, all contracts not assumed are deemed rejected. It should be noted that the disclosure statement filed in connection with the reorganization plan listed the Authority as a party against whom Enron NAC held a potential collection action for accounts receivable.

On December 8, 2006, counsel for Enron sent a letter to counsel for the Authority and presented a previously unasserted theory to the effect that the Authority's November 30, 2001 notice establishing a termination date for the Enron Contract constituted a violation of the automatic stay that was effective as of the filing of Enron's bankruptcy petition on December 2, 2001, Enron's counsel claimed the Authority's notice, which was dispatched on November 30, 2001, did not arrive at Enron's offices in Houston until after the filing of the bankruptcy petition. Enron's counsel also demanded that the Authority provide access to the Authority's historical gas purchase records in order for an amount of damages to be ascertained. Based on various sources including contemporaneous documentation, the Authority refuted Enron's factual assertions and rejected the request for access to business records. Enron's counsel has not replied to the Authority's response.

No formal action on this matter was commenced in the bankruptcy proceeding, and no litigation on this matter has yet commenced. The Authority is not involved in any transaction with Enron Corp. or any of its subsidiaries, except for the terminated gas contract and a small claim by the Authority against an Enron Corp. subsidiary for certain New York Independent System Operator-related services provided by the Authority.

(c) St. Lawrence-FDR Project Relicensing Proceeding before FERC and Related Litigation

In an order issued October 23, 2003, the Federal Energy Regulatory Commission ("FERC") granted the Authority a new 50-year license (the "New License") for the St. Lawrence-FDR Project. For a discussion of the New License, see "PART 2—THE AUTHORITY'S FACILITIES—Generation—*St. Lawrence-FDR Relicensing*."

Following FERC's issuance of orders on rehearing, the three entities representing the St. Regis Mohawks filed a petition for review of those same orders in the Court of Appeals for the Second Circuit in August 2004. On April 24, 2007, the Court granted a motion by these entities to dismiss their appeal of FERC's orders, thereby concluding all litigation involving FERC's issuance of the new license.

(d) Niagara Project Relicensing Matters before FERC

In August 2005, the Authority submitted its application for a new 50-year license for its Niagara Project; the original license for the Project expired on August 31, 2007. By order issued March 15, 2007, FERC issued the Authority a new 50-year license for the Niagara Project effective September 1, 2007. In mid-April 2007, two petitions for rehearing were filed by certain entities with FERC regarding its March 15, 2007 order, which petitions were denied by order issued September 21, 2007. See "PART 2—THE AUTHORITY'S FACILITIES—Generation—*Niagara Relicensing*."

(e) Matter of Horizon Vessels, Inc., et al. (U.S. District Court, Southern District, Texas)

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, a barge owned by Horizon damaged one of the four underwater lines of the Authority's Sound Cable (the "Cable") by dragging an anchor of the barge over the Cable line. The damaged portion of the Cable was located about two miles from New Rochelle, New York, in about 90 feet of water.

Under the terms of the Authority's contract with the Long Island Power Authority ("LIPA"), the Authority was obligated to repair the Cable. The repair has been completed. The total costs of repair were \$17.8 million. The Authority relied on the indemnification provisions of the contract with Iroquois to seek compensation from Iroquois and also sought compensation from Horizon and other Iroquois contractors and subcontractors and their insurers. In addition, the Authority has insurance coverage in the amount of \$10 million, all of which was paid to the Authority to help cover the costs of repair.

On August 15, 2003, the owners of the vessel which likely caused the damage to the Cable filed a pleading (later amended) which seeks to have the Federal District Judge considering the matter exonerate and/or limit their liability to the value of the vessel and its contents. The Authority and LIPA were named as parties to this admiralty action due to their obvious interest in the relief sought. Discovery by the parties ensued. On October 14, 2004, the Authority and its insurer filed a motion seeking partial summary judgment against Iroquois on the question of Iroquois' legal obligation to indemnify the Authority for the damages it has incurred to repair the Cable. On May 12, 2005, the Magistrate issued a decision recommending that the motion for partial summary judgment filed by the Authority and its insurer be denied and on August 4, 2005, the District Court affirmed the Magistrate's ruling.

In the meantime, discovery continued, and various parties filed several motions. Among them was (a) a renewed motion by the Authority and its insurer for partial summary judgment against Iroquois based on its indemnity obligation; (b) Iroquois' motion seeking dismissal of LIPA's damage claims; and (c) a motion by the Authority and others to increase the security posted by Horizon. Between August and November 2006, the Magistrate issued decisions (thereafter adopted by the District Court) denying the Authority's motion for partial summary judgment and granting Iroquois' motion for dismissal of LIPA's damage claim. LIPA has appealed that order. The Magistrate also granted the Authority's motion to increase security, ordering Horizon to post another \$10.5 million.

In May 2007 the parties engaged in a two-day mediation session in an effort to settle this matter. At a status conference before the Federal District Judge in June 2007, a trial date of September 17, 2007 was established. In July 2007, a settlement satisfactory to the Authority was reached resolving all issues involving LIPA, the Authority, and its insurer. For a further discussion of the Cable, see "PART 2-TRANSMISSION SERVICE-Cable Agreement".

(f) Crucible Materials Corp. et al. v. New York Power Authority (Albany County Supreme Court)

On February 8, 2007, two customers in the Authority's Power for Jobs Program instituted suit challenging the Authority's implementation of certain aspects of August 2006 legislation (Chapter 645 of the Laws of 2006) which had amended the Program. The dispute involves the Authority's methodology for calculating possible payments to certain customers relating to Program electric prices that exceed the electric prices of the applicable local electric utility, as well as the methodology for calculating possible Program reimbursement payments for certain customers. In its responsive papers served on February 23, 2007, the Authority maintained that its implementation of the new legislation is lawful and appropriate in all respects. By decision dated April 26, 2007, the Court dismissed the petition and ruled in favor of the Authority. The petitioners have appealed this decision to the Appellate Division, Third Department, and a decision from that court is expected to be issued in several months.

(g) New York Power Authority v. General Electric Company et al. (Albany County Supreme Court)

In October 2006, the Authority filed a complaint against General Electric Company ("GE") and five of its subcontractors in connection with the construction of the Authority's 500-MW Plant that went into commercial operation in December 2005. This action seeks to recover damages due to delays and cost overruns attributable to inadequate engineering and design services, and defective equipment provided by GE and its subcontractors. GE has asserted that it will seek recovery of damages it incurred due to delays in construction caused by the Authority. The Authority and GE have agreed to suspend pursuit of the lawsuit while attempts are made to resolve the dispute through mediation. Similar "stand still" agreements are being discussed with GE's co-defendants.

(h) Entergy Contract Dispute

As part of the Authority's sale in 2000 of its two nuclear plants to subsidiaries of Entergy Corporation ("Entergy Subsidiaries"), the Authority entered into two "value sharing agreements" ("VSAs") with the Entergy Subsidiaries. The agreements provide in essence that the Entergy Subsidiaries will share a certain percentage of all revenues they receive from power sales from the plants in excess of specific projected power prices for a 10-year period (2005-2014). During 2006, a dispute arose concerning the calculation of the amounts due the Authority for 2005, and the Authority served an arbitration demand on November 2, 2006. At the Entergy Subsidiaries' request, on November 14, 2006, the Supreme Court, New York County, issued an order staying arbitration until the Court decided whether the dispute raised by the Authority is within the scope of the arbitration clauses in the agreements. By decision dated February 8, 2007, the Court determined that the dispute was within the scope of the arbitration clauses. Thereafter, a dispute arose between the parties as to the amounts due for 2006 under the VSAs. The parties proceeded to arbitration on the disputes relating to both 2005 and 2006, an arbitrator was designated, discovery occurred, the arbitration hearings were held in July 2007, and briefing by the parties was completed in August 2007. However, in October 2007, the parties reached an agreement resolving this controversy and amending the VSAs. In essence, these amended VSAs provide for Entergy to pay the Authority a set price ($6.59 per MWh for Indian Point 3 and $3.91 per MWh for Fitzpatrick) for all MWhs metered from each plant between 2007 and 2014, with the Authority being entitled to receive annual payments up to a maximum of $72 million. In all other material respects, the terms of the amended and original VSAs are substantially similar.

(i) New York City Street Lighting Matter

A customer of the Authority, The City of New York ("City"), recently reached an approximate $6 million settlement with Consolidated Edison Company of New York, Inc. ("Con Edison") for delivery overcharges and interest stemming from Con Edison's inaccurate register of the City's street lighting usage. The register failed to reflect certain energy efficient upgrades the City made beginning in the 1990s and ending in 2003. The City has taken the position that the Authority, due to Con Edison's inaccurate register, overcharged the City and estimates that such overcharges could approximate $6 to $7 million in increased delivery and production charges. The Authority has not yet performed an analysis of this claim or made an estimate of its maximum potential liability. In July 2007, the Authority entered into a tolling agreement with the City that allows the Authority time to review the City's claim. The Authority is working with the City and Con Edison to try to resolve this issue.

Environmental Matters

(j) There are a number of claims currently pending in the environmental area, including claims under the Federal Comprehensive Environmental Response, Compensation, and Liability Act of 1980, where

the DEC, the United States Environmental Protection Agency or private plaintiffs have alleged that the Authority is responsible for all or a portion of the clean-up costs or for personal injuries or damages as a result of the alleged release or deposit of hazardous substances. While the Authority cannot presently predict the costs of such pending claims, or additional similar claims which may arise in the future, it does not believe that such claims individually or in the aggregate will materially adversely affect its financial position.

(k) State Pollutant Discharge Elimination System Permit

A renewed New York State Pollutant Discharge Elimination System ("SPDES") permit was issued for the Authority's Blenheim-Gilboa Project in October 2002. This permit renewed the previously issued permits for the plant, including certain provisions of the permit that the Authority requested be eliminated as a permit condition. Particularly, the Authority had objected to a requirement that it file an application for a SPDES permit for the discharge from the plant's upper reservoir to its lower reservoir on the ground that the plant's Federal license obviated the need for such a permit. Subject to further administrative or judicial review, should the Authority's objection be finally denied, such circumstances could adversely impact operation of the facility by subjecting water flows at the plant to State regulation, which could affect power generation.

(l) American Eel litigation in Canada

In April 2007, a number of fishermen and fishing companies from Ontario, Canada, filed a lawsuit in Ontario Superior Court of Justice against Hydro Quebec, Ontario Power Generation, and the Authority. Plaintiffs allege, among other things, that hydroelectric facilities, including the St. Lawrence-FDR Project, have caused a decline in the American Eel population which has unreasonably interfered with plaintiffs' fishing licenses. In 2004, the Ontario Ministry of Natural Resources reduced the quota for American Eel fishing to zero. The lawsuit seeks $5 million in damages plus certain interest, costs, and taxes. Hydro Quebec has accepted service of the complaint, is defending the action, and recently filed a demand for particulars. The Authority is represented by Canadian counsel in the matter but has not been served with the complaint.

Miscellaneous

Actions or claims against the Authority are pending for the taking of property in connection with its projects, for negligence, for personal injury (including asbestos-related injuries) for environmental matters, in contract and for other matters, all of which will in the opinion of the Authority be disposed of within the amounts of the Authority's insurance coverage, where applicable, or the amounts which the Authority has available therefor and without any material adverse effect on the business of the Authority.

APPENDIX E

SPECIMEN OF FINANCIAL GUARANTY INSURANCE POLICY

FINANCIAL GUARANTY INSURANCE POLICY
MBIA Insurance Corporation
Armonk, New York 10504

[NUMBER]

MBIA Insurance Corporation (the "Insurer"), in consideration of the payment of the premium and subject to the terms of this policy, hereby unconditionally and irrevocably guarantees to any owner, as hereinafter defined, of the following described obligations, the full and complete payment required to be made by or on behalf of the Issuer to

or its successor (the "Paying Agent ") of an amount equal to (i) the principal of (either at the stated maturity or by any advancement of maturity pursuant to a mandatory sinking fund payment) and interest on, the Obligations (as that term is defined below) as such payments shall become due but shall not be so paid (except that in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments guaranteed hereby shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration, unless the Insurer elects in its sole discretion, to pay in whole or in part any principal due by reason of such acceleration); and (ii) the reimbursement of any such payment which is subsequently recovered from any owner pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such owner within the meaning of any applicable bankruptcy law. The amounts referred to in clauses (i) and (ii) of the preceding sentence shall be referred to herein collectively as the "Insured Amounts." "Obligations" shall mean:

[PAR]
[LEGAL NAME OF ISSUE]

Upon receipt of telephonic or telegraphic notice, such notice subsequently confirmed in writing by registered or certified mail, or upon receipt of written notice by registered or certified mail, by the Insurer from the Paying Agent or any owner of an Obligation the payment of an Insured Amount for which is then due, that such required payment has not been made, the Insurer on the due date of such payment or within one business day after receipt of notice of such nonpayment, whichever is later, will make a deposit of funds, in an account with U.S. Bank Trust National Association, in New York, New York, or its successor, sufficient for the payment of any such Insured Amounts which are then due. Upon presentment and surrender of such Obligations or presentment of such other proof of ownership of the Obligations, together with any appropriate instruments of assignment to evidence the assignment of the Insured Amounts due on the Obligations as are paid by the Insurer, and appropriate instruments to effect the appointment of the Insurer as agent for such owners of the Obligations in any legal proceeding related to payment of Insured Amounts on the Obligations, such instruments being in a form satisfactory to U.S. Bank Trust National Association, U.S. Bank Trust National Association shall disburse to such owners, or the Paying Agent payment of the Insured Amounts due on such Obligations, less any amount held by the Paying Agent for the payment of such Insured Amounts and legally available therefor. This policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Obligation.

As used herein, the term "owner" shall mean the registered owner of any Obligation as indicated in the books maintained by the Paying Agent, the Issuer, or any designee of the Issuer for such purpose. The term owner shall not include the Issuer or any party whose agreement with the Issuer constitutes the underlying security for the Obligations.

Any service of process on the Insurer may be made to the Insurer at its offices located at 113 King Street, Armonk, New York 10504 and such service of process shall be valid and binding.

This policy is non-cancellable for any reason. The premium on this policy is not refundable for any reason including the payment prior to maturity of the Obligations.

This policy is not covered by the Property/Casualty Insurance Security Fund specified in Article 76 of the New York Insurance Law.

IN WITNESS WHEREOF, the Insurer has caused this policy to be executed in facsimile on its behalf by its duly authorized officers, this [DAY] day of [MONTH, YEAR].

MBIA Insurance Corporation

SPECIMEN

____

President

Attest: ________________________________

Assistant Secretary

STD-R-NY-7
01/05

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PART 2

of the

OFFICIAL STATEMENT

of the

POWER AUTHORITY OF THE STATE OF NEW YORK

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THE AUTHORITY

The Power Authority of the State of New York (the "Authority") is a corporate municipal instrumentality and political subdivision of the State of New York (the "State"), created in 1931 and authorized by the Power Authority Act of the State of New York (the "Act") to help provide a continuous and adequate supply of dependable electric power and energy to the people of New York State. Pursuant to the Act, the Authority is authorized to undertake the construction of such hydroelectric or energy storage projects as it deems necessary or desirable to contribute to the adequacy, economy and reliability of the supply of electric power and energy available in its service area or to conserve fuel, and such baseload nuclear generating facilities or other facilities using new energy technologies as in its judgment are necessary to make optimum use of its St. Lawrence-FDR and Niagara facilities, to attract and retain industry and to supply the future needs of the Authority's municipal and rural electric cooperative customers. The Authority is further authorized, among other things, to construct and/or acquire and complete such baseload generating, transmission and related facilities as it deems necessary or desirable to assist in maintaining an adequate and dependable supply of electricity to the Metropolitan Transportation Authority ("MTA"), the New York City Transit Authority, the Port Authority of New York and New Jersey (the "Port Authority"), The City of New York, the State, the Federal government, other public corporations and electric corporations within the metropolitan area of New York City, and to provide power and energy for use by the Niagara Frontier Transportation Authority ("NFTA") or its subsidiary corporation in the operation of a light rail rapid transit system.

Capitalized terms not otherwise defined in this Part 2 of the Official Statement have the meanings set forth in Appendix 1 to this Part 2 of the Official Statement.

Management

The Authority consists of seven Trustees appointed by the Governor of the State (the "Governor"), with the advice and consent of the State Senate. The current Trustees are:

Trustees	Term Expires
Frank S. McCullough, Jr., Chairman	May 6, 2010
Michael J. Townsend, Vice Chairman	May 6, 2011
Elise M. Cusack	May 6, 2009
Robert E. Moses	February 27, 2008
Thomas W. Scozzafava	May 6, 2008
Leonard N. Spano	June 22, 2007†
James A. Besha, Sr.	May 6, 2012

The senior management staff of the Authority includes the following:

Roger B. Kelley, President and Chief Executive Officer;

Thomas J. Kelly, Executive Vice President, General Counsel and Chief of Staff;

Vincent C. Vesce, Executive Vice President—Corporate Services and Administration;

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* Subject to change.

† Continues to serve as Trustee until he or his successor has been appointed by the Governor and confirmed by the State Senate.

Joseph M. Del Sindaco, Executive Vice President and Chief Financial Officer;

Angelo S. Esposito, Senior Vice President—Energy Services and Technology;

Steven J. DeCarlo, Senior Vice President—Transmission;

Edward A. Welz, Senior Vice President and Chief Engineer—Power Generation;

William J. Nadeau, Senior Vice President—Energy Resource Management and Strategic Planning;

James H. Yates, Senior Vice President—Marketing and Economic Development;

Brian Vattimo, Senior Vice President—Public and Governmental Affairs;

Arnold M. Bellis, Vice President—Controller;

Donald A. Russak, Vice President—Finance;

Thomas H. Warmath, Vice President and Chief Risk Officer—Energy Risk Assessment and Control;

Daniel Wiese, Inspector General and Vice President—Corporate Security; and

Brian McElroy, Treasurer.

See "PART 2—APPENDIX 2—BACKGROUNDS OF THE AUTHORITY'S TRUSTEES AND CERTAIN SENIOR MANAGEMENT STAFF."

Executive Management Committee

The Authority's Executive Management Committee periodically reviews corporate strategies, policies and programs, and reports, with the Chairman's concurrence, to the Board of Trustees. Currently, the Executive Management Committee includes the Chairman, the President and Chief Executive Officer, the Executive Vice President and General Counsel, the Executive Vice President and Chief Financial Officer, the Executive Vice President—Corporate Services and Administration, and certain other members of the senior management staff of the Authority designated by the President and Chief Executive Officer.

CERTAIN FINANCIAL AND OPERATING MATTERS

The Authority's financial statements are prepared on an accrual basis in accordance with generally accepted accounting principles. The financial statements for the three years ended December 31, 2006, were audited by Ernst & Young LLP, independent auditors, whose reports dated February 15, 2005, February 15, 2006 and February 16, 2007, respectively, expressed an unqualified opinion on those statements. Pursuant to continuing disclosure agreements entered into in connection with certain of the Authority's outstanding debt, the financial statements for the three years ended December 31, 2006, were filed with the Nationally Recognized Municipal Securities Information Repositories ("NRMSIRs").

Historical Net Revenues

The net revenues of the Authority for the three years ended December 31, 2006, derived from the Statements of Revenues, Expenses and Changes in Net Assets in the financial statements of the Authority for the years ended December 31, 2006, December 31, 2005 and December 31, 2004, are summarized below:

Summary Statements of Net Revenues
(In millions)

	2004	2005	2006
Operating Revenues	$2,215	$2,506	$2,666
Operating Expenses			
Purchased power	1,015	1,158	1,067
Fuel	260	378	523
Operations and maintenance	356	448	432
Wheeling	277	299	296
Depreciation	148	147	173
Asset impairment charge	64	—	—
Total Operating Expenses	2,120	2,430	2,491
Net Operating Revenues	95	76	175
Other Income	64	60	72
Other Expenses	77	78	110
Net Revenues	$ 82	$ 58	$ 137

Management's Discussion of Financial Results and Operations

For a more complete statement of management's discussion and analysis, see pages 4-9 of the Authority's financial statements for the year ended December 31, 2006.

Financial Results and Operations—2006 vs 2005

Summary

The Authority had net revenues of $137 million in the year 2006, compared to $58 million in 2005. This $79 million increase in net revenues is attributable to higher revenues ($160 million) partially offset by increases in operating expenses ($61 million) and net non-operating items ($20 million). The increase in revenues was primarily due to higher market-based sales to the New York State Independent System Operator ("NYISO") combined with an increase in rates charged to its southeastern New York ("SENY") Governmental Customers. The increase in operating expenses (primarily fuel and depreciation) was primarily attributable to costs associated with the Authority's 500-megawatt ("MW") combined-cycle electric generating plant at the Authority's Poletti plant site ("500-MW Plant") which went into commercial operation on December 31, 2005. Non-operating expenses were higher due to an increase in interest cost associated with the new plant partially offset by an increase in investment income.

During 2006, long-term debt, net of current maturities, decreased by $189 million, or 10%, primarily due to scheduled maturities and early extinguishment of debt. The Authority also refinanced $178 million of debt. Total debt decreased by $152 million which is reflective of the decrease in long term debt offset in part by an increase in short-term debt. Interest expense increased by $32 million, primarily due to a decrease in the capitalization of interest costs after the 500-MW Plant was placed into operation ($26 million) and to a lesser extent, higher interest rates on variable rate debt. During the period 1996 to 2006, the Authority reduced its total debt/equity ratio from 2.03 to 1.06, which is the Authority's lowest debt/equity ratio since it implemented proprietary accounting in 1982.

Operating Revenues

Operating revenues of $2,666 million in 2006 were $160 million or 6% higher than the $2,506 million in 2005, primarily due to higher sales volume and higher rates charged to certain customers along with higher market-based sales to the NYISO and higher revenues from ancillary services.

Purchased Power and Fuel

Purchased power costs decreased by 8% in 2006 to $1,067 million from $1,158 million in 2005, primarily due to the decreased volume and lower prices related to purchased power for the SENY Governmental Customer market area. Fuel costs were $145 million (38%) higher during 2006, reflecting higher fossil-fuel production resulting from the initial year of operation of the 500-MW Plant partially offset by lower prices for natural gas and fuel oil.

Operations and Maintenance

Operations and Maintenance expenses decreased by 4% in 2006 from 2005 to $432 million. Lower accrued voluntary contributions to New York State associated with the Power for Jobs program were partially offset by higher reimbursement payments to certain customers in that program (see "PART 2— LEGISLATION AFFECTING THE AUTHORITY") and higher expenses incurred at the 500-MW Plant.

Depreciation and Asset Impairment Charge

Depreciation expense for the year 2006 increased by 18% to $173 million due to the initial year of operation of the 500-MW Plant. Prior to that, depreciation expense in recent years has been at a lower level due to a significant reduction in the book value of the Small Clean Power Plants ("SCPPs") since the units were installed in 2001. This reduction resulted from asset impairment provisions discussed below and the continued application of accelerated depreciation for these facilities.

June 30, 2007 Financial Results (Unaudited)

On an unaudited basis, net revenues for the six months ended June 30, 2007 were $132 million compared to $47 million for the comparable period in 2006. Net revenues through mid-year 2007 were positively impacted by additional revenues resulting from the implementation of an energy charge adjustment cost recovery mechanism for the SENY Governmental Customers, and higher investment income compared to mid-year 2006. These positives were partially offset by higher than anticipated purchased power and fuel costs during the period. Net revenues for the year ended December 31, 2007 are expected to be above the $176 million level originally budgeted for the year.

New License for the Niagara Project

By order issued March 15, 2007, the Federal Energy Regulatory Commission ("FERC") issued the Authority a new, 50-year license for the Niagara Project effective September 1, 2007. In doing so, FERC approved six relicensing settlement agreements entered into by the Authority with various public and private entities. The Authority currently expects that the costs associated with the relicensing of the Niagara Project will be at least $495 million (2007 dollars) over a period of 50 years, which includes $50.5 million in administrative costs associated with the relicensing effort and does not include the value of certain power allocations and operation and maintenance expenses associated with several habitat and recreational elements of the settlement agreements. In mid-April 2007, two petitions for rehearing were filed by certain entities with FERC regarding its March 15, 2007 order, which petitions were denied by FERC in its order issued September 21, 2007. See "PART 2—THE AUTHORITY'S FACILITIES—Generation—*Niagara Relicensing*."

500-MW Plant

The Authority's 500-MW Plant entered into commercial operation on December 31, 2005 at a cost of approximately $745 million (see "PART 2—THE AUTHORITY'S FACILITIES—Generation—*500-MW Combined-Cycle Electric-Generating Plant*").

Certain SENY Governmental Customer Long-Term Agreements

The Authority and its major governmental customers in New York City ("NYC Governmental Customers"), including the MTA, The City of New York, the Port Authority, the New York City Housing Authority, and the New York State Office of General Services, have entered into new long-term agreements (the "2005 Agreements"). Under the 2005 Agreements, the NYC Governmental Customers have agreed to purchase their electricity from the Authority through December 31, 2017, with the NYC Governmental Customers having the right to terminate service from the Authority at any time on three years' notice provided that they compensate the Authority for any above-market costs associated with certain of the resources used to supply the NYC Governmental Customers and, under certain limited conditions, on one year's notice. For a discussion of the 2005 Agreements, see "PART 2—POWER SALES—Marketing Issues and Developments."

Recent Legislation Relating To Authority Power Allocation Programs

Legislation was enacted into law in July 2005 (Chapter 313, 2005 Laws of New York) which amended the New York Public Authorities Law and the New York Economic Development Law to, among other things: (1) clarify that the Authority may use power procured from the market in support of the Authority's economic development programs, (2) provide statutory authorization for the Replacement Power program and a new Preservation Power program, and (3) authorize Energy Cost Savings Benefits ("ECS Benefits") for certain Authority customers formerly served by the FitzPatrick nuclear plant, funded from revenues from the sale of certain Authority power and from Authority internal funds. Additional legislation relating to the sources of funding ECS Benefits was enacted into law in August 2006 and June 2007 (see "PART 2—POWER SALES—Marketing Issues and Developments").

Commission on Public Authority Reform and Public Authority Reform Legislation

By Executive Order issued February 3, 2005, the New York State Commission on Public Authority Reform ("Commission") was established and charged with reviewing the operations of State and local authorities across the State and developing recommendations designed to improve their effectiveness, accountability, governance, and financial reporting. In May 2006, the Commission issued its report addressing these matters, including recommendations for future legislation (see "PART 2—NEW YORK STATE COMMISSION ON PUBLIC AUTHORITY REFORM").

The "Public Authorities Accountability Act of 2005" ("PAAA") was signed into law in January 2006. The PAAA applies to most public authorities in the State, including the Authority, and its various provisions address public authority reporting, governance, budgeting, oversight, and auditing matters, among other things. See ("PART 2—NEW YORK STATE COMMISSION ON PUBLIC AUTHORITY REFORM").

Future Closure of Poletti Project and Restrictions on Poletti Project Operations

In connection with the licensing of its 500-MW Plant, the Authority has entered into an agreement which will require the closure of its existing Poletti Project in 2010. 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 that could be generated from the existing Poletti Project each year (see "PART 2—THE AUTHORITY'S FACILITIES—Generation—*500-MW Combined-Cycle Electric Generating Plant*").

Accounting for Asset Impairments

Effective January 1, 2005, the Authority implemented Governmental Accounting Standard ("GAS") No. 42, "Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries," which states that asset impairments generally are recognized only when the service utility of an asset is reduced or physically impaired. The service utility of a capital asset is the usable capacity that at acquisition was expected to provide service, as distinguished from the level of utilization which is the portion of the usable capacity currently being used. Under GAS No. 42, decreases in utilization and the existence of or increases in surplus capacity that are not associated with a decline in service utility are not considered to be impairment.

Prior to January 1, 2005, the Authority, based on standards promulgated by the Financial Accounting Standards Board, had recognized certain asset impairment charges relating to its SCPPs and Convertible Static Compensator transmission project. Those standards require the recognition of an impairment charge and a reduction of an asset's carrying value to fair value when the cash flows resulting from the operation of a plant asset are expected to be less than its book value.

Other Postemployment Benefits

Regarding the Authority's Other Postemployment Benefits ("OPEB") obligations, the Authority provides certain health care and life insurance benefits for eligible retired employees and their dependents under a single employer non-contributing (except for certain life insurance coverage) health care plan. 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." The Authority subsequently implemented GAS No. 45, "Accounting and Financial Reporting for Postemployment Benefits Other than Pensions," when it was issued in June 2004. As of December 31, 2006, the present value of the Authority's prior service OPEB obligation was $325 million.

Through December 31, 2006, OPEB provisions were financed on a "pay-as-you-go" basis and the plan was unfunded. The 2006, 2005, and 2004, OPEB provisions of $35 million, $32 million, and $31 million, respectively, include the amortization of the prior service obligation, a provision for active employees at the beginning of the year, and an interest charge on the unfunded balance at year end. Amounts paid to Authority retirees during these years were $11 million, $10 million, and $10 million, respectively.

In December 2006, the Authority's Trustees authorized staff to initiate the establishment of a trust for OPEB obligations, with the trust fund to be held by an independent custodian. In July 2007, the Authority's Trustees authorized the funding of the trust with an initial amount of $225 million during 2007, consisting of $100 million from an Operating Fund reserve established for that purpose, and $125 million from the proceeds of an expected issuance of Commercial Paper Notes ("CP Notes"). The OPEB trust assets and all income therefrom do not and will not form part of the Trust Estate, and the 2007 Bonds are not and will not be payable from or secured by the OPEB trust.

Hydroelectric Power Curtailment

Beginning in 1999 and continuing through 2003, below average water levels in the Great Lakes reduced the amount of water available to generate power at the Authority's Niagara and St. Lawrence-FDR Projects, thereby requiring the periodic curtailment of electricity supplied to the Authority's customers from these Projects (see "PART 2—POWER SALES—St. Lawrence-FDR and Niagara"). Flow conditions thereafter improved such that hydroelectric generation levels returned to near long-term average during 2004-2006, although such curtailment was required in two months in 2005. More recently, drier conditions over the Great Lakes region have contributed to a decline in lake levels such that generation in 2007 is expected to be somewhat below but within approximately 5% of long-term average. Below average water levels in the Great Lakes were experienced during the 1920s, the 1930s, and the 1960s.

St. Lawrence-FDR Project Relicensing

By order issued October 23, 2003, FERC granted the Authority a new 50-year license for the St. Lawrence-FDR Project (see "PART 2—THE AUTHORITY'S FACILITIES—Generation—

St. Lawrence-FDR Relicensing"). On April 24, 2007, the U.S. Court of Appeals for the Second Circuit granted a motion by the St. Regis Mohawks to dismiss their appeal of FERC's order (and a related order), thereby concluding all litigation involving FERC's issuance of the new license.

Outstanding Indebtedness

As of June 30, 2007, the total outstanding indebtedness of the Authority consisting of Revenue Bonds issued under the General Resolution Authorizing Revenue Obligations, adopted February 28, 1998, as amended and supplemented (the "General Resolution"), the Adjustable Rate Tender Notes ("ART Notes"), the Authority's Subordinate Revenue Bonds, Series 3 and 4 ("Subordinate Bonds"), the Authority's Commercial Paper Notes ("CP Notes"), and the Extendible Municipal Commercial Paper Notes ("EMCP Notes") was $2,107,744,000. With the issuance of the Series 2007 A Bonds ("2007 A Bonds"), the Series 2007 B Bonds ("2007 B Bonds") and the Series 2007 C Bonds ("2007 C Bonds"), collectively referred to as the "2007 Bonds", the total outstanding indebtedness of the Authority will be approximately $2,351,253,400, after accounting for the redemption of certain CP Notes on October 30, 2007 with certain of the proceeds of the 2007 Bonds. After the issuance of the 2007 Bonds and the application on October 30, 2007 of the proceeds thereof to the redemption of certain CP Notes, the Authority will have outstanding (i) senior indebtedness of approximately $1,587,830,000, consisting of $1,437,830,000 in Revenue Bonds and $150,000,000 of ART Notes, and (ii) approximately $763,423,400 of Subordinated Indebtedness, as defined in the General Resolution, consisting of the Subordinate Bonds, the CP Notes, and the EMCP Notes.

For a discussion of certain interest rate swap agreements that the Authority has entered into and may enter into, see "PART 1—SECURITY FOR THE 2007 BONDS—Additional Debt Issuance."

The Authority has entered into two revolving credit agreements with banks named therein to provide liquidity support for the Series 1-3 CP Notes and the ART Notes. The Authority's obligation to reimburse the respective banks for any borrowing therefrom pursuant to the revolving credit agreements constitutes Parity Debt in the case of borrowings relating to the ART Notes, and Subordinated Indebtedness in the case of borrowings relating to the CP Notes. Any other payments under such revolving credit agreements will constitute Subordinated Contract Obligations.

Projected Capital and Financing Requirements

The Authority currently estimates that it will expend approximately $1.4 billion for various capital improvements and energy services measures over the five-year period 2007-2011, some of which have already been made as of the date of this Official Statement. The Authority anticipates that these expenditures will be funded by existing construction funds, customer receipts, internally generated funds, and additional borrowings of approximately $350 million during the period 2007-2011, of which approximately $205 million is from the proceeds of the 2007 Bonds. Such remaining borrowings are currently expected to be accomplished through the issuance of additional CP Notes, EMCP Notes, and Revenue Bonds. Such borrowings will be used to fund various energy services measures; a portion of the St. Lawrence-FDR Project Modernization Program and relicensing costs (see "PART 2—THE AUTHORITY'S FACILITIES—Generation—*St. Lawrence-FDR Relicensing; St. Lawrence-FDR Modernization Program*"); costs associated with the Niagara Project relicensing (see "PART 2—THE AUTHORITY'S FACILITIES—Generation—*Niagara Relicensing*"); and the Tri-Lakes Transmission Reinforcement Project (see "PART 2—THE AUTHORITY'S FACILITIES—Transmission—Tri-Lakes Transmission Reinforcement Project").

The Authority's projected capital requirements for the period 2007-2011 are set forth below:

Projects	Estimated Total Expenditures Over 5-Year Period 2007-2011 (in thousands)
Niagara Upgrade	$ 500
Niagara Relicensing	186,400
St. Lawrence-FDR Modernization Program	97,100
St. Lawrence-FDR Relicensing	43,300
500-MW Plant	30,700
Blenheim-Gilboa Modernization Program	99,600
Energy Services	496,712*
Transmission	113,500
Tri-Lakes Transmission Reinforcement Project	33,000
Other Project Improvements	154,300
Administrative and Other, Miscellaneous Improvements	122,700
Total	$1,377,812

* Excludes measures funded by State appropriations for the Lower Manhattan Energy Independence Initiative, petroleum overcharge restitution funds and the Clean Water/Clean Air Bond Act monies (see "PART 2—ENERGY SERVICES").

The construction costs of any other future facilities or any other improvements to existing facilities may be financed with the proceeds of additional Obligations, as defined in the General Resolution (see "PART 2—APPENDIX 1—SUMMARY OF CERTAIN PROVISIONS OF THE GENERAL RESOLUTION"), or other debt issued by the Authority or through the use of existing construction funds or internal sources. For a discussion of certain facilities which may be financed by the issuance of additional Obligations or debt and certain other matters which may affect financing requirements, see "PART 2—ENERGY SERVICES," and "PART 2—THE AUTHORITY'S FACILITIES—Generation—*St. Lawrence-FDR Relicensing; St. Lawrence-FDR Modernization Program; Niagara Relicensing; Blenheim-Gilboa;* —Transmission—*Tri-Lakes Transmission Reinforcement Project*."

The Authority may issue additional Obligations under the General Resolution or additional Subordinated Indebtedness, as defined in the General Resolution, under subordinate resolutions for any purpose of the Authority authorized by the Act or other then-applicable State statutory provision. The principal amount of the Obligations or Subordinated Indebtedness which may be issued under the General Resolution or under subordinate resolutions, respectively, is not limited, and there is no debt service coverage or historical or projected earnings test that must be satisfied as a precondition to any such issuance. If Obligations are issued to finance a project (other than a Separately Financed Project as defined in the General Resolution), then the revenues from such project would be part of the Trust Estate, as defined in the General Resolution. The Authority may also determine to finance an additional project from internal funds, from bank borrowings, from bonds, notes or other obligations issued pursuant to a resolution other than the General Resolution, or from other sources; if such project qualifies as a Separately Financed Project, as defined in the General Resolution, the revenues from such additional project would not be Revenues under the General Resolution, and therefore not available to pay the 2007 Bonds.

Authority Contributions to the State General Fund

Legislation enacted into law, as part of the 2000-2001 State budget, as amended up to the present time, provides that the Authority "as deemed feasible and advisable by the trustees", is authorized to make certain annual "voluntary contributions" into the "state treasury to the credit of the general fund," up to a maximum amount of $424 million in connection with the Power for Jobs Program. The Authority has made voluntary contributions totaling $219 million. For a further discussion of additional voluntary contributions which may be made by the Authority, see "PART 2—LEGISLATION AFFECTING THE

AUTHORITY" and the Authority's financial statements for the year ended December 31, 2006, management's discussion and analysis, "New York State Budget Matters."

Payments to the State Office of Parks, Recreation and Historic Preservation

Commencing with State Fiscal Year 2003-2004 and in connection with its Niagara and St. Lawrence-FDR Projects, the Authority has made four annual payments of $8 million to New York State Office of Parks, Recreation and Historic Preservation ("OPRHP"), for certain OPRHP expenditures, as described below, and the Authority expects to make an additional annual payment to OPRHP for such expenditures in an amount not to exceed $8 million in State Fiscal Year 2007-2008. The funds have been and are to be used for operation and maintenance of Robert Moses State Park, Coles Creek State Park, Artpark, and the Niagara Reservation. All such payments are subject to reconciliation based on OPRHP's actual operations and maintenance expenditures for such parks.

The Authority has also agreed to provide $10 million to the OPRHP to fund the development of energy efficiency measures and clean energy technologies at the Rivers and Estuaries Center in Beacon, New York, of which approximately $2 million has been provided.

Energy Risk Assessment and Control Activities

In April 2002, the Authority created the position of Vice President, Chief Risk Officer—Energy Risk Assessment and Control. This officer 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 NYISO energy markets (see "PART 2—NEW YORK INDEPENDENT SYSTEM OPERATOR"), the sale of its two nuclear plants (see "Nuclear Plant Sale Matters" below), and the commercial operation of its 500-MW Plant (see "PART 2—THE AUTHORITY'S FACILITIES—Generation—*500-MW Combined-Cycle Electric Generating Plant"*).

In recent years, the Authority has increased its dependence on purchased power to meet its customers' needs. This has made the Authority more susceptible to risks posed by increases in purchased power costs and fuel costs. To deal with this risk, the Authority has obtained and is in the process of obtaining power purchase agreements (or their financial equivalents) to meet a significant portion of its customer load (see "PART 2—POWER SALES"). Even with these arrangements, the Authority still has exposure to purchased power price risks to the extent it purchases power in the NYISO day-ahead and real-time markets. Also, with the addition of the Authority's 500-MW Plant (see "PART 2—THE AUTHORITY'S FACILITIES—Generation—*500-MW Combined-Cycle Electric-Generating Plant*"), the Authority faces increased fuel price risk to the extent it uses its own fossil-fuel generation to meet its customers' needs. The risk management program implemented by the Vice President, Chief Risk Officer—Energy Risk Assessment and Control is designed to mitigate such risks. See "PART 2—NEW YORK INDEPENDENT SYSTEM OPERATOR—Certain Authority Plant Outage Risks" for a discussion of risks resulting from outages at Authority units or nonperformance of suppliers of electric power and energy to the Authority.

The Authority is also pursuing an initiative to develop and implement a comprehensive enterprise wide risk management program. For a further discussion of the Authority's risk assessment and control activities, see the Authority's financial statements for the year ended December 31, 2006, Note H.

Security Matters

In the wake of the September 11, 2001 attacks, electric utilities were compelled to move beyond the traditional concept of emergency management and prepare to respond to the unique threats associated with terrorism. Consequently, the Authority has pursued comprehensive efforts to evaluate the vulnerability of its physical assets. It has revised plans, protocols and procedures to address the wider range of potential threats. The Authority has made substantial capital expenditures to enhance the security of all of its power projects, office facilities and personnel. The Authority has also embarked on a system-wide security awareness training program for all Authority personnel. Among the changes the Authority has made is the enhanced emphasis on the security-related duties and responsibilities of the Authority's Inspector General and Vice President—Corporate Security. The Authority has also worked to enhance security by coordinating closely with state and local law enforcement officials for support, expanding the Authority's support network to include national defense and homeland security personnel, and bringing the National Guard and other military officials to its facilities to review operations and facilitate continued cooperative initiatives. For a discussion of a law enacted in 2004 concerning critical generation and transmission system infrastructure security matters, see "PART 2—LEGISLATION AFFECTING THE AUTHORITY."

Authority Assistance to Long Island Power Authority

Pursuant to a Memorandum of Understanding (the "MOU") entered into in 2004 by the Authority and the Long Island Lighting Company, a wholly-owned subsidiary of the Long Island Power Authority, doing business as "LIPA" (hereinafter referred to as "LIPA"), the Authority is providing LIPA with certain services, including real estate and building permit support services, necessary or desirable for LIPA to carry out its statutory purposes. As part of such assistance, the Authority has acquired and may in the future acquire property for the benefit of LIPA. Pursuant to the MOU, all costs incurred by the Authority in assisting LIPA will be reimbursed by LIPA.

Nuclear Plant Sale Matters

Pursuant to a purchase and sale agreement between the Authority and two subsidiaries of Entergy Corporation (the "Entergy Subsidiaries"), on November 21, 2000, the Authority sold the Indian Point 3 and FitzPatrick nuclear plants to 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. For a further discussion of matters relating to this sale, see the Authority's financial statements for the year ended December 31, 2006, Note L, and "PART 1—APPENDIX D—Litigation—Item (h)."

NEW YORK INDEPENDENT SYSTEM OPERATOR

New York Independent System Operator Arrangement

In 1999, two not-for-profit organizations, the NYISO and the New York State Reliability Council ("Reliability Council"), were established. 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 New York 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 "Reliability Rules"), to be complied with by the NYISO and all entities engaging in electric transmission, ancillary services, energy and capacity transactions. The Authority, each of the current investor-owned utilities ("IOUs") and LIPA are "Market Participants" (which includes any person engaged in the wholesale sale, transmission or purchase of electric energy) in the NYISO and members of the Reliability Council.

In addition to the IOUs, LIPA and the Authority, any Market Participant, including organizations representing residential and/or small commercial consumers and environmental organizations, may be members of the NYISO. The NYISO is governed by a Board of Directors consisting of the President of the NYISO and nine individuals. No member of the Board of Directors is able to own shares in or have a continuing business relationship with any Market Participant. The President of the NYISO is chosen by the other nine directors and is responsible for the day-to-day operation of the NYISO. The Authority is adequately represented on each of the NYISO's several committees, which are subject to the oversight of the Board of Directors, and on the Executive Committee of the Reliability Council, which consists of thirteen members which govern the Reliability Council.

On November 18, 1999, the NYISO officially assumed control of New York State's electric power grid pursuant to tariffs and market rules approved by FERC.

The Authority dispatches power from its generating facilities in conjunction with the NYISO. The NYISO coordinates the reliable dispatch of power and operates markets for the sale of electricity and ancillary services within New York State. The NYISO collects charges associated with the use of the transmission facilities and the sale of energy, capacity, and services through the markets that it operates and 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 and applicable NYISO market procedures. See "NYISO Market Procedures" and "Certain Authority Plant Outage Risks" below.

Under the NYISO Open Access Transmission Tariff, certain charges for ancillary services (which include NYISO operating costs), congestion, losses, and a portion of the Authority's transmission costs are assessed against the Authority and other entities responsible for serving ultimate customers. Because of the Authority's active participation in the NYISO markets, such costs are significant and are currently being passed through to most Authority customers.

NYISO Market Procedures

Under NYISO procedures, Load Serving Entities ("LSEs") represent electricity end-users in dealings with the NYISO. The Authority is an LSE for large segments of its load in New York State and must ensure it has sufficient installed capacity to meet its customers' needs and NYISO reliability rules, either through ownership of such capacity, bilateral installed capacity purchase contracts or auction purchases conducted by the NYISO (for a discussion of these installed capacity requirements relating to New York City and Long Island, see "NYISO Capacity Requirements Matters," below, and "PART 2—CERTAIN FACTORS AFFECTING THE ELECTRIC UTILITY INDUSTRY—New York State Electric Utility Industry Restructuring Matters—*Long Island Local Reliability Rule*").

As an LSE, the Authority is also obligated to ensure that it has enough energy to meet its customers' energy needs. These needs can be met in the NYISO regime through the Authority's own generation, bilateral purchases from others, or purchases of energy in the NYISO "day-ahead" market ("DAM") (wherein bids are submitted for energy to be delivered the next day) or in the NYISO "real time" market. A bilateral purchase is a transaction where a generator or a power marketer who has access to power and an LSE agree upon a specified amount of energy being supplied to the LSE by the generator or power marketer at specified prices.

Generators may bid their energy into the DAM and/or the real time market. Generators whose installed capacity has been utilized to meet the NYISO's installed capacity requirements must bid the energy from such claimed capacity into the DAM. To satisfy this requirement, the Authority bids into the DAM all of the Authority generation it claims to meet installed capacity requirements, which consists of virtually all of its generation. The Authority also bids the generation into the real time market in such amounts and at such bids as the Authority deems appropriate.

The NYISO evaluates the bids submitted in the DAM and the real time markets by generators and dispatches the units on the basis of economic and reliability considerations to meet load needs at any point in time. Unless governed by a bilateral arrangement, the price a generator is paid and the price paid to the NYISO by an LSE purchasing energy is dependent upon the results of the bidding process and system conditions (for a discussion of certain NYISO rules having an impact on the bidding procedures, see "NYISO Mitigation Measures" below). A significant feature of the energy markets is that prices are determined on a location-specific basis taking into account local generating bids submitted and the effect of transmission congestion and electrical losses between regions of New York State.

On February 1, 2005, the NYISO introduced Standard Market Design 2 ("SMD2"), a highly flexible technological foundation which has put the New York energy markets on a common computing platform, resulting in economic and scheduling consistency across the markets, as well as advanced market concepts such as a two-settlement system for reserves and regulation services. SMD2 allows for a more efficient real-time unit commitment process and economic signals that clearly indicate where and when shortage conditions exist. SMD2 also includes advanced system operating tools that allow for forward-looking evaluations and sophisticated tools that assist the operator in responding to emergency conditions. In addition, SMD2 provides: (a) improved consistency between the DAM and real-time markets; (b) real-time automated power mitigation in New York City; (c) greater market efficiency (d) more frequent scheduling and commitment of internal resources; and (e) a two-settlement system for ancillary services.

The Authority, being an LSE and a generator, may choose to meet its LSE load requirements by a combination of (1) bilateral arrangements, which, in the Authority's case, would mean specified Authority generation and purchased energy under contractual arrangements, linked to specified Authority loads, and (2) purchases in the DAM or the real time market. The Authority's ownership of certain transmission-related rights serves to reduce uncertainty concerning congestion costs to the Authority of such bilateral arrangements and energy market transactions.

Certain Authority Plant Outage Risks

The NYISO administers the DAM and the real time market through which suppliers and purchasers of energy and ancillary services can sell and acquire such products. The Authority participates in these markets as both a buyer and a seller of electricity and ancillary services.

Because of NYISO installed capacity reserve requirements, the Authority is required to bid into the DAM virtually all of the installed capacity of its units. The NYISO then decides which Authority units will be dispatched, if any, and how much of such unit's generation will be dispatched. The dispatch of a particular unit's generation depends upon the bid prices for the unit submitted by the Authority, bids submitted by other generators, the amount of generation needed by the NYISO to meet expected demand and transmission limitations. If an Authority unit is dispatched by the NYISO, the Authority receives a fixed price for each hour (the "Market Clearing Price"), based on NYISO pricing methodology, for the energy dispatched above that designated by the Authority as bilateral arrangement generation (the "Excess Energy"). As to the bilateral arrangement generation (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 which 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 real time market and the Market Clearing Price in the DAM, and (2) in regard to the Contract Energy amount, the price of energy in the NYISO real time market which is offset by the Contract Price. This real time market price may be subject to more volatility than the DAM price. The risk attendant with this outage situation is that, under certain circumstances, the Market Clearing Price in the DAM and the Contract Price may be well below the price in the NYISO real time market, with the Authority having 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 and the 500-MW Plant because of their size, nature, and location (see "PART 2—THE AUTHORITY'S FACILITIES—Generation—*500-MW Combined-Cycle Electric-Generating Plant*," for the discussion of the timing of the closure of the Poletti unit).

In addition to the risk associated with Authority generation bids into the DAM, the Authority could incur substantial costs in times of maximum energy usage in purchasing replacement energy for its customers in the DAM or through other supply arrangements to make up for lost energy due to an extended outage of its units and non-performance of counterparties to energy supply contracts.

As part of an ongoing risk mitigation program, the Authority implements financial hedging techniques to cover, among other things, future maximum energy usage periods and uses its various resources for outage risk mitigation purposes. In addition, the NYISO has implemented a FERC-approved bid cap on generator bids into the DAM and the real time market. The bid cap, which remains in effect until further FERC action, serves to limit the Authority's outage loss exposure.

Also, as noted above, economic benefits are derived by the Authority from this bidding mechanism when its units are operating. These benefits could serve to offset any losses which may be suffered by the Authority due to outage situations, the amount of such offset being dependent upon the amount of aggregate benefits derived by the Authority and the severity of the losses suffered as a result of such outages. Consequently, any use of these economic benefits for this offset purpose would serve to reduce the amount of these economic benefits available to meet outage expenses.

There can be no guarantee, however, that even with any protective hedging techniques, offsetting economic benefits, and a bid cap, the Authority would not suffer substantial economic loss in the future if one or more of its units were to suffer a forced outage during a maximum energy usage period or an extended forced outage period or a counterparty failed to perform under its energy supply contract.

NYISO Mitigation Measures

Pursuant to FERC approval, the NYISO has implemented the Automated Mitigation Procedure ("AMP") to apply mitigation thresholds and measures to detect and automatically mitigate Market Participant behavior that exceeds applicable conduct and market impact thresholds. Electric energy markets that are generally competitive may occasionally cease to be competitive if conditions arise that temporarily give Market Participants an ability to raise prices significantly by economically withholding capacity. High loads, facility outages, binding transmission constraints, or other factors can cause such instances, either singly or in combination. The NYISO has developed the AMP for the automatic detection and mitigation of energy and other bids in the NYISO DAM and real time markets that exceed certain established criteria. The AMP procedures could result in a Market Participant's bid being mitigated if specified conduct and impact thresholds are exceeded.

In a January 14, 2005 opinion, a Federal appeals court vacated the FERC orders approving the DAM AMP. Following motions for rehearing and clarification, the DC Circuit Court of Appeals ruled on March 24, 2005 that its January 14, 2005 opinion applies only to the DAM AMP outside the New York City area. On May 27, 2005, the NYISO deactivated the rest-of-state ("ROS") area DAM AMP. However, the ROS DAM remains subject to manual mitigation measures. Further, by order dated September 15, 2005, FERC denied a request for rehearing by the NYISO and ruled that the real time AMP for ROS be removed. The NYISO is now using real time scheduling software to apply conduct and impact mitigation in the real time ROS area.

It is uncertain what impact the implementation of these mitigation measures will have on the Authority's outage risk exposure.

NYISO Capacity Requirements Matters

The installed capacity ("ICAP") market in New York was created administratively to ensure the reliability of the electricity system. The Reliability Council sets New York State's minimum capacity requirement which is currently 116.5% of the State's peak load, and the NYISO has set the current New York City and Long Island locational ICAP requirements at 80% and 99% of their peak load levels, respectively. The New York City and Long Island ICAP requirements must be met with resources located within those areas, while the ICAP quantities above these locational ICAP requirement levels up to the minimum 116.5% level can be procured from anywhere in New York State and from external resources. The requirements are allocated among LSEs in proportion to the load they serve.

These capacity requirements must be met monthly for two capability periods: a summer period extending from May to October and a winter period ranging from November to April. The NYISO currently conducts auctions for each capability period (also known as "strip auctions"), as well as monthly auctions to account for load-shifting and to resolve deficiencies. LSEs may meet their capacity requirements by self-supplying the capacity from their own resources, or with capacity acquired through bilateral contracts, or by purchasing the capacity through the auctions conducted by the NYISO. A deficiency price is imposed on any LSE that does not meet its capacity requirement.

The NYISO employs an ICAP demand curve which provides payments to ICAP providers for ICAP above the minimum level required for reliability in order to encourage the construction of new generating facilities in New York. Generally, these provisions have increased the amount of ICAP an LSE will be obligated to obtain to meet NYISO requirements, including separate requirements applicable for New York City and Long Island. The Authority has been able, as an LSE, to meet these revised requirements through its own units, contracts with other generators, and purchases in the capacity markets, and expects to be able to do so in the future.

POWER SALES

A summary of the Authority's generation, energy purchases, and power and energy sales for 2006 is set forth below:

Generation, Energy Purchases, and Power and Energy Sales 2006
(Megawatt Hours and Dollars in Thousands)
(Accrual Basis)

	MWh
Authority Generation and Purchases:	
Gross Generation	28,524
Station service, DOT feeder and pumping energy	(1,637)
Net Station Generation	26,887
Purchases from the NYISO, utilities and others	16,532
Losses and unaccounted for	(526)
Total Available	42,893

	MWh	Revenues From Power and Energy Sales(1)	% of Total Revenue
Sold to:			
Commercial and industrial customers	4,845	$ 131,100	5%
Municipal, other public and cooperative customers	16,995	1,170,300	44%
Sales to the NYISO and utilities for resale(2)	21,053	1,364,600	51%
Total Sales	42,893	$2,666,000	100%

	MWh	% of Total
Authority Generation by Fuel Source:		
Hydroelectric	20,149	75%
Oil/Gas	6,150	23%
Gas Turbines	588	2%
	26,887	100%

(1) Includes wheeling and transmission charges.

(2) Primarily sales to the NYISO, the investor-owned electric utilities in New York State (including replacement and expansion power for industrial users in the Niagara area) and LIPA. Sales to the NYISO amounted to 9,603,931 MWh.

The electric power and energy of the Authority are sold principally pursuant to contracts and agreements described below. In addition to these sales, the Authority has executed short-term supply agreements that provide for sales by the Authority of power and energy for periods of short duration (less than one year) on terms and conditions mutually agreeable to the Authority and customers. Such sales are only transacted after all firm commitments are satisfied. The Authority also bids its generation and buys energy in the markets administered by the NYISO.

Generally, the Authority has no obligation to meet load growth that may be experienced by its customers. However, pursuant to agreements with its SENY governmental customers, the Authority has assumed the load growth responsibility for its governmental customers in New York City and Westchester County (see "Marketing Issues and Developments," below). In addition, the Authority serves the full requirements of certain municipal electric system and rural cooperative system customers.

Contracts for the sale, transmission and distribution of power and energy generated by the Niagara and St. Lawrence-FDR Projects and by other projects (i) to provide an adequate supply of energy for optimum utilization of its hydroelectric projects, (ii) to attract and expand high load factor industry, (iii) to provide for the additional needs of the Authority's municipal electric and rural electric cooperative customers, and (iv) to assist in maintaining an adequate, dependable electric power supply for New York State, are subject to the approval process specified in Section 1009 of the Act. Such approval process requires, in addition to agreement between the Authority and the other contracting parties, (i) submission of the contract to the Governor and representatives of the State Senate and Assembly, (ii) public hearings and further review and, if deemed necessary, renegotiation of the contract by the Authority, and (iii) approval of the Governor.

Marketing Issues and Developments

(1) The power market in New York State has experienced significant changes in recent years, creating a more competitive environment for power producers. As a major participant in New York's power market, the Authority has been affected by these changes. With increased focus on customer needs, the Authority has initiated marketing programs and taken other actions to retain its customers. As part of this strategy, the Authority has entered into the 2005 Agreements with all of its NYC Governmental Customers, including: the MTA, The City of New York, the Port Authority, the New York City Housing Authority, and the New York State Office of General Services. The 2005 Agreements have replaced the earlier long-term agreements with those customers that were in place. Under the 2005 Agreements, the NYC Governmental Customers will purchase their electricity from the Authority through December 31, 2017, with these customers having the right to terminate service from the Authority at any time on three year's notice provided that they compensate the Authority for any above-market costs associated with certain of the resources used to supply them, and under certain limited conditions, on one year's notice.

Under the 2005 Agreements, the Authority has implemented a new price-setting process, which commenced with the 2006 rates, under which the NYC Governmental Customers request the Authority to provide indicative electricity prices for the following year reflecting market-risk hedging options designated by them. The NYC Governmental Customers can elect to have a full cost pass-through arrangement relating to fuel, purchased power, and NYISO-related costs, including such an arrangement with some cost hedging, or a sharing plan pricing option. Except for any such amounts borne by the Authority under a sharing plan, the NYC Governmental Customers would pay all of the costs incurred to serve them, including hedging costs. If the customers choose a sharing plan pricing option, the customers and the Authority would share equally in actual cost variations (up to $60 million) above a projected amount for the year, and cost variations in excess of $60 million would be borne by the Authority. In addition, if actual costs are below the projected amount, the NYC Governmental Customers and the Authority would share equally in such savings after the customers receive the first $10 million in savings, in the aggregate, over the term of the 2005 Agreements. Beginning in 2009, NYPA will also offer the NYC Governmental Customers a minimum volatility pricing option. For 2006, the NYC Governmental Customers chose the sharing plan option which was implemented by the Authority. For 2007, these customers chose an "energy charge adjustment with hedging" option pursuant to which all variable costs, including fuel, purchased power and NYISO costs, are passed on to them. Under the 2005 Agreements, this option once selected applies for two consecutive years; thus, the "energy charge adjustment with hedging" option is in effect for 2007 and 2008 as well.

Pursuant to the 2005 Agreements, the Authority will modify rates annually through a formal rate proceeding before the Authority if there is a change in fixed costs to serve the NYC Governmental Customers. Except for the minimum volatility price option, changes in variable costs, which include fuel and purchased power, will be captured through contractual pricing adjustment mechanisms. Under these mechanisms, actual and projected variable costs will be reconciled and either charged or credited to the NYC Governmental Customers. Pursuant to the 2005 Agreements, these customers are committed to pay for any supply secured for them by the Authority which results from the collaborative process provided for in the agreements. Also, with the NYC Governmental Customers' guidance and approval, the Authority will continue to offer to these customers at least an aggregate of $100 million annually in financing for energy efficiency projects and initiatives at their facilities, with the costs of such projects to be recovered from them. Many of these projects fall within the scope of the Authority's existing energy services program (see "PART 2—ENERGY SERVICES").

The revenues from the NYC Governmental Customers were approximately 34% and 35% of the Authority's 2006 and 2005 Operating Revenues (including wheeling charges), respectively.

The Authority's other SENY Governmental Customers are Westchester County and numerous municipalities, school districts, and other public agencies located in Westchester County (collectively, the "Westchester Governmental Customers"). Effective January 1, 2007, the Authority entered into a new supplemental electricity supply agreement with Westchester County in replacement of a prior agreement. Among other things, under the new agreement, Westchester County will remain a full requirements electricity customer of the Authority through at least December 31, 2008 (thereafter, on at least one year's notice, the customer may fully terminate the agreement), an energy charge adjustment mechanism is applicable, the Authority may modify the rates charged the customer pursuant to a specified procedure, the customer is committed to pay for any supply resources secured for it by the Authority under a specified collaborative process, and the Authority will continue to make available financing for energy efficiency projects and initiatives, with the costs thereof to be recovered from the customer. The Authority expects that all of the other Westchester Governmental Customers will execute this form of agreement with the Authority.

The revenues from the Westchester Governmental Customers were approximately 2% of the Authority's 2006 and 2005 Operating Revenues (including wheeling charges), respectively.

(2) The Authority has existing power sales arrangements that contain certain pricing commitments with approximately 105 business customers served under programs formerly supplied from the Authority's James A. Fitzpatrick Nuclear Power Plant that was sold in 2000. In some instances, these customers are served directly by the Authority; in other cases, the customers receive Authority power through resale arrangements with municipal distribution agencies or investor-owned utilities. These agreements allow customers to purchase Authority power and energy for terms initially ending in either 2005 or 2007 (or in some cases for a longer term), depending on the option chosen by the customer. All contractual pricing commitments with these customers (except one with a longer term) will expire in the fall of 2007 and will be replaced with the Energy Cost Savings Benefits discussed in section 3(d) below pursuant to contract modifications and Authority tariff provisions.

These agreements encompass approximately 360 MW of energy and accounted for approximately 4% of the Authority's 2006 Operating Revenues (including wheeling charges).

(3) Legislation was enacted into law in July 2005 (Chapter 313, 2005 Laws of New York) (the "2005 Act") which amends the Act and the New York Economic Development Law ("EDL") in regard to several of the Authority's economic development power programs and the creation of new Energy Cost Savings Benefits to be provided to certain Authority customers. A summary of the 2005 Act and certain related legislation enacted in 2006 and 2007 is set forth below.

(a) *Industrial Power Programs*

The 2005 Act amends numerous provisions of the Act and the EDL to authorize the Authority to purchase power in the marketplace and to use certain other Authority resources to serve economic development power programs. Among the affected programs are the Economic Development Power program, which supplies electricity to businesses across New York State, the High Load Factor Power program, which provides electricity to energy-intensive industries throughout New York State, and the Municipal Development Agency Power program, which supplies electricity for certain municipal distribution agencies (also known as municipal utility service agencies ("MUSAs")) to serve businesses in their territories. Power supplied under these programs is hereinafter referred to as "Industrial Power."

(b) *Replacement Power*

The 2005 Act creates a state law basis for continuation of the "Replacement Power" program. These provisions ensure the continued availability of low-cost hydroelectric power from the Niagara Project to serve businesses in western New York State. Replacement Power was established by the federal Niagara Redevelopment Act ("NRA") in 1957 and provided up to 445 MW of hydroelectric power to industries in the Niagara Mohawk Power Corporation (now named National Grid) service territory within a 30-mile radius of the Niagara Project switchyard. The federal mandate for the Replacement Power program expired at the end of 2005. Most existing Replacement Power contracts ran through August 31, 2007, the end of the original Niagara Project license. These contracts were extended by the Authority through 2012 in accordance with the 2005 legislation enacted to continue the Replacement Power program, subject to the issuance of a new Niagara Project license which has now occurred. The 2005 Act treats new applications for Replacement Power under the same criteria as apply to the Authority's "Expansion Power" program, established under the Act. Allocations will be awarded on a competitive basis to businesses that commit to create jobs, increase electric load, build new or expanded facilities, and have at least 100 kilowatts ("kW") of demand. The Expansion Power program, which provides up to 250 MW of hydroelectric power to businesses within a 30-mile radius of the Niagara Project, remains unchanged and is not addressed by the 2005 Act.

(c) *Preservation Power*

The 2005 Act also creates the Preservation Power program, which will allow businesses in northern New York State to continue to be served with low-cost hydroelectric power from the St. Lawrence-FDR Project. The new Preservation Power program will govern the future allocation of up to 490 MW of firm and interruptible power from the St. Lawrence-FDR Project to industry in Jefferson, St. Lawrence and Franklin Counties. It will also apply the same criteria for allocations as are applicable to Replacement and Expansion Power. Renewals of existing contracts for business use of power under the Preservation Power program will be subject to the criteria in the Act, as amended by the 2005 Act.

(d) *Energy Cost Savings Benefits*

The 2005 Act revises the Act and the EDL to allow up to 70 MW of relinquished Replacement Power, up to 38.6 MW of Preservation Power that might be relinquished or withdrawn in the future, and through 2006 up to an additional 20 MW of unallocated St. Lawrence-FDR Project power, to be sold by the Authority into the market and to use the net earnings along with other funds of the Authority, as deemed feasible and advisable by the Authority's Trustees, for the purpose of providing Energy Cost Savings Benefits ("ECS Benefits"). The ECS Benefits are administered by the Economic Development Power Allocation Board ("EDPAB") and awarded based on criteria designed to promote economic development, maintain and develop jobs, and encourage new capital investment throughout New York State. Initially, and through December 31, 2006, the ECS Benefits were available only for business customers served under the Authority's High Load Factor, Economic Development Power and Municipal Distribution Agency programs which would, in the absence of the ECS Benefits, face rate increases beginning November 1, 2005. In August 2006, legislation was enacted into law that extended the ECS Benefits through June 30, 2007 and also provides that the Authority make available for allocation to customers the hydropower that has been utilized as a source of funding the ECS Benefits. In June 2007, legislation was enacted into law that extends the ECS Benefits through June 30, 2008. From the inception of the ECS Benefits program through June 30, 2007, there have been no ECS Benefits paid by the Authority from internal funds, as opposed to funds derived from the sale of hydropower. It is estimated that the Authority will pay from internal funds, as opposed to funds derived from the sale of hydropower, approximately $17 million in ECS Benefits for the period July 1, 2007 through June 30, 2008.

(e) *Power for Jobs Program*

The 2005 Act amends the EDL to authorize the EDPAB to recommend contract extensions or electricity cost reimbursements to Power for Jobs recipients on the basis of revised job creation or retention commitments.

(f) World Trade Center Economic Recovery

The 2005 Act authorizes the Authority to approve renewals of contracts for periods of at least three years to business customers currently receiving allocations made under the World Trade Center Economic Recovery Power Program. The 2005 Act allows companies that received power under this program to apply for three-year extensions of their benefits, and will ensure that allocations are made only to companies located in the Liberty and Resurgence Zones.

(4) In 1997, 1998, 2000, and 2002, legislation was enacted into New York law which authorized the Power for Jobs program (the "PFJ Program") to make available low-cost electric power to businesses, small businesses, and not-for-profit organizations. Under the PFJ Program, EDPAB recommends for Authority approval allocations to eligible recipients of power from power purchased by the Authority through a competitive procurement process and power from other sources. Pursuant to 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 PFJ Program power is sold to the local utilities of the eligible recipients pursuant to sale for resale agreements at rates which are based on the cost of the competitive procurement (or alternate acquisition) power plus a charge for the transmission of such power.

In 2004, legislation was enacted into law which amended the PFJ Program in regard to contracts of certain customers. Under the amendment, certain contracts terminating in 2004 and 2005 could be extended by the affected customer, or the customer could opt for "Power for Jobs electricity savings reimbursements" ("PFJ Reimbursements") from the Authority, through December 31, 2005. Generally, the amount of such PFJ Reimbursements for a particular customer is based on a comparison of the current cost of electricity to such customer with the cost of electricity under the prior Power for Jobs contract during a comparable period.

In April 2005, the PFJ Program, with its contract extensions and PFJ Reimbursements aspects, was extended until December 31, 2006, as part of the approved State budget. In August 2006, the Governor signed legislation that extended the PFJ Program, including the PFJ Reimbursements aspects, through June 30, 2007; authorizes certain customers that had elected to be served by contract extensions to elect to receive PFJ Reimbursements instead; and requires the Authority to make payments to certain customers to reimburse them with regard to program electric prices that are in excess of the electric prices of the applicable local electric utility. In June 2007, legislation was enacted into law that extended without change the PFJ Program through June 30, 2008. As of July 31, 2007, approximately 323 PFJ Program customers had opted to extend their contracts and 171 customers had opted to receive PFJ Reimbursements payments. The Authority made PFJ Reimbursements payments of $37 million for 2005, $46 million for 2006, and expects that such payments for 2007 will not exceed the 2006 levels. See "PART 2—LEGISLATION AFFECTING THE AUTHORITY" for related information on the PFJ Program involving voluntary contributions to the State.

In February 2007, two PFJ Program customers initiated suit in Albany County Supreme Court challenging the Authority's implementation of the August 2006 legislation as it pertains to payments for program electric prices in excess of the local utility's prices and the methodology for calculating PFJ Reimbursements. The Authority thereafter filed its answering papers and, by decision dated April 26, 2007, the court upheld the Authority's actions and dismissed the petition in all respects. The petitioners have appealed this decision to the Appellate Division, Third Department, and a decision from that court is expected to be issued in several months. See "PART 1—APPENDIX D—Litigation—Item (f)" for a further discussion of this lawsuit.

(5) To meet customer energy needs, the Authority entered into (i) two contracts for differences ("CFDs") with a counterparty, which will effectively result in the supply at specified prices of up to 450 MW of energy in the years 2004-2007 and 100 MW of energy in the years 2005-2008, (ii) two energy supply

contracts with two entities to supply an aggregate of 500 MW of energy at specified prices to the Authority for the period 2004-2008, (iii) a CFD with a counterparty which will effectively result in the supply at specified prices of 100 MW in peak hours for the period 2008-2010; and (iv) two energy supply contracts with two entities to supply an aggregate of 200 MW for the period January 1, 2009-September 27, 2013.

(6) At their November 2006 meeting, the Authority's Trustees authorized entering into negotiations for the execution of long-term supply agreements with Hudson Transmission Partners, LLC (Hudson) and FPL Energy, LLC (FPLE), as the winning bidders in response to the Authority's Request for Proposals for Long-Term Supply of In-City Unforced Capacity and Optional Energy issued in March 2005. These supply agreements are intended to serve the long-term requirements of the NYC Governmental Customers. The Authority would secure these long-term supplies through the transmission rights associated with Hudson's proposed transmission line extending from Bergen County, New Jersey, to Con Edison's West 49th Street substation and the Unforced Capacity associated with FPLE ownership of capacity produced at the existing Red Oak combined cycle power plant in Sayreville, New Jersey. In accordance with the bidders' proposals, the purchases would qualify as 500 MW of locational capacity in New York City, and facilitate the purchase of energy from the neighboring PJM Interconnection for resale into New York City. Subject to reaching final negotiated contract terms and the approval thereof by the NYC Governmental Customers, the costs associated with the contracts would be borne by these customers. Based on an impact study completed in June 2007, PJM Interconnection notified Hudson that it would be responsible for substantial interconnection and system upgrade costs in order to obtain the firm transmission withdrawal rights for the Bergen, New Jersey substation it had requested. Thereafter, Hudson agreed to sponsor the facilities study relating to such interconnection and upgrade facilities.

In addition to the above Hudson/FPLE arrangements, the Authority continues to discuss with its NYC Governmental Customers various other long-term supply options. The Authority has recommended to these customers that it be authorized to issue additional request(s) for proposals related to the long-term supply of In-City capacity and associated energy. Any such additional requests may consider whether it would be more feasible for the Authority to undertake a project or projects in collaboration with the private sector or to build any such projects itself in order to meet its customer needs in the most economic fashion.

(7) In September 2006, as part of New York State's Advanced Clean Coal Power Plant Initiative, the Authority issued a non-binding request for proposals that solicited up to 600 MW of electric capacity and energy from one or more clean coal facilities that may be developed in the State by one or more private sector entities and which would be subject to one or more purchased power agreements with the Authority. In December 2006, the Authority's Trustees, in response to proposals from four bidders, determined that NRG Energy, Inc. (NRG) was the highest evaluated bidder but that the pricing terms of NRG's bid (and the other highly evaluated bidders) were too high to be workably competitive for the Authority. The Trustees authorized the Authority to negotiate a strategic alliance with NRG, to explore approaches for bringing down the cost of the project and its output, including securing additional financial assistance, grants, or tax credits. The Trustees also conditionally awarded a power purchase agreement to NRG, contingent upon, among other things, the success of the strategic alliance and future Trustee approval. Depending on the success of the strategic alliance and other subsequent developments, Authority staff in the future may seek authorization from the Trustees to establish a clean coal initiative fund in the amount of $50 million, to be financed by deposits of $10 million per year for five years, which would be available to be awarded to NRG for the actual deployment of carbon sequestration technologies at the project.

St. Lawrence-FDR and Niagara

Power and energy from the St. Lawrence-FDR and Niagara hydroelectric facilities are sold to three investor-owned electric utility companies: National Grid, New York State Electric & Gas Corporation ("NYSEG"), and Rochester Gas and Electric Corporation ("RG&E"), 47 municipal electric systems and four rural electric cooperatives in New York State, three industrial plants at Massena, New York, the MTA, the NFTA and seven out-of-state customers. Energy is also sold to the St. Lawrence Seaway Development Corporation and to the New York State Office of Parks, Recreation and Historic Preservation. Service was provided to the three investor-owned utilities under contracts providing for sale of 553 MW of firm and 360 MW of peaking hydroelectric power for a term ending upon the expiration of the Authority's original Niagara license on August 31, 2007. In July 2007, the Authority's Trustees authorized contract extensions to June 30, 2008, subject to withdrawal upon thirty days' notice by the Authority for reallocation as may be authorized by law or otherwise as may be determined by the Trustees, for sales to these companies effective September 1, 2007 of 455 MW of firm and 360 MW of peaking hydroelectric power. Contracts expiring in 2013 provide for the sale of up to 250 MW of hydroelectric Expansion Power to National Grid and NYSEG for resale to industries generally located within 30 miles of the Niagara Project. A contract for sale of a portion of the 445 MW of hydroelectric Replacement Power to National Grid for resale to industries in the vicinity of Niagara expired on August 31, 2007. Thereafter, Replacement Power allocations that are bundled with National Grid's delivery service are continuing on a sale-for-resale basis in accordance with a FERC-filed rate schedule. Replacement Power allocations that are sold on an unbundled basis are continuing pursuant to a sale-for-resale agreement with National Grid effective through 2012. Contracts with Aluminum Company of America ("ALCOA") for an aggregate of 478 MW expire in 2013. The contracts with ALCOA provide for rate adjustments based upon a formula containing various indices and provision for job credits. The indices used in the ALCOA contracts are the average of the monthly United States Department of Labor, Bureau of Labor Statistics Producer Price Indices for Industrial Power and Industrial Commodities less fuel, which reflect the cost of electricity used by industry and the price of materials used by industry, and a third index based on the average revenues per kilowatt-hour for electric sales to the industrial sector in ten specified states, the bulk of which are in the northeast region. A 12-MW contract with General Motors Corporation ("General Motors") is in effect through 2013. General Motors recently announced that the facility in Massena, New York where this allocation is used will cease operation in approximately 2008. Any relinquished Preservation Power would be available for reallocation to businesses in the vicinity of the St. Lawrence – FDR Project. Contracts for the sale of up to 764 MW through August 31, 2025 with the 47 municipal electric systems and four rural electric cooperatives which own their own electric distribution systems are in effect. The contract with the MTA expired on July 31, 2000, but the Authority is continuing to provide this service to the MTA on a month-to-month basis. Service to NFTA is also on a month-to-month basis.

Contracts with the seven out-of-state customers are in effect through August 31, 2025 and provide for the sale of 191.2 MW of firm and the 40.9 MW of peaking power from the Niagara Project.

The new license issued to the Authority in 2003 for the St. Lawrence-FDR Project (see "PART 2—THE AUTHORITY'S FACILITIES—Generation—*St. Lawrence-FDR Relicensing*") provides for the sale of approximately 4.25% of Project power (approximately 34.5 MW) to six out-of-state customers, along with a corresponding share of non-firm energy, at cost-based rates under contracts with terms through April 30, 2017. Such contracts have been approved by the Authority's Trustees and the Governor and are in effect.

The charges for firm power and associated energy sold by the Authority to the three investor-owned utility companies for the benefit of rural and domestic customers, the municipal electric systems and rural electric cooperatives in New York State, the MTA, the NFTA and seven out-of-state customers have been established in the context of an agreement settling litigation respecting rates for hydroelectric power, judicial orders in that litigation, and contracts with certain of these customers. Essentially, the settlement agreement and relevant judicial orders preclude the inclusion of any expense associated with debt service for non-hydroelectric projects in the hydroelectric rates charged to wholesale customers for the benefit of rural and domestic customers but specifically permit the inclusion of interest on indebtedness and continuing depreciation and inflation adjustment charges with respect to the capital costs of the Niagara and St. Lawrence-FDR Projects. The basic rates for replacement, expansion and General Motors power and energy are subject to annual adjustment in May of each year, based on four economic indices.

Contracts with National Grid, NYSEG and RG&E relating to hydroelectric power from the plants contain various limitations on the obligations of parties under particular circumstances, including, among other things, provisions allowing for withdrawal of power and energy to comply with the NRA, the Authority's Niagara and St. Lawrence-FDR licenses, and orders of FERC. The Authority may discontinue service upon 15-days' written notice for non-payment of bills and terminate any such contract upon 60-days' notice for violations of the terms thereof. A utility company may elect to terminate its contract for any reason on one year's notice to the Authority and on 90-days' notice in the event that the charge for service is increased or the terms, conditions or rules governing the service are materially modified without the agreement of the utility.

Blenheim-Gilboa

The Authority uses all but 50 MW of the Blenheim-Gilboa Pumped Storage Power Project ("Blenheim-Gilboa Project") output to meet the requirements of the Authority's business and governmental customers and to provide services in the NYISO market. The Authority has a contract for the sale of 50 MW of firm capacity from the Blenheim-Gilboa Project to LIPA.

Service under the contract with LIPA commenced on April 1, 1989 and will terminate April 30, 2015, unless terminated by LIPA upon not less than 6 months advance notice. The Authority and LIPA have executed an agreement under which LIPA transferred its contractual rights to the Authority in return for the Authority agreeing to bid the full Blenheim-Gilboa Project generation into the NYISO markets or enter into other marketing arrangements relating to such generation and to make payment to LIPA based on an apportionment of the resultant net revenues on the basis of LIPA's contract demand. This agreement will expire on June 30, 2008. Unless other arrangements are negotiated, upon termination of this agreement, the original Blenheim-Gilboa LIPA contract will again become effective.

Sales of Purchased Power and Energy for Industrial Power

Eight contracts are in effect for the sale of purchased power and energy ("PPE") to five high-load factor industries, one business under legislation enacted into New York law in 1984, and the United States Department of Energy ("DOE") at Upton, New York. The DOE contract is subject to yearly Federal appropriations. In May 2005, Trustees approved an extension of the DOE contract through June 2008 providing for market prices to be flowed through to DOE and the provision of certain financial incentives by the Authority. Several of the remaining contracts have termination dates of June 30, 2008, the others do not have specific termination dates, and all of these contracts are receiving the ECS Benefits discussed above (See "Marketing Issues and Developments"). Pursuant to those contracts having allocations associated with them, approximately 151 MW of such PPE is sold. In the case of each of the contracts, the Authority may discontinue service upon 15 days' notice for nonpayment of bills and terminate the contract upon 60 days' notice for violation of certain contract provisions. As to certain of the high load factor contracts, the Authority may terminate or reduce deliveries under the contracts in order to provide power for municipal and rural electric cooperative systems and other public bodies upon six years' prior written notice, which may be given no earlier than nine years after service was initiated, or at five-year intervals thereafter.

A total of approximately 193 MW of economic development power ("EDP") being supplied from PPE has been allocated to businesses recommended for allocation by EDPAB. These EDP contracts are receiving ECS Benefits and such contracts have provisions which allow for customer termination on written notice of one year or 90 days, depending upon the contract. The EDPAB legislation provides that power formerly supplied from the FitzPatrick plant which was voluntarily relinquished by businesses, designated as EDP, be made available for allocation to or for businesses recommended by EDPAB. The EDPAB statute expanded the market for industrial power to be supplied by the Authority by establishing a lower 400-kW minimum-demand requirement and no load-factor test for EDP customers. EDPAB must evaluate all applications for the allocation of EDP in accordance with the criteria set forth in the statute and recommend to the Authority such applications which best meet the criteria, with such terms and conditions as it deems appropriate. If the Authority declines to make power available to or for a business whose allocation has been so recommended, it must specify its reasons in writing. At least one-half of all allocations must be recommended for applicants located in southeastern New York.

The legislation also directs the Authority "to identify the net revenues produced by the sale of expansion power and further to identify an amount of the net revenues from the sale of expansion power which shall be used solely for industrial incentive awards." The statute provides that "[n]otwithstanding other lawful purposes for which such revenues may be used, it shall be the preferred purpose of the [A]uthority to make available all such net revenues for industrial incentive awards." Industrial incentive awards are to be made in accordance with an economic development plan proposed by the Authority and approved by EDPAB for each year. In December 2006, the Authority approved economic development plans for 2007 providing for the use of net revenues from the sale of expansion power to support industrial rates for Industrial Power customers, and EDPAB is expected to approve these plans.

The Authority has also contracted for the sale of up to 96.5 MW of Industrial Power to MUSAs, not all of which is presently allocated, located in the service territories served by Con Edison, LIPA, Orange & Rockland Utilities, Inc. ("Orange & Rockland"), and Central Hudson Gas & Electric Corporation ("Central Hudson"), for resale to business customers approved by the Authority. A total of 12.1 MW is being sold to the County of Westchester Public Utility Service Agency ("COWPUSA") for resale to 10 such customers, and 51.9 MW has been made available to the New York City Public Utility Service Agency for resale to 11 such customers, of which 44.35 MW is currently being delivered. In addition, 5 MW of such power is being made available to the Suffolk County Electrical Agency for resale to seven customers, and 5 MW has been made available to the Nassau County Public Utility Agency for resale to five customers.

The Authority utilizes approximately 156 MW of PPE to meet the needs of the Authority's PFJ Program customers that are receiving power allocations through June 30, 2008 rather than PFJ Reimbursement payments (see "Marketing Issues and Developments," above).

The Authority also sells incremental PPE to 14 of its 51 municipal electric system and rural electric cooperative customers to meet their electric power requirements in excess of their hydroelectric power allocations, which incremental power amounts during the peak winter months, in the aggregate, to approximately 98 MW (22 MW of which is from other Authority sources) and during the off-peak summer period diminishes to a small fraction of the winter amount. With passage of the Federal Energy Policy Act of 1992, these customers gained increased access to the wholesale power market. The Authority successfully negotiated long term agreements with 13 of the municipal and rural cooperative systems, under which the customers agreed not to exercise certain termination rights and the Authority agreed to forego certain rate adjustment rights. These agreements are scheduled to expire in 2007 and the Authority has entered into negotiations to continue to supply incremental PPE after 2007 to those customers that desire it. One system continues to purchase incremental power from the Authority, but not under a long term contract.

SENY Governmental Customers

The Authority supplies power and energy from acquisitions in the energy and capacity markets, as well as from Authority sources, to the NYC Governmental Customers and the Westchester Governmental Customers for use for education, public housing, street lighting, subways, airports, bridges and tunnels and other public purposes. The contracts with such governmental bodies provide for firm power service under the Authority's applicable service tariffs and its rules and regulations for power service, as supplemented by long term agreements with many of these customers (see "Marketing Issues and Developments," above). The rates established vary from customer to customer in accordance with load characteristics, and, in most cases, include both demand and energy rates. Authority power is delivered to these customers over the transmission and distribution system of Con Edison. The Authority pays Con Edison a delivery service charge to cover the cost of delivering this power to the point of use by the customer, which cost is recovered by the Authority from the customer.

The Authority's Ashokan and Kensico facilities and Small Hydroelectric Development Project No. 1 are used to support service to SENY Governmental Customers under the arrangements discussed above.

Since the sale of the Authority's Indian Point 3 nuclear plant and the completion of the initial purchase power agreement with the Entergy Subsidiaries, the Authority has provided for the power and energy needs of its SENY Governmental Customers through acquisitions in the energy and capacity markets, and, to the extent necessary, power and energy from the Authority's generating units. To serve these customers in the future, the Authority will have as resources its existing generation, including the 500-MW Plant (see "PART 2—THE AUTHORITY'S FACILITIES—Generation—*500-MW Combined-Cycle Electric-Generating Plant*") and market-based purchases. The Authority anticipates that through these various sources it will be able to meet the power and energy needs of such customers. See

"PART 2—NEW YORK INDEPENDENT SYSTEM OPERATOR—Certain Authority Plant Outage Risks" for a discussion of risks relating to outages at Authority units or non-performance of counterparties to energy supply contracts.

Poletti Project

The installed capacity of the Poletti Project is being used by the Authority to meet its installed capacity needs. The Authority is bidding the generation of Poletti into the DAM and the real time market in such a manner as the Authority deems advisable so as to, among other things, recover the costs of the operation of the unit and to maximize the unit's availability to the NYISO to assure the economical and reliable supply of electricity in the SENY area. For a discussion relating to the closure of the Poletti plant in 2010, and restrictions on future Poletti Project operations, see "PART 2—THE AUTHORITY'S FACILITIES—Generation—*500-MW Combined-Cycle Electric-Generating Plant*."

Small Clean Power Plants

The installed capacity of the SCPPs is being used by the Authority to meet its installed capacity needs or, if not needed by the Authority, is subject to sale to other users. The Authority is bidding the generation of the SCPPs into the DAM and the real time market in such a manner as the Authority deems advisable so as to maximize the SCPPs' availability to the NYISO to assure the economical and reliable supply of electricity in the SENY area. The Authority believes that the revenues derived from the sale of the SCPPs' generation into the NYISO energy markets, along with other available funds of the Authority, will be sufficient to meet the costs associated with the SCPPs.

Flynn

The Authority is supplying the full output of the Flynn plant to LIPA pursuant to a capacity supply agreement (the "CS Agreement") between the Authority and LIPA, which commenced in 1994 and had an initial term of 20 years (see below for a discussion of an amendment which extended such period).

The CS Agreement was amended, effective January 1, 2004, by an agreement (the "Supplementary Agreement"), which, among other things, extended the CS Agreement to April 30, 2020 (with either party having the right to terminate the extension on or before April 30, 2012) and modified the pricing provisions for the period January 1, 2004 to December 31, 2008. Under the revised pricing provisions of the Supplementary Agreement, the daily energy price for all Flynn energy sold to LIPA is the lesser of a market-based gas price defined in the Supplementary Agreement or 95 percent of the 24-hour average of the DAM energy price (the "LI Price") for the NYISO Long Island zone. To the extent that 95 percent of LI Price applies for any day, the Authority would under-recover its gas cost. A daily shared savings arrangement allows the Authority the opportunity to recover a portion of its uncollected gas costs as long as LIPA's energy cost savings from Flynn are at least 20 percent for the day. Under the revised pricing provisions of the Supplemental Agreement, the monthly capacity payments made by LIPA have been reduced by $3 million annually. The intent of the Supplemental Agreement is to allow the Authority to recover more of its gas costs than would have been the case under the CS Agreement. Notwithstanding the Supplementary Agreement, the Authority cannot guarantee that this arrangement will allow it to recover all of its Flynn plant gas costs.

TRANSMISSION SERVICE

The NYISO is responsible for scheduling the use of the bulk transmission system in New York State, which normally includes all of the Authority's transmission facilities, and for collecting for ancillary services, losses and congestion fees from transmission customers. Each IOU, LIPA 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 such customer also pays a separate fee for the benefit of the Authority that is designed to assure that the Authority will recover its entire annual transmission revenue requirement. If the NYISO does not maintain a FERC-accepted tariff which provides for full recovery by the Authority of its annual transmission revenue requirement, the Authority would be permitted to withdraw from the NYISO on 90-days' notice to the other parties. In addition, any of the IOUs, LIPA and the Authority may withdraw from the NYISO on 90-days' notice to the Board of Directors of the NYISO, but, in the case of an IOU, such withdrawal is conditioned upon the effectiveness of an "open access" transmission facilities tariff on file with FERC. In 1996 the Authority adopted an open access transmission tariff which would be available to the Authority's customers and the public should the Authority ever withdraw from the NYISO.

In an order dated July 28, 1999, FERC approved the NYISO Open Access Transmission Tariff, the NYISO Market Administration and Control Area Tariff (under which non-transmission services are provided by the NYISO), and each of the related agreements submitted to it for approval in connection with the formation of the NYISO. In an Order issued January 27, 1999, FERC approved the use of the Authority's present transmission system revenue requirement in developing the rates for service under the NYISO tariff and declined to set the revenue requirement for hearing. Such action does not, however, foreclose further review by FERC of any modifications of the Authority's transmission system revenue requirement.

FERC also approved, among other things, the imposition of the NYPA Transmission Adjustment Charge and the NYPA Transmission Service Charges (the tariff elements for the recovery of the Authority's annual transmission revenue requirement), establishment of the NYISO and the Reliability Council, the Reliability Rules, and the commencement of operations by the NYISO.

Transmission agreements between the IOUs, LIPA and the Authority and their customers in existence remain in effect unless modified pursuant to Sections 205 or 206 of the Federal Power Act ("FPA"). The IOUs have made Section 205 filings with respect to virtually all transmission agreements applicable to the Authority and its customers. The Authority concurred in these filings, and they have been approved by FERC. These customers have the right to elect to convert their service to service under the NYISO Open Access Transmission Tariff.

Cable Agreement

The Authority and LIPA are parties to the Sound Cable Facilities and Marketing Agreement (the "Cable Agreement"), relating to the Authority's Long Island Sound Cable (the "Cable") (see "PART 2—THE AUTHORITY'S FACILITIES—Transmission—*Long Island Sound Cable*"), which was executed for the purposes of providing lower cost energy from upstate New York and Canadian sources to consumers on Long Island and of increasing the reliability of their electric supply by strengthening interconnection capability between Long Island and the rest of New York State. The Cable Agreement provides that LIPA will reimburse the Authority for the costs it incurs in connection with the Cable, including but not limited to debt service, reserves, and operation and maintenance expenses, in return for the use of the capacity of the project. LIPA was initially allocated the full capacity of the Cable and to the extent that the Authority has allocated capacity to other parties, LlPA's payment obligations are proportionately reduced, with such other parties making payments pursuant to applicable rates. The Authority has allocated capacity of the Cable to certain loads served by the Authority in LIPA's service territory when there has been insufficient capacity to serve such loads on another cable jointly owned by LIPA and Con Edison. For a discussion of certain damage to the Cable and its repair, see "PART 2—THE AUTHORITY'S FACILITIES—Transmission—*Long Island Sound Cable*."

ENERGY SERVICES

The Authority implements two energy services programs, one for its SENY governmental customers and the other for various other public entities throughout the State. Under these programs, the Authority finances the installation of energy saving measures and equipment which are owned by the customers and public entities upon their installation and which focus primarily on the reduction of the demand for electricity. The Authority has authorized as of June 30, 2007, the expenditure of an aggregate of $1.89 billion on these programs, the funds for which are provided from the sale of the Authority's Commercial Paper Notes and from internally generated funds. Except for certain audit and financial incentive costs, which have been or, in the case of audit costs, will be borne by the Authority, the Authority expects to recover its expenditures on these programs, including its financing costs, from the participants in these programs and/or, for certain of these expenditures which have been incurred, those customer classes receiving benefit from the programs, over periods not exceeding ten years, except for certain projects meeting specified criteria and implemented after April 1, 2002 which may have recovery periods extending up to 20 years. These programs generally provide funding for, among other things, high efficiency lighting technology conversions, high efficiency heating, ventilating and air conditioning systems and controls, boiler conversions, replacement of inefficient refrigerators with energy efficient units in public housing projects, distributed generation technologies and clean energy technologies, and installation of non-electric energy saving measures. Participants in these programs include departments, agencies or other instrumentalities of the State, the Authority's SENY public customers, public school districts or boards and community colleges located throughout New York State, county and municipal entities with facilities located throughout New York State, certain not-for-profit entities, the Authority's municipal and rural electric cooperative customers, and industrial customers of the Authority.

By recently enacted legislation, the Authority is also authorized to engage in (1) energy efficiency services and clean energy technologies projects for public and non-public elementary and secondary schools in New York; (2) energy efficiency and conservation services and projects involving facilities using conventional or new energy technologies for certain specified military establishments in New York; and (3) financing and administration of programs to replace inefficient refrigerators with energy efficient units in certain public and private multiple dwelling buildings.

As of June 30, 2007, the Authority had outstanding aggregate expenditures of $300.4 million (excluding POCR funds, discussed below) for these programs and projects associated with POCR funding, discussed below, and expects to spend an additional $500 million for these programs and projects associated with POCR funding, discussed below, over the period 2007-2011 (see "PART 2—CERTAIN FINANCIAL AND OPERATING MATTERS—Projected Capital and Financing Requirements").

The Authority has also established a variety of programs to be funded by available petroleum overcharge restitution ("POCR") funds and, to a lesser extent, other State funds (see "PART 2—LEGISLATION AFFECTING THE AUTHORITY"), with authorized funding of $60.9 million. These programs include an interest free loan program for independent colleges and universities in New York State to fund energy conservation measures, with such loans to be repaid over a period not to exceed 10 years; a grant program for public school coal-fired boiler plant conversions to dual fuel (oil-gas) operation; a grant program for certain participants in the Authority's other energy services programs; and grant programs relating to solar energy technology, hybrid electric transit buses, an advanced vehicle technology center, and other energy services projects throughout New York State. The Authority is also statutorily authorized to utilize its internally generated funds and the proceeds of Authority debt to finance energy service projects receiving POCR financing.

The New York State Clean Water/Clean Air Bond Act of 1996 (the "1996 Bond Act") allocated to the Authority $125 million of 1996 Bond Act proceeds to undertake the implementation of Clean Air for Schools projects for elementary, middle and secondary schools, which funds have been received. These projects are designed to improve air quality for schools, including, but not limited to, the replacement of coal-fired and certain other furnaces and heating systems with furnaces and systems fueled by oil or gas. The Authority anticipates that the funding for the projects will allow the conversion of 80 schools, of which 76 have been completed. The conversion program is scheduled to be completed in 2008.

Funds received by the Authority under the 1996 Bond Act and POCR funds received by the Authority are not available to pay debt service on the Authority's debt obligations.

THE AUTHORITY'S FACILITIES

Generation

General Information

The Authority's generating facilities and certain related capacity and generation information are listed in the following table:

Authority Generating Facilities

	Type	First Year of Operation	Total Installed Capability-MW	Net Dependable Capability-MW	2006 Net Generation MWh
St. Lawrence-FDR	Hydro	1958	912	760	6,797,312
Niagara	Hydro	1961	2,755	2,650	13,533,003[1]
Blenheim-Gilboa	Pumped Storage	1973	1,070	1,040	(396,988)[1]
Poletti	Oil/Gas	1977	885	890[2]	1,885,370
Flynn	Oil/Gas	1994	167	135[2]	1,212,592
SCPPs[3]	Gas	2001	517	460[2]	587,469
Small hydroelectric[4]	Hydro	See note (4)	40	12[2]	215,860
500-MW Plant	Gas	2005	500	475	3,052,373
Totals			6,846	6,422	26,886,991

(1) Net of pumping energy.

(2) Summer capability period rating.

(3) Consists of 10 generating units located in New York City and one located in the service territory of LIPA.

(4) Consists of Ashokan and Kensico facilities, which were placed in service in 1982 and 1983, respectively, and facilities at the Hinckley (Jarvis plant), Crescent and Vischer Ferry sites, which are part of Small Hydroelectric Development Project No. 1 and which went into commercial operation on July 1, 1991.

St. Lawrence-FDR

The St. Lawrence-FDR Project consists primarily of the Robert Moses Power Dam located at Massena, New York, and two additional dams. The construction and operation of the St. Lawrence-FDR Project were authorized by a 50-year license issued to the Authority by the Federal Power Commission effective as of November 1, 1953. By order issued October 23, 2003, a new 50-year license has been issued to the Authority by FERC (see "St. Lawrence-FDR Relicensing" below). Commercial production of power started in July 1958. The last of the Authority's sixteen generating units was installed in July 1959. All power is generated at the Robert Moses Power Dam, which contains sixteen 57-MW hydro-turbine generators having an aggregate nameplate capacity of 912 MW. Under the new license, a specified amount of the plant's output must be made available to neighboring states (see "St. Lawrence-FDR Relicensing" below). For a discussion of litigation commenced by Native American tribes claiming ownership of various lands within the boundary of the St. Lawrence-FDR Project, see "PART 1—APPENDIX D—Litigation—*Item (a)*."

St. Lawrence-FDR Relicensing

(1) *The New St. Lawrence-FDR License*

On October 23, 2003, FERC issued a new 50-year license (the "New License") for the St. Lawrence-FDR Project to the Authority. Among other things, the New License provides for the following:

(1) establishment of a $24 million fund for fish enhancement and mitigation to be used for research, construction and operation of projects benefiting fisheries in the Lake Ontario/St. Lawrence River basin;

(2) construction of a fish ladder to assist the upstream passage of American eel;

(3) allocation of power from the Project to the states of Vermont, Rhode Island, Connecticut, New Jersey, Pennsylvania and Ohio;

(4) development of various habitat improvement projects within the Project boundary;

(5) construction of new recreational facilities and rehabilitation and expansion of existing recreational facilities, including additional trails, camping facilities and boat launches; and

(6) a shoreline management plan to effectively maintain eroding shorelines in the Project's boundary.

A more detailed description of certain of these elements of the New License is set forth in the context of the discussion of the Comprehensive Accord below and the discussion of the allocation of Project power to out-of-state customers below. See also "PART 1—APPENDIX D—Litigation—Item (c)" for a discussion of litigation relating to the license.

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, consisting of approximately $148 million which has already been spent or will be spent in the near future, including for payment of administrative costs associated with relicensing activities to date, and approximately $62 million of additional expenditures to be paid in the future, the timing of such expenditures varying with the nature of the expenditure. These total costs could increase in the future as a result of authorities reserved by FERC in the New License. A significant portion of such estimated costs is reflected in the Authority's estimate of its capital requirements for the period 2007-2011 (see "PART 2—CERTAIN FINANCIAL AND OPERATING MATTERS—Projected Capital and Financing Requirements"). The Authority believes that it will be feasible to collect in its rates for the sale of St. Lawrence-FDR power amounts necessary to fund such relicensing costs.

(2) *The Comprehensive Accord Relating to the New License*

In February 2003, pursuant to FERC regulations, the Authority filed the Comprehensive Relicensing Settlement Accord (the "Comprehensive Accord") by and between the Authority, the United States Fish and Wildlife Service of the United States Department of the Interior (the "FWS"), the National Park Service of the United States Department of the Interior (the "NPS"), the New York State Department of Environmental Conservation ("DEC"), the New York State Department of State (the "DOS"), OPRHP, St. Lawrence Aquarium and Ecological Center Inc. (the "SLAEC"), New York Rivers United (the "NYRU"), and the St. Lawrence Local Government Task Force (consisting of St. Lawrence County, New York, and various municipalities and school boards in St. Lawrence-FDR Project area) (the "Local Government Task Force") (collectively, the "Settling Parties").

The Comprehensive Accord is a comprehensive settlement package that resolved all issues among the Settling Parties associated with the Authority's application for the New License (the "Application"). The Comprehensive Accord specifically adopts and incorporates five individual agreements (the "Individual Agreements") between the Authority and one or more Settling Parties and a letter of understanding between the Authority and the National Marine Fisheries Services (the "NMFS"). It also provides that all signatories to the Comprehensive Accord agree to the terms of each of these six documents. These six documents adopted and incorporated into the Comprehensive Accord are as follows:

(1) Fish Enhancement, Mitigation and Research Fund Settlement Agreement between the Authority and FWS (the "FEMRF Agreement");

(2) Ecological Mitigation and Enhancement Measures Settlement Agreement between the Authority, FWS, DEC and NYRU (the "Ecological Agreement");

(3) Relicensing Settlement Agreement between the Authority and Local Government Task Force (the "Task Force Agreement");

(4) Agreement between the Authority and SLAEC (the "Aquarium Agreement");

(5) Agreement between the Authority and OPRHP (the "OPRHP Agreement"); and

(6) Letter of Understanding between the Authority and NMFS (the "NMFS Letter").

Certain key substantive obligations of the Settling Parties under the Individual Agreements are set forth below. Except as noted, these obligations have been substantially incorporated into the New License.

1. *Fish Enhancement, Mitigation and Research Fund (the "FEMRF").* Under the FEMRF Agreement, the Authority has agreed to establish through the National Fish and Wildlife Foundation, the $24 million FEMRF. The Authority has met the requirement. The purpose of the FEMRF is to provide mitigation for impacts to fish resources of the Lake Ontario/St. Lawrence River basin and to continue research on the American eel and other species that may be affected by the Project, as the same may be caused by the operation of the Project.

2. *Upstream American Eel Passage Facility*. Under the FEMRF Agreement, the Authority agreed to construct, operate and maintain a ladder for upstream American eel passage on the Robert Moses Power Dam. The Authority has met this requirement.

3. *Habitat Improvement Projects*. Under the Ecological Agreement, the Authority has agreed to design, construct, operate and maintain ten Habitat Improvement Projects within the Project boundary and one outside the Project boundary (the "HIPs"). To facilitate construction of these HIPs, pursuant to the Ecological Agreement, the Authority has developed an implementation plan, approved by FERC in 2004, for the design, construction and effectiveness monitoring of the ten HIPs within the Project boundary.

4. *Future Habitat Improvement Fund*. The Ecological Agreement also requires the Authority to set aside $3.92 million (in 2003 dollars) for the design, construction, environmental monitoring, operation and maintenance of future HIPs to be located on the St. Lawrence River or its tributaries within New York State that will benefit the ecology of the St. Lawrence River. The Authority has met this requirement.

5. *Enhancements to Wilson Hill Wildlife Management Area ("WHWMA").* Pursuant to the Ecological Agreement, the Authority has agreed to implement, in consultation with DEC, several improvement projects to WHWMA, which is located within the Project boundary. The WHWMA includes approximately 1,800 acres of open water habitat, including large, shallow freshwater impoundments.

6. *St. Lawrence River Research and Education Fund*. The Authority agreed, as part of the Ecological Agreement, to establish the $1.008 million St. Lawrence River Research and Education Fund (the "SLRREF"), the purpose of which is to provide financial support for environmental research and environmental education projects related to the ecology of the St. Lawrence River watershed in the immediate vicinity of the Project. The Authority has met this requirement.

7. *South Channel Water Temperature Monitoring*. Under the Ecological Agreement, the Authority will monitor water temperature in shallow areas of the South Channel downstream of Long Sault Dam from approximately April 1 until June 30 of each year. The New License also requires the Authority to monitor dissolved gases in the South Channel. In addition, the Authority has developed a temperature and dissolved gases monitoring plan, approved by FERC in 2004, providing for the location of monitors, the frequency at which data will be collected, and notification requirements for spill events at Long Sault Dam.

8. *Recreational Enhancements*. Pursuant to, among other things, the Task Force Agreement, the Authority has agreed to construct, rehabilitate, operate and maintain numerous recreational facilities throughout the following locations at the Project: (1) Town of Massena; (2) Town of Louisville; (3) Town and Village of Waddington; (4) Robert Moses State Park; (5) Coles Creek State Park; and (6) Wilson Hill Boat Launch.

9. *Land and Vegetation Management Plans*. Under the Task Force Agreement and the Ecological Agreement, the Authority has developed a Land Management Plan (the "LMP") for the Project, approved by FERC in February 2005. The LMP has established guidelines for public access to Project lands, use of Project lands by adjoining landowners, and use of Project lands for appropriate commercial activities that are dependant upon either access to or proximity of Project waters. The LMP also includes a Vegetation Management Plan (the "VMP").

10. *Shoreline Stabilization Plan*. Under the Task Force Agreement, the Authority has developed a plan, approved by FERC in January 2005, to stabilize eroding shoreline at 31 sites within the Project boundary over an 8- to 10-year period following issuance of the New License.

11. *Navigation Enhancements*. Under the Task Force Agreement, the Authority has agreed to address navigation hazards within the Project by: (1) installing information kiosks and staff gauges at eight boat launch locations within the Project boundary; and (2) locating and marking with seasonal buoys several known submerged navigational hazards and providing information of such hazards to the National Ocean Service within the National Oceanic and Atmospheric Administration and the Canadian Hydrographic Service for publication in navigation charts.

12. *Removal of Lands from Project Boundary*. Pursuant to the Task Force Agreement, the Authority had requested in its application for the New License several changes to the Project boundary. The New License required the Authority to file with FERC data regarding the frequency and level to which lands outside of the proposed Project boundary are flooded under the International Joint Commission's requirements for operation of the Project. The Authority made this filing, and FERC issued an order approving the Project boundary proposed by the Authority. With the finalization of this boundary issue, the Authority has been conveying certain lands which fall outside the Project boundary to various parties.

13. *Settled Issues Not to be Included in New License*. In addition to the measures in the Comprehensive Accord that are incorporated into the New License, the Authority has agreed, under the Comprehensive Accord, to undertake several measures that are beyond the scope of the New License, including the following:

(1) As part of the Task Force Agreement, the Authority has established a Community Enhancement Fund for the benefit of St. Lawrence County; the Towns of Massena, Louisville, Waddington and Lisbon; the Villages of Massena and Waddington; and the Massena, Madrid-Waddington and Lisbon Central School Districts (the "Beneficiaries"). Subject to the terms of this agreement, the principal amount of the fund at the time established was $31.5 million for the purpose of generating $2 million a year in payments to the Beneficiaries for the term of the New License, such payment amount to be guaranteed by the Authority. In addition, the sum of $4 million was paid to the Beneficiaries, along with a payment of $500,000 to the Town of Lisbon, upon the execution of the Task Force Agreement. Any positive balance in the fund at the end of the term of the New License would be paid to the Beneficiaries. In addition, the Beneficiaries would receive additional payments over the term of the license if the Project generates electricity above certain specified levels.

(2) As part of the Task Force Agreement, the Authority will design and arrange for the construction and/or rehabilitation of recreational facilities in the Town of Lisbon and will renegotiate with local governments existing agreements for maintenance of recreational facilities and adjust the annual payments to reflect the cost of maintenance of all facilities.

(3) The Authority will convey lands removed from the Project boundary to local municipalities and/or adjoining landowners.

(4) The Authority will work with the Task Force to identify potential sites for private marina development.

(5) Pursuant to the Aquarium Agreement, the Authority undertook to establish a $20 million fund (principal amount in 1999 dollars), to be held by the Authority until transfer to SLAEC, if certain conditions were met, for the purpose of constructing and implementing an aquarium and research center.

In July 2005, the Authority informed SLAEC that it was exercising its right to withdraw from the Aquarium Agreement based on SLAEC's failure, among other things, to obtain certain required financial support. The Authority is exploring potential alternative uses in northern New York of the monies in the fund, including for economic development purposes. In September 2005, the Trustees authorized the Authority to enter into agreements to grant up to $10 million of these monies to a not-for-profit entity that would provide for the investment of such monies in technology businesses in order to further economic development in St. Lawrence County.

The Comprehensive Accord neither incorporates measures to comply with the consultation requirements under the National Historic Preservation Act (the "NHPA") nor includes the Authority's proposed measures to address specific cultural resources issues identified by the Mohawk community at Akwesasne. On October 1, 2003 a Programmatic Agreement was entered into among FERC, New York State Historic Preservation Office (the "SHPO") and the Advisory Council on Historic Preservation (the "ACHP"), with the Authority concurring, which addresses NHPA requirements. Specific measures to manage and protect cultural resources have been identified in an Historic Properties Management Plan ("HPMP"), which FERC approved in May 2005.

During the development of the Application, the Mohawk community at Akwesasne identified specific cultural issues related to the return of artifacts, repatriation, cultural resources management, and establishment of a St. Regis Mohawk Tribe (the "SRMT") historic preservation officer. The Authority has proposed to work with the SRMT to address the cultural issues on a case-by-case basis and, where appropriate, in the HPMP.

(c) The Out-of-State Allocation of Project Power

The continuation of St. Lawrence-FDR Project power sales to the seven out-of-state customers which had received power under the old license was the subject of dispute in the FERC relicensing proceeding for the Project. The seven out-of-state customers opposed the Authority's proposal to eliminate all out-of-state customer sales under the New License. Ultimately, in September 2003, the Authority filed with FERC a proposed settlement with six of the seven out-of-state customers receiving St. Lawrence-FDR Project power that would reduce by approximately one-half, to 34.5 MW, the amount of St. Lawrence-FDR Project power sold to such customers. In the New License order, FERC approved the six-state settlement agreement and in the course of determining various petitions for rehearing, FERC declined to require that power be provided to the seventh out-of-state customer.

St. Lawrence-FDR Modernization Program

The St. Lawrence-FDR Project has been operating with original equipment in the Project's powerhouse since the Project's commissioning in 1958. The Project's turbines will reach the end of the turbines' design life within the next 15 years, and most of the other equipment will require renovation or replacement within that time period. To address these concerns, on November 25, 1997, the Trustees of the Authority approved the initiation of a program to extend the life of, and modernize, the generation equipment at the St. Lawrence-FDR Project (the "Modernization Program"). Engineering and procurement are continuing and contracts have been placed for other major items of the work, including new generation control systems, generator exciters, generator circuit breakers, and rotor pole modifications.

The Authority expects that installation of new turbines will result in a two-to-four percent increase in efficiency. In addition, the Modernization Program is expected to accomplish the following: reduce the probability of catastrophic equipment failures; result in a renovated plant that is maintainable for another 50 years; reduce maintenance requirements of equipment; and render the Project capable of improved response.

The Modernization Program commenced in 1998 and will take approximately 15 years to complete. The Program's schedule allows four years for engineering through the testing of a prototype unit and then rehabilitation of approximately three units every two years until completion. The Authority believes this timetable to be optimal for minimizing generation revenue loss while the units are being modernized.

Modernization of eight units has been completed, and modernization of a ninth unit is expected to be completed in late 2007.

The estimated cost of the Modernization Program is $281 million, of which approximately $148 million has been expended.

Niagara

The Niagara Project consists of a water intake, waterways, a generating plant (the "Robert Moses Niagara Power Plant"), a pump-generating plant (the "Lewiston Pump-Generating Plant") with storage reservoir, and power transformation and transmission facilities. It is located at Lewiston, New York, and was constructed to implement a 1950 treaty (the "1950 Treaty") between the United States and Canada. Power was first generated in January 1961, and the final generator went into commercial operation in October 1962.

The Robert Moses Niagara Power Plant contains thirteen hydro-turbine generators, with a nameplate capacity totalling 2,429 MW, and the Lewiston Pump-Generating Plant contains twelve hydro-turbine motor-generators, with a nameplate capacity totalling 240 MW. The nameplate capacity of Niagara is 2,669 MW.

Pursuant to a FERC-approved license amendment, the Authority, in December 2006, completed a $298 million upgrade (including licensing and preliminary engineering costs) of the Niagara Project which entailed an upgrade of the thirteen units at the Robert Moses Niagara Plant and the twelve units at the Lewiston Pump-Generating Plant. As a result of this work, it is expected that the Niagara Project will be able to produce approximately 32 additional MW of power that will be available on a firm basis.

An outage due to a stator failure at one of the thirteen units at the Robert Moses Niagara Power Plant earlier this year and a subsequent inspection and on-going root cause analysis has indicated that the outage appears to have been caused when certain clamping mechanisms on the stator became loose and migrated into the air gap between the rotor and stator. These clamping mechanisms have since received additional weldings and the unit is scheduled to go back into service in early October 2007. The unit in question was one of four such units that had recently undergone a rewinding and restacking during the Authority's on-going maintenance program. Based on discussions with its contractor, the Authority expects, as a precautionary measure, to carry out a similar welding process on each of the other three units. The cost per unit is estimated to be about $1 million and while a single unit outage would be expected to have little or no effect on the Authority's overall revenues, should a second unit fail during this maintenance period, it could limit the Authority's ability to produce on-peak energy and may affect overall revenues by as much as approximately $6 million.

Niagara Relicensing

In 1958 the Federal Power Commission issued the Authority a license for a period of 50 years, effective as of September 1, 1957 and expiring August 31, 2007, for the construction, operation and maintenance of the Niagara Project. Under the NRA, pursuant to which the license was granted, the Authority must give preference to public bodies and non-profit cooperatives in disposing of half of the Project's total output. A reasonable amount of such total output subject to preference (not in excess of 10% of total output) must be made available to neighboring states. Failure of the Authority to receive a license renewal for the Niagara Project could have a material adverse impact on the Authority's financial condition.

In 2002, the Authority proposed that development of the application for the new license be governed by the Alternative Licensing Process ("ALP") provided for by FERC regulations. FERC approved the request on July 15, 2002. The Authority filed its application for a new Niagara Project license ("Application") with FERC on August 18, 2005. By order issued March 15, 2007, FERC issued the Authority a new, 50-year license for the Niagara Project effective September 1, 2007, and approved various settlement agreements (discussed further below). In mid-April 2007, two petitions for rehearing were filed by certain entities with FERC regarding its March 15, 2007 order, which petitions were denied by FERC in its order issued September 21, 2007.

FERC's regulations provide for filing settlement agreements pursuant to which license applicants and settling parties can reduce the number of contested issues involved in a relicensing. Four settlement agreements with various public and private entities were submitted to FERC contemporaneously with the Application, and they provide for certain Settlement Packages as follows:

(1) Greenway

In 2004, legislation was enacted into law creating the Niagara Greenway Commission ("Greenway Commission"), a new entity charged with developing and implementing a plan to create a greenway that will "enhance waterfront access, complement economic revitalization of the communities along the river, and ensure the long-term maintenance of the greenway". The aggregate amount of the greenway Settlement Package funds is calculated by assuming that $7 million per year will be made available for the term of a 50-year license. The net present value of this Settlement Package is estimated at approximately $113.3 million. (All dollar amounts in these Settlement Packages descriptions are expressed in terms of net present value using 2007 as the base year.)

(2) Ecological

Pursuant to Section 401 of the Federal Clean Water Act ("CWA"), the New York State Department of Environmental Conservation ("DEC") will condition the new license issued by FERC for the Niagara Project through the issuance of a certificate confirming that the license will comply with CWA requirements. In addition, the Federal Power Act confers authority on federal and state wildlife agencies to recommend conditions to be included in the FERC license. In view of these provisions, the Authority engaged in discussions with DEC, the Fish and Wildlife Service of the U.S. Department of the Interior, and certain other interested organizations regarding appropriate enhancement and protection of ecological resources in and around the Niagara River. The resulting Settlement Package includes construction, operation, and maintenance of 8 "Habitat Improvement Projects," a Fish and Wildlife Habitat Enhancement and Restoration Fund, and a Land Acquisition Fund. The net present value of this Settlement Package is estimated at approximately $30.7 million. In addition, $1 million per year of the greenway funds discussed above will be earmarked for ecological projects.

(3) Recreational

The original design of the Niagara Project involved the creation of Reservoir State Park within the Niagara Project Boundary established by FERC pursuant to the original license. Studies conducted as a part of the relicensing of the Niagara Project confirmed that Reservoir State Park and a number of other recreational facilities located on Authority lands within or in the vicinity of the Niagara Project Boundary are in need of repair, maintenance, and/or rehabilitation. To address this concern, a Settlement Package was developed around a series of improvements to be undertaken at Reservoir State Park, the Niagara Project Intakes, the Niagara Discovery Center, Artpark, and other public access improvements. The net present value of this Settlement Package is estimated at approximately $11.1 million. In addition, $3 million per year of the greenway funds discussed above will be earmarked for state parks recreation and tourism projects.

(4) Groundwater Infiltration Abatement

Pursuant to Section 10(a) of the FPA, FERC has jurisdiction to require the modification of a project to address adverse impacts arising out of project operations. Studies conducted as part of the relicensing of the Niagara Project have confirmed that, in the vicinity of the intersection of the Niagara Project Conduits ("Conduits") and the Falls Street Tunnel ("Tunnel"), which has been incorporated into the wastewater treatment system operated by the Niagara Falls Water Board, the hydraulic influence of the Conduits causes an increase in the infiltration of groundwater into the Tunnel. Given the demonstrated impact of the Project on the Tunnel, a Settlement Package was developed around a project that involves reducing infiltration of groundwater into the Tunnel. The net present value of this Settlement Package is estimated at $19 million.

(5) Tuscarora Nation

To address a number of concerns advanced by the Tuscarora Nation ("Nation"), including cultural, environmental and historical concerns, a Settlement Package was developed involving establishment of a community fund, the conveyance of certain surplus land, the provision of up to one megawatt of low-cost power to serve the Nation's needs, the creation of a scholarship program, and the conferral of certain other benefits. The net present value of this Settlement Package is estimated at approximately $27.6 million (which includes the value of the power allocation), including payments totalling approximately $23.8 million in net present value (2007 dollars) over the term of the new license, either in the form of a single payment or a series of payments.

(6) Out-of-State Power Allocations

Pursuant to the requirements of the NRA, the Authority is required to sell fifty percent of Niagara Project power as "preference power" to public bodies and non-profit cooperatives and of that amount a "reasonable portion" but not more than twenty percent of the preference portion (or ten percent of the total) must be made available for sale in "neighboring states". The Authority is currently selling ten per cent of Niagara Project firm and peaking power to seven "neighboring states", the State of Connecticut; the Commonwealth of Massachusetts; the State of New Jersey; the State of Ohio; the Commonwealth of Pennsylvania; the State of Rhode Island; and the State of Vermont. The Authority reached a settlement with the neighboring states under which license articles consistent with the NRA's neighboring state sales requirements would be included in the Authority's new license for the Project and the seven states would support the Authority's application to FERC for a new fifty-year license and the settlements with other parties. The settlement also provides that the Authority staff will recommend to its Trustees that they approve and recommend to the Governor for his approval new contracts with terms through September 1, 2025 for the continued sale of ten percent of Project power to the states at cost-based rates. The Trustees took such action on December 13, 2005. The form of contract allows the Authority to petition FERC to allow the sale of less than ten percent (but not less than 7.5%) of Niagara Project power to the neighboring states, with such reduction to take effect prospectively only after a final, non-appealable FERC order.

(7) Host Communities

The Niagara Project Boundary encompasses lands within seven taxing jurisdictions: Niagara County, the Towns of Lewiston and Niagara, the City of Niagara Falls, and three school districts. While some of these lands were acquired by the Authority from entities that were already tax-exempt (e.g., Niagara University and the Tuscarora Nation), most of the land so acquired became tax-exempt at the time the Niagara Project was created. To address this concern and a number of other concerns advanced by these municipal entities, including socioeconomic concerns, a Settlement Package was developed that involves establishing a community fund, conveying certain surplus land, and providing 25 MW of low-cost power. The net present value of this Settlement Package is estimated at approximately $182.6 million (which includes the value of the power allocation). In addition, $3 million per year of the greenway funds discussed above will be earmarked for local projects aimed at enhancing recreation and tourism in Niagara County.

On December 6, 2005, the Governor announced that the Authority had reached an additional relicensing settlement agreement with the City of Buffalo and Erie County. The Authority's commitments pursuant to this agreement include establishment of an Erie County Greenway Fund to be funded by the Authority through annual payments of $2 million throughout the term of the new license; contribution of a minimum payment of $2.5 million per year throughout the term of the new license into a Buffalo Waterfront Development Fund, $1.5 million of which will represent a monetized, net value of 5 MW of firm hydropower; the payment of $4 million to be used for projects on Buffalo's waterfront; the payment of $1 million annually to Empire State Development Corporation for economic development and revitalization activities in the vicinity of Buffalo's waterfront; and the possible return of a parcel of waterfront property currently used by the Authority as an ice boom storage area.

In May 2006, the Authority entered into a settlement agreement with Niagara University consisting of a $10.5 million capital/aesthetics fund and a 3 MW power allocation from the Niagara Project to be sold to the university at the Authority's business rate. The net present value of this settlement package (including the value of the power allocation) is estimated to be $21.6 million.

Each agreement was, among other things, conditioned on issuance of a 50-year license by FERC that is fully consistent with the terms set forth therein, and that FERC's action on the final license application must be preceded by and based on review of associated environmental impacts pursuant to the National Environmental Policy Act.

The Authority currently expects that the costs associated with the relicensing of the Niagara Project for a period of 50 years will be at least $495 million (2007 dollars) which includes $50.5 million in administrative costs associated with the relicensing effort and does not include the value of certain power allocations and operation and maintenance expenses associated with several habitat and recreational elements of the settlement agreements. In addition to internally generated funds, the Authority will issue debt obligations in the future to fund Niagara relicensing costs. The Authority believes that it will be feasible to collect in its rates for the sale of Niagara power amounts necessary to fund such relicensing costs.

Blenheim-Gilboa

The Blenheim-Gilboa Project is located on the Schoharie Creek in the towns of Blenheim and Gilboa, Schoharie County, New York, and was built pursuant to a 50-year license issued by the Federal Power Commission effective May 1, 1969. The Project was first operated in 1973, and consists primarily of a lower and upper reservoir and pump-generating power plant containing four reversible hydraulic pump-turbines. The pump-generating plant was designated as the "George L. Ingalls Pump-Generating Plant" by the Authority on September 25, 1990. It has an installed capacity of 1070 MW.

Each of the four pump-turbine units at the Blenheim-Gilboa Project undergoes routine maintenance every eighteen months. Maintenance includes removal of damaged metal due to cavitation, and inspection of the bearings, the air circuit breaker and the monitoring system.

On November 25, 2003, the Authority's Trustees approved the initiation of a Life Extension and Modernization Program ("LEM Progam"), estimated to cost $135.5 million, to renovate and modernize the Blenheim-Gilboa Project's generating equipment. A principal component of the LEM Program is the replacement of the four pump turbines with modern designs to achieve improvements in cycle efficiency, pumping flows and range of operation. The LEM Program also involves the rehabilitation and modernization of numerous Project systems, including structural rehabilitation of the motor-generators, replacement of the main power transformers and rehabilitation of the spherical valves that seal the units from the upper reservior. The LEM Program began in the Fall of 2006 and is expected to be completed in the Spring of 2010.

The increase in plant capacity as a result of the new pump turbines required the Authority to file an application for an amendment to its FERC license, which the Authority did and which FERC approved in April 2006. Other aspects of the LEM Program may require permits from other regulatory agencies which the Authority anticipates obtaining in due course.

A portion of the estimated cost of the LEM Program ($99.6 million) is included in the Authority's estimated capital expenditures for the years 2007-2011 (see "PART 2—CERTAIN FINANCIAL AND OPERATING MATTERS—Projected Capital and Financing Requirements").

Poletti

The Poletti plant is located on the East River in the Borough of Queens in New York City on a site adjacent to a tract that houses five generating units and other related facilities owned by other entities (the "Adjacent Facilities"). The plant was placed in commercial operation in March 1977, and is operated independently of the Adjacent Facilities. The Authority has agreements with the owners of the Adjacent Facilities for sharing some of the facilities and operations conducted at the site.

The steam turbine and electric generator were supplied by Westinghouse Electric Corporation, and the source of steam is a balanced draft boiler manufactured by Foster Wheeler Corporation. Poletti has an installed generator capacity of 885 MW.

The unit has a dual fuel capability, allowing it to burn either low sulfur No. 6 oil or natural gas, or a combination of both, whichever is more economic. Poletti's availability factors for 2004, 2005, and 2006 were 77%, 93%, and 96%, respectively, and its capacity factors for such years were 27%, 31%, and 24% respectively.

For a discussion of an agreement entered into by the Authority in connection with the licensing of its 500-MW Plant which will result in the closure of the Poletti Project in 2010 and imposes certain restrictions on Poletti Project operations, see "500-MW Combined-Cycle Electric-Generating Plant" below.

500-MW Combined-Cycle Electric-Generating Plant

To serve its SENY governmental load and to comply with the NYISO in-City capacity requirement in the New York City area (see "PART 2—NEW YORK INDEPENDENT SYSTEM OPERATOR—NYISO Capacity Requirements Matters"), the Authority has constructed a 500-MW combined-cycle natural-gas-and-distillate-fueled power plant at the Poletti site as the most cost-effective means of effectuating such compliance. The 500-MW Plant is centered around two combustion turbines, each exhausting to a dedicated heat recovery steam generator. It also includes a steam turbine and an air-cooled condenser.

The resolution of issues relating to the construction of the Authority's 500-MW Plant has resulted in the Project entering into commercial operation on December 31, 2005 and estimated direct construction and overhead costs of the Project of approximately $745 million.

In June 2007, the Authority awarded a long-term service agreement ("LTSA") for the 500-MW Plant with a term of up to 15 years and at a cost of up to $105 million. The LTSA will cover scheduled major maintenance, including parts and labor; contingencies for escalation of materials and labor; and potential extra work.

To license the 500-MW Plant, in August 2000, the Authority filed applications with the New York State Board on Electric Generation Siting and the Environment (the "Siting Board") and 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 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 and the Authority has agreed, among other things, to the following:

(a) upon acceptance of a Certificate for the 500-MW Plant, the Authority shall adhere to specified reductions in the use of fuel oil at the existing Poletti Project in the period from January 1, 2003 to the closure of the existing Poletti Project;

(b) sixty days after commencement of commercial operation of the 500-MW Plant, the Authority shall limit operation of the existing Poletti Project to an average annual capacity factor of 30% based on a three-year rolling average, with the capacity factor in any year not exceeding 35% except under specified limited circumstances;

(c) the Authority shall permanently cease operation of the existing Poletti Project as of February 1, 2008, unless it provides the notice discussed in paragraph (d) below by June 1, 2006;

(d) if the Authority provides notice by June 1, 2006, to the parties to the Stipulation Agreement that it has received a determination from the NYISO that closure of the existing Poletti Project on February 1, 2008, would cause the aggregate in-City electric generating capacity (exclusive of the existing Poletti Project) to be less than 80% of the total in-City projected peak demand for the Summer of 2008, then the Authority's obligation to cease operation of the existing Poletti Project shall be deferred until February 1, 2009 (The Authority provided such notice and received such NYISO determination);

(e) a similar deferral of closure for reliability reasons until January 31, 2010 is permitted under the Stipulation Agreement, and because such deferral has occurred, on that date the Authority will be obligated to permanently cease operation of the existing Poletti Project;

(f) commencing January 1, 2003, the Authority shall increase its expenditures for energy efficiency programs to be implemented within New York City by no less than $10 million annually for each of the years 2003-2007, and as of January 1, 2003, provide funds in the aggregate amount of $2 million for air pollution reduction programs in northwestern Queens, New York.

When the existing Poletti Project ceases operation, the Authority will use the 500-MW Plant, the Blenheim-Gilboa Project, any other existing or future Authority resources, and energy and capacity purchases from other sources, including the NYISO markets, 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 existing Poletti Project will have been retired.

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.

SCPPs

To meet potential capacity deficiencies in the New York City metropolitan area, which could also adversely affect the statewide electric pool, and to meet installed capacity requirements relating to its SENY and Long Island customers, the Authority installed eleven natural-gas-fueled electric generation units at six sites in New York City and at one site on Long Island. The DEC air permits for the generators were issued in January and February, 2001, for a term of 3 years. DEC issued new five-year air permits for the generators in October 2005.

Each small power plant has a nameplate rating of 47 MW. However, as a result of commitments made by the Authority in the course of obtaining regulatory authorizations for the plants, at sites which house two units, the combined output of the plants cannot exceed 79.9 MW. The plant equipment supporting each unit includes gas and air compressors, air chillers and associated cooling tower, water treatment and storage system pumping facilities, ammonia storage and injection system, generator step-up transformer, electric switch gear, and transmission interconnections.

The New York City plants are located as follows: one plant is located at a site in Williamsburg, Brooklyn; one plant is located at a site in Staten Island at Lynhurst Avenue and Edgewater; two plants are located at a site in Sunset Park, Brooklyn; two plants are located at a site in Long Island City, Queens; two plants are located at a site in the Bronx at Hell Gate; and two plants are located at a site in the Bronx at the Harlem River Yards.

In December 2001, the Authority, DEC, The City of New York (the "City"), and certain of the petitioners involved in litigation relating to the SCPPs located at Vernon Boulevard, Long Island City, site in Queens (the "Stipulation Petitioners") entered into a Stipulation of Settlement (the "Stipulation") which settled the litigation. Among other things, the Stipulation provides that the Authority will cease operations of its two small power plants (the "VB Power Plants") at the Vernon Boulevard site (the "VB Site") upon the date of commencement of the commercial operation of either:

(i) the Authority's 500-MW Plant; or

(ii) a proposed 1000-MW plant (the "1000-MW Plant") to be built by another entity and known as the Astoria Energy LLC project;

provided that the Authority's cessation and removal obligations can only be enforced by the Mayor of the City of New York, when the Mayor deems it advisable and after consulting with the President of the Borough of Queens and the Councilmember from the 26th Council District in Queens, New York City.

Upon a decision to remove the plants, the Authority would be required to expeditiously remove the turbines, generators, skids and associated equipment from the VB Site within 90 days after such cessation.

Under the Stipulation, the Stipulation Petitioners agree to reasonably support any voluntary activities by the Authority, to the extent permitted by law, aimed at relocating the two VB Power Plants to an appropriate site in the Borough of Queens.

The Stipulation also provides that if, as of the day prior to the date on which the Authority is obligated to cease operations of the VB Power Plants pursuant to the Mayor's enforcement action, discussed above, the aggregate electrical generating capacity (exclusive of the VB Power Plants) as determined by the NYISO or any successor entity, amounts to less than 81% of the total in-City projected peak electrical demand as determined by the NYISO or a successor entity for the summer of the year in which the Authority ceases such operation, then the City shall, within 6 months of receipt of documentation of project cost and expenses, reimburse the Authority in an amount equal to the Authority's unamortized cost for the Vernon Boulevard facility (including, without limitation, the costs of purchasing and installing the units and all associated equipment, all site acquisition and remediation costs, and the costs of all foundation, piling and duct work), but in no event shall such reimbursement exceed $40 million. The City's payment obligation, however, is conditioned upon the Authority having offered, for a specified period, to sell at fair market value the VB Power Plants to an entity willing to remove and relocate those units to another location serving the New York City load pocket. For purposes of this payment obligation, such unamortized cost shall equal the Authority's documented Vernon Boulevard facility costs up to an aggregate of $100 million, plus the amount the Authority pays for removal, less (a) any net revenue received by the Authority from operation of the VB Power Plants, including, without limitation, capacity, energy and ancillary service revenues, if such services are being billed through the contracts with the City, (b) the actual resale value or the fair market value, whichever is greater, of any such equipment sold or otherwise disposed of by the Authority upon the cessation of operations of the VB Power Plants and (c) the fair market value of the VB Site at such time.

The Authority does not believe that cessation of operations and removal of the VB Power Plants, if that should occur, will have any additional material impact on the Authority.

Flynn

The Flynn Project consists of a combined-cycle, natural-gas-and-distillate-fueled electric-generating plant and associated facilities, including a 102-MW combustion turbine-generator, a 56-MW steam turbine-generator, a heat-recovery steam generator, and a powerhouse building. The Project also includes a 13.8/138-kV switchyard, two step-up transformers, an underground 138-kV electrical cable, and gas-compression, metering and pipeline facilities. The plant was built on a site at Holtsville in Suffolk County, New York, leased from an affiliate of KeySpan. The Project began commercial operation in May 1994. The Flynn plant has a nameplate rating of 164 MW. The full output of Flynn is being sold to LIPA under a capacity supply agreement, as amended (see "PART 2—POWER SALES—Flynn").

The availability factors for the Flynn Plant for 2005 and 2006 were 92% and 95%, respectively.

Small Hydroelectric Facilities

(1) *Ashokan and Kensico*. Ashokan is a small hydroelectric facility with a nameplate rating of 4.75 MW, consisting of the addition of hydroelectric generating equipment to the headworks of the Catskill Aqueduct at Ashokan Reservoir, in the Township of Olive, near Kingston, in Ulster County, New York. Kensico is a small hydroelectric facility with a nameplate rating of 3 MW, consisting of the addition of hydroelectric generating equipment to the headworks of the lower Catskill Aqueduct at Kensico Reservoir in the Town of Mount Pleasant, near White Plains, in Westchester County, New York. The plants are exempt from Federal licensing requirements.

(2) *Small Hydroelectric Development Project No. 1*. The Project facilities, having a combined nameplate capacity of 32.2 MW, in general, consist of dam structures, intake and power conduits, powerhouses with turbine generator units, tailraces, and switchgear and transmission interconnections deemed necessary or desirable at the following sites in New York State: Crescent Dam on the Mohawk River in Albany and Saratoga Counties; Vischer Ferry Dam on the Mohawk River in Saratoga and Schenectady Counties; and Hinckley Dam on West Canada Creek, near the Hamlet of Hinckley in Oneida and Herkimer Counties. The 40-year FERC licenses for these facilities expire on May 31, 2024, May 31, 2024 and July 31, 2022, respectively.

Transmission

The Authority's Transmission System

The Authority owns, operates and maintains more than 1,400 circuit miles of high voltage (115-kV—765-kV) transmission lines in New York State. These lines include a 765-kV line south from the Canadian border to Marcy, New York; two 345-kV lines from the Niagara Project east to Niagara Mohawk's Edic Substation in central New York; two 345-kV lines from Marcy, New York, connecting to other utility substations in southeastern New York; three 345-kV lines from the Blenheim Gilboa Project extending to substations near Athens, New Scotland, and Delhi, respectively; two 230-kV lines extending east from the St. Lawrence Project to Plattsburgh, New York, and to the Vermont border; two 230-kV lines extending south from the St. Lawrence Project to Belfort, New York; a single circuit underground and underwater line extending across Long Island Sound between Con Edison's substation in Westchester County and LIPA's substation in Nassau County, New York; several 115-kV lines connected directly to large industrial customers and other shorter lines connecting the Authority's generating facilities to the transmission grid.

In 2003, the Authority completed construction of a transmission control device known as the Convertible Static Compensator at its Marcy substation. This new technology provides voltage control and helps reduce congestion on heavily used transmission lines between Utica and Albany, New York.

Long Island Sound Cable

The Cable consists of a 345-kV underground and underwater transmission cable, extending for approximately 26.6 miles from the Sprain Brook substation owned by Con Edison in Westchester County, New York, to the East Garden City substation owned by LIPA in Nassau County, New York, and includes an underwater crossing of approximately 7.9 miles of Long Island Sound, two transition stations consisting of terminators and dielectric fluid pressurization and circulation systems for the 345-kV cable, and certain facilities and additional equipment required for the modification or expansion of the Sprain Brook and East Garden City substations. The Authority has entered into a facilities agreement with Con Edison for the use of a bay in its Sprain Brook substation to accommodate the northerly cable termination. Installation of the Cable was completed on May 31, 1991.

Due to damage to the 345-kV reactor equipment at the Sprain Brook substation, the Authority is financing the cost of replacement of the two 345-kV reactors and associated equipment at a cost of approximately $7 million. The repairs were completed in June 2003. Pursuant to the Cable Agreement with LIPA, the Authority will be reimbursed by LIPA for the repair costs over a 20-year period, along with financing costs related to the extended repayment period.

Tri-Lakes Transmission Reinforcement Project

In October 2004, the Authority, National Grid, and the Villages of Tupper Lake and Lake Placid executed a settlement agreement designed to settle a dispute relating to cost responsibility for certain transmission system upgrades. Under the settlement agreement, the Authority has contracted with National Grid for the construction of substation equipment and a new overhead line to alleviate serious transmission capacity deficiencies in the Lake Placid, Tupper Lake and Saranac Lake, New York, area of the Adirondacks. The upgrades will consist of (a) one 46-kV Static Var Compensator ("SVC") at Tupper Lake, with a projected in-service date of 2007, and one 115-kV SVC at Lake Colby with an in-service date of 2007 (collectively, the "SVCs"); and (b) a new overhead 46-kV line from Stark/Townline substation to a new regulator station at Piercefield with a projected in-service date of 2008 (the "New Line") (collectively, the "Tri-Lakes Project").

National Grid is responsible for the design, engineering, procurement, construction, installation, testing, and overall project management for the Tri-Lakes Project, subject to oversight by the Authority. The Authority will be the applicant for any governmental permits or approvals required for the siting or construction of the New Line, and National Grid will be the applicant for any permits or approvals required for the SVCs. The Authority will own and finance the Tri-Lakes Project up to January 1, 2012, at which time the Tri-Lakes Project will be transferred to National Grid upon payment of the Net Project Cost, as defined below. National Grid will acquire the rights to any real property necessary for the construction of the Project.

The current cost estimate, in 2007 dollars, for the Tri-Lakes Project is $46.5 million which could increase in the future ("Total Project Cost"). The Net Project Cost shall equal the Total Project Cost less $9.7 million (in 2004 dollars), which is the portion of the Tri-Lakes Project cost borne by Tupper Lake ($3.2 million) and Lake Placid ($6.5 million). The Authority will finance both National Grid's and the Villages' share of the Total Project Cost but will be reimbursed for these costs. The Authority and National Grid will share equally in any cost increases above the estimated cost of the transmission line part of the Project (estimated to cost $15.8 million).

The Authority has received Adirondack Park Agency, DEC, and U.S. Army Corps of Engineers permits and approvals from the State Historic Preservation Office to build the Tri-Lakes Project on a route that bypasses the State forest preserve. Concurrently, the Authority is also working with environmental groups, state agencies, municipalities, and other interested parties to amend Article XIV of the New York State Constitution to permit the construction of a portion of the Project in the forest preserve adjacent to State Route 56.

Certain Operating Information

Effective in 1965, the Authority and Ontario Hydro entered into a Memorandum of Understanding containing provisions for coordinated operation of the two systems, for interchange of power and energy at the Niagara and St. Lawrence-FDR Project interconnections and for the use of generating equipment of either system by the other in order to make optimum use of all available water at all times. The agreement provides for the sale by either party to the other of various classes of power and energy, and continues in force from year to year, subject to termination by either party on not less than five years' prior notice in writing.

The operation of Authority projects is subject to various federal and State licensing and permit requirements which have constrained facility operations and have caused and are expected to continue to cause the Authority to incur additional costs or to experience a reduction of revenues. Further plant improvements and modifications may be required by regulatory action or be deemed desirable by the Authority as the result of problems identified from its operating experience or that of operators of similar facilities (see "PART 2—THE AUTHORITY'S FACILITIES—Generation—*St. Lawrence-FDR; Niagara; Blenheim-Gilboa*").

Fuel Supply

Poletti, Flynn, and 500-MW Plant

The Authority maintains an inventory of oil at the Poletti, Flynn, and 500-MW Plant sufficient, together with gas supplies, to satisfy the fuel needs of the plants for a reasonable period in light of current market conditions. To meet the requirements of the three plants, the Authority, in addition to using its oil inventories, effects purchases of oil and gas on the spot market as well as under term supply contracts.

Gas Transportation and Supplies

The Authority has entered into service agreements with Texas Gas Transmission, LLC, Dominion Transmission, Inc., and Transcontinental Gas Pipe Line Corporation terminating in October 2016 under which these pipelines provide firm natural gas transportation service at an estimated average annual cost to the Authority of $8.5 million per year, based on current rates applied to the Authority's full allocation of capacity. The transportation serves the Flynn plant, and may serve the Poletti plant, the SCPPs, the 500-MW Plant, or any other gas-fired plant built by the Authority. To the extent transportation costs are for gas used at the Flynn plant, the recovery of such costs from LIPA would be governed by the terms of the capacity supply agreement, as supplemented, relating to the plant (see "PART 2—POWER SALES—Flynn").

The Authority entered into an agreement with Con Edison ending July 31, 2008, which provides gas transportation and balancing services to the Authority to serve its expected Poletti and 500-MW Plant fuel needs and those SCPPs located in Con Edison's service territory, at an estimated annual cost of $4.3 million, exclusive of applicable taxes and balancing charges, if any. The Authority has also entered into gas transportation and balancing agreements with KeySpan Energy Delivery Long Island, Inc., and KeySpan Energy Delivery New York, Inc., ending February 28, 2009 which provide gas transportation and balancing needs of its SCPPs located in the service territories of such utilities, at an estimated annual cost of $1.8 million, exclusive of applicable taxes and balancing charges, if any.

LEGISLATION AFFECTING THE AUTHORITY

Section 1011 of the 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 New York 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 (see, for example, paragraph (9) below). 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 addition, from time to time, legislation is enacted into New York law which purports to impose financial and other obligations on the Authority, either individually or along with other public authorities or governmental entities. The applicability of such provisions to the Authority would depend upon, among other things, the nature of the obligations imposed and the applicability of the pledge of the State set forth in Section 1011 of the Act to such provisions. There can be no assurance that in the case of each such provision, the Authority will be immune from the financial obligations imposed by such provision. Examples of such legislation affecting only the Authority include legislation relating to (i) authorization of voluntary contributions by the Authority to the State, discussed below; (ii) the EDPAB program and the PFJ Program discussed under "PART 2—POWER SALES"; and (iii) POCR funds described below (see also "PART 2—ENERGY SERVICES"). Set forth below are descriptions of the voluntary contributions legislation, the PFJ Program, the POCR funds legislation, and other legislative provisions, and how they have affected the Authority.

(1) For a discussion of legislation enacted into law in 2006 which created the Temporary State Commission on the Future of New York State Power Programs for Economic Development, see "PART 2—TEMPORARY COMMISSION ON THE FUTURE OF NEW YORK STATE POWER PROGRAMS FOR ECONOMIC DEVELOPMENT."

(2) Legislation enacted into law, as part of the 2000-2001 State budget, as amended in 2002, 2003, and 2004, 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," in connection with the PFJ Program in an aggregate amount not to exceed $275 million. As part of the State Fiscal Year 2005-2006 budget bill enacted into law in April 2005, the PFJ Program was extended to December 31, 2006, and the Authority was authorized to make additional voluntary contributions to the State, with the maximum amount of such contributions increasing to $394 million. In 2006, legislation was enacted into law that extended the PFJ Program through June 30, 2007, with the maximum amount of voluntary contributions provided for through the State Fiscal Year 2006-2007 remaining at $394 million. In June 2007, additional legislation was enacted into law that extended the PFJ Program through June 30, 2008 and provided for an additional voluntary contribution of $30 million for the State Fiscal Year 2007-2008.

As of the date hereof, the Authority has made voluntary contributions to the State totaling $219 million. The Authority's Trustees have not as of the date hereof authorized additional voluntary contributions but have taken the position that the total amount of Authority monies to be applied to the estimated cost of extensions of the Power for Jobs and ECS Benefits Programs and 2006-2007 State Fiscal Year voluntary contributions to the State be limited to an aggregate amount of $100 million. However, the ultimate decision as to the amount of additional voluntary contributions made by the Authority will be based on future events and the potential resolution of uncertainties, including the possible creation of new power programs based on the December 2006 recommendations of the Temporary Commission on the Future of New York State Power Programs for Economic Development (See "PART 2—TEMPORARY COMMISSION ON THE FUTURE OF NEW YORK STATE POWER PROGRAMS FOR ECONOMIC DEVELOPMENT"). Prior to making any voluntary contributions, the Authority, under the General Resolution, must determine that the monies applied to such payments are not needed for the payment of certain expenses or the funding of certain reserves specified in the General Resolution or the payment of principal and interest on debt.

(3) In May, 2003, legislation was enacted into law that established, among other things, a minimum annual contribution by employers commencing with the fiscal year of New York State and Local Retirement System ("System") ending March 31, 2004. This 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 $12.7 million, $15.3 million, and $15.9 million for the years ended March 31, 2007, 2006 and 2005, respectively (paid on or about December 15, 2006, 2005 and 2004).

(4) Section 2975 of the New York Public Authorities Law establishes a Governmental Cost Recovery System, pursuant to which certain public benefit corporations, defined as having three or more members appointed by the Governor, are subjected to assessment for the costs of central governmental services attributable to such public benefit corporations, pursuant to a statutory assessment methodology. Such a public benefit corporation may, however, pursuant to Section 2975, opt to enter into an agreement with the State Director of the Budget providing for alternative cost recovery to the State.

Consistent with such alternative agreement mechanism, the Authority voluntarily entered into an agreement with the Division of the Budget, pursuant to which the Authority was obligated to pay the State's General Fund $5 million relating to the cost recovery assessments for the five year period which commenced January 1, 2001 and ended December 31, 2005, including the assessments for the 2001-2002 through the 2005-2006 State fiscal years. The $5 million payment was made by the Authority in October 2003. In January 2006, the Authority entered into a similar, one-year agreement to pay $1 million to the State's General Fund, which payment was made.

(5) For a discussion of the legislation which extended the PFJ Program and ECS Benefits through June 30, 2008, see "PART 2—POWER SALES—Marketing Issues and Developments."

(6) For a discussion of legislation enacted into law which authorizes the Authority to provide power and energy to businesses formerly located at the WTC and other entities affected by the WTC tragedy, see "PART 2—POWER SALES—Marketing Issues and Developments."

(7) In the period 1995-2002 legislation was enacted into New York law which contains provisions which authorize the Authority to utilize an aggregate of $59.6 million in POCR funds and $600,000 of 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 which 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 implementing various energy services programs utilizing such appropriated funds, which programs have received all necessary approvals (see "PART 2—ENERGY SERVICES").

The Authority entered into agreements with the State Division of the Budget obligating it to transfer $60.2 million to the State upon the transfer of the $60.2 million in POCR and other State funds to the Authority. The disbursement of the appropriated funds to the Authority, and the Authority's transfer of $60.2 million to the State, took place in the period May 1996—March 2003. The appropriated funds are being held in an escrow account for the approved purposes. In April 2007, legislation was enacted into New York law authorizing the transfer of an additional $700,000 in POCR funds to the Authority and the transfer by the Authority of a like amount of monies to the State. Such transfers are expected to be completed in 2007.

(8) The New York Executive Law was amended in 2004 to add a new Section 713, entitled "Protection of Critical Infrastructure including Energy Generating and Transmission Facilities." The statute provides, in relevant part, that the New York State Director of Public Security ("Director of Public Security") shall conduct a review and analysis of measures being taken by the New York Public Service Commission ("PSC") and any other agency or authority of the State or any political subdivision thereof

and, to the extent practicable, of any federal entity, to protect the security of critical infrastructure related to energy generation and transmission located within New York State. The Director of Public Security shall have the authority to review any audits or reports related to the security of such critical infrastructure, including audits or reports conducted at the request of the PSC or any other agency or authority of the State or any political subdivision thereof or, to the extent practicable, of any federal entity. The owners and operators of such energy generating or transmission facilities shall, in compliance with any federal and State requirements regarding the dissemination of such information, provide access to the Director of Public Security to such audits or reports regarding such critical infrastructure, provided, however, that exclusive custody and control of such audits and reports shall remain solely with the owners and operators of such energy generating or transmission facilities.

On or before December 31, 2003, and not later than three years after such date, and every five years thereafter, the Director of Public Security shall report to the Governor, the Temporary President of the New York Senate, the Speaker of the New York Assembly, the Chairperson of the PSC and the chief executive of any such affected generating or transmission company or his or her designee. Such report shall review the security measures being taken regarding critical infrastructure related to energy generating and transmission facilities, assess the effectiveness thereof, and include recommendations to the New York State Legislature or the PSC if the Director of Public Security determines that additional measures are required to be implemented, considering, among other factors, the unique characteristics of each energy generating or transmission facility.

The statute provides that "[e]xcept in the case of federally licensed electric generating facilities, the public service commission shall have the discretion to require that the recommendations of the director of public security be implemented by any owner or operator of an energy generating or transmission facility."

For the purposes of the statute, "critical infrastructure" means systems, assets, or things, whether physical or virtual, so vital to the State that the disruption, incapacitation or destruction of such systems, assets, places or things could jeopardize the health, safety, welfare or security of the State, its residents or its economy.

The Authority cannot predict what effect the requirements set forth in the statute will have on its generation and transmission facilities and the costs of compliance with any such requirements.

(9) Legislation has been enacted into law in 2005-2007 which relates to various aspects of certain Authority power allocation programs (see "PART 2—POWER SALES—Marketing Issues and Developments").

(10) Legislation was passed by the State Senate and State Assembly in June 2005 and signed into law by the Governor in January 2006 which addresses public authority reform (see "PART 2—PUBLIC AUTHORITIES ACCOUNTABILITY ACT OF 2005" below).

Information on legislation affecting the Authority is also available from sources in the public domain, and potential purchasers of the 2007 Bonds should obtain and review such information.

PUBLIC AUTHORITIES ACCOUNTABILITY ACT OF 2005

This legislation passed the State Senate and State Assembly in June 2005 and was signed into law by the Governor in January 2006. The enactment is entitled the "Public Authorities Accountability Act of 2005" ("PAAA"), and it addresses a wide range of matters pertaining to many public authorities in the State, including the Authority.

Among other things, the PAAA increases the number of Trustees of the Authority from five to seven; increases requirements applicable to public authorities' annual reports; sets forth requirements relating to independent audits and audit reports of public authorities; sets forth roles and responsibilities of public authority board members and establishes certain restrictions on such board members; establishes certain rules regarding board membership, including financial disclosure requirements; sets forth requirements pertaining to public authorities' disposition of real and personal property; and creates a State Authority Budget Office and a State Inspector General's Office.

NEW YORK STATE COMMISSION ON PUBLIC AUTHORITY REFORM

On February 3, 2005, the Governor issued an Executive Order to establish the New York State Commission on Public Authority Reform (the "Commission"). The Commission was charged with reviewing operations at State and local authorities across New York and developing recommendations designed to improve the effectiveness, accountability, governance, and financial reporting of all public authorities. In May 2006, the Commission issued its report addressing these matters, including recommendations for legislation. It is uncertain whether the Commission will undertake any further activities, and whether and to what extent its recommendations may be enacted into law in the future.

TEMPORARY COMMISSION ON THE FUTURE OF NEW YORK STATE POWER PROGRAMS FOR ECONOMIC DEVELOPMENT

Pursuant to legislation enacted into law in April 2006, the Temporary Commission on the Future of New York State Power Programs for Economic Development (the "Commission") was established. The Commission's charge was to "make recommendations to the governor and the legislature on whether to continue, modify, expand or replace the state's economic development power programs, including but not limited to the power for jobs program and the energy cost savings benefit program, and shall recommend legislative language necessary to implement its recommendations." Following extensive proceedings, the Commission issued its report in December 2006. The Commission's recommendations include centralization of the administration of the State's power programs and the designation of the chairman of the New York State Empire Development Corporation as chairman of the EDPAB; that the proceeds of certain unallocated hydroelectric power of the Authority be dedicated to economic development; that the duration of certain types of power allocation contracts be lengthened; that the Authority facilitate the expansion of the State's power infrastructure by continuing to enter into long term contracts with power producers for the construction of new generation and/or transmission facilities; the creation of stable funding sources for the State's power programs, potentially including the State Treasury and dedicated funding from the Authority subject to the Authority's bond covenants and reserve requirements; the expansion of the geographic territory where Replacement Power, Preservation Power, and Expansion Power may be provided by the Authority; and the redeployment of hydroelectric power provided by the Authority to the "rural and domestic" customers of National Grid, NYSEG, and RG&E for Statewide economic development purposes. It is uncertain whether and to what extent the Commission's recommendations may be enacted into law in the future.

EXECUTIVE ORDER NO. 111

In Executive Order No. 111, dated June 10, 2001 (the "Executive Order"), the Governor, among other things, required State agencies and other affected entities, as defined in the Executive Order, with responsibility for purchasing energy to increase their purchases of energy generated from the following renewable energy technologies: wind, solar thermal, photovoltaics, sustainably managed biomass, tidal, geothermal, methane waste and fuel cells. State agencies and other affected entities must seek to purchase sufficient quantities of energy (or renewable energy attributes) from these technologies so that 10 percent of the overall annual electric energy requirements of buildings owned, leased or operated by such entities will be met through these technologies by 2005, increasing to 20 percent by 2010. No agency or affected entity will be exempt from these goals except pursuant to criteria to be developed by the New York State Energy Research and Development Authority. For the purposes of the Executive Order, "State agencies and affected entities" means agencies and departments over which the Governor has Executive authority and all public benefit corporations and public authorities the heads of which are appointed by the Governor. Regarding those Authority governmental customers falling within the scope of the Executive Order, the Authority has offered to provide such renewable energy attributes, and is providing them, to several such customers.

CERTAIN FACTORS AFFECTING THE ELECTRIC UTILITY INDUSTRY

The Electric Utility Industry Generally

Energy Policy Act of 1992

The Energy Policy Act of 1992 made fundamental changes in the federal regulation of the electric utility industry, particularly in the area of transmission access. The purpose of these changes, in part, was to bring about increased competition in the wholesale electric power supply market. These changes have increased, and will continue to increase, competition in the electric utility industry. The Authority cannot predict what further effects such increased competition will have on the business and financial condition of the Authority.

Federal Initiatives under the Energy Policy Act of 1992

On April 24, 1996, FERC issued a Final Rule ("Order No. 888") significantly changing the regulation of transmission service performed by electric utilities subject to FERC's jurisdiction under sections 205 and 206 of the FPA. Among other things, FERC ordered pro forma, open-access, non-discriminatory transmission tariffs be placed into effect for all jurisdictional utilities on or before July 9, 1996. The goal of Order No. 888, according to FERC, is to remove impediments to competition in the wholesale bulk power marketplace and to bring more efficient lower cost power to the nation's electricity consumers by denying to a generator of electric energy any unfair advantage over its competitors that exists by virtue of its ownership of its transmission system.

Although the Authority was not subject to FERC's jurisdiction under sections 205 and 206 of the FPA at the time Order No. 888 was issued, Order No. 888 nevertheless has had a significant effect on the Authority and has been the impetus to the Authority participating in the formation of the NYISO (see "PART 2—NEW YORK INDEPENDENT SYSTEM OPERATOR"). In Order No. 888, FERC stated that it intended to apply the principles set forth in Order No. 888 to the maximum extent to consumer-owned and other non-jurisdictional utilities, both in deciding cases brought under sections 211 and 212 of the FPA and by requiring such utilities to agree to provide open access transmission service as a condition to securing transmission service from jurisdictional investor-owned utilities under open access tariffs (see "Energy Policy Act of 2005" below).

In a decision decided March 4, 2002, dealing with certain challenges to aspects of Order No. 888, the United States Supreme Court ruled that: (1) if a public utility "unbundles"—*i.e.*, separates—the cost of transmission from the cost of electrical energy when billing its retail customers, FERC has the statutory authority to require the utility to transmit competitors' electricity over its lines on the same terms that the utility applies to its own energy transmission, and (2) FERC is not required to impose that requirement on utilities that continue to offer only "bundled" retail sales.

Energy Policy Act of 2005

On August 8, 2005, President Bush signed into law comprehensive energy legislation entitled the "Energy Policy Act of 2005" (the "Energy Policy Act"). Among other things, the Energy Policy Act: (a) authorizes FERC to require "unregulated transmitting utilities" that formerly were exempt from regulation under sections 205 and 206 of the FPA (including the Authority) to provide open access to their transmission systems and to comply with certain rate change provisions of section 205 of the FPA; (b) authorizes FERC to order refunds for certain short-term wholesale sales made by state and municipal power entities (including the Authority) if such sales violate FERC-approved tariffs or FERC rules; (c) allows load serving entities holding certain firm transmission rights to continue to use those rights to serve their customers; (d) provides that an "electric reliability organization" ("ERO") shall develop reliability standards for operation of the transmission grid subject to FERC approval, that compliance with such standards will be mandatory and enforceable by the ERO and FERC, and that the ERO may delegate its authority to regional entities subject to FERC approval; (e) adds to the FPA a prohibition on market manipulation and submission of false information, and expands civil and criminal penalties for violation of the FPA; (f) authorizes FERC to issue construction permits for transmission projects located in "national interest electric transmission corridors" (to be designated by DOE) in circumstances where the applicable state or regional siting agency does not timely authorize a project or imposes unreasonable conditions; (g) eliminates certain ownership restrictions on electric utilities regarding "qualifying facilities" under section 210 of the Public Utility Regulatory Policies Act ("PURPA"), and authorizes FERC to eliminate prospectively the obligation of electric utilities to purchase and sell electricity to such qualifying facilities if certain market condition findings are made by FERC; (h) requires state utility regulatory commissions and "non-regulated electric utilities" (including the Authority) to consider adopting certain standards on net metering, fuel diversity, fossil fuel plant diversity, certain metering and time-based rate schedules and demand response, and interconnection with distributed generation facilities; (i) repeals the Public Utility Holding Company Act ("PUHCA"), effective six months after enactment of the Energy Policy Act; (j) increases FERC's authority to review mergers of public utility companies; and (k) directs FERC to establish transmission investment incentives in transmission rate structures for public utilities.

It is uncertain what the effects of the Energy Policy Act will be on the Authority. The foregoing discussion of certain provisions of the Energy Policy Act does not purport to be a comprehensive discussion of the Energy Policy Act. Information on the Energy Policy Act is available from many sources in the public domain, and potential purchasers of the 2007 Bonds should obtain and review such information.

New York State Electric Utility Industry Restructuring Matters

Development of a Competitive Market for Electricity in New York

Following extensive proceedings, the PSC issued an Opinion and Order on May 20, 1996 ("Order 96-12") in the competitive opportunities proceeding which set forth the PSC's goals of, among other things, increasing competition and customer choice in the retail electric market, lowering electric rates, and encouraging the New York investor-owned electric utilities to divest their generation assets. In Order 96-12, the PSC required these investor-owned electric utilities (with certain exceptions) to file individual restructuring and rate proposals that were responsive to the PSC's goals. The PSC ultimately approved multi-year restructuring and rate plans for each of the investor-owned electric utilities that the PSC deemed to be consistent with its goals set forth in Order 96-12.

In its appearances in proceedings before the PSC, the Authority has been primarily concerned with the potential application of charges for the "stranded costs" (*i.e.*, those costs incurred by a utility while it was regulated that cannot be recovered during transition to a competitive environment or from the application of proceeds of sales of assets) of the utilities that would be applicable to the Authority and its customers. Treatment of stranded costs and other rate matters under the National Grid, Con Edison and NYSEG restructuring and rate plans currently in effect is described below.

National Grid

Under National Grid's restructuring plan, delivery charges for customers receiving service under the Authority's EDP, PFJ Program, and high load factor programs are maintained at their current levels for a specified period, unless otherwise mandated through legislative changes. The delivery charges for certain new allocations will be set at National Grid's otherwise applicable unbundled rates. Except for certain new allocations, transmission and distribution rates for delivery of Authority replacement and expansion power allocations are maintained at their current levels through 2011.

National Grid's plan contemplates recovery of its stranded costs, including losses from sales of power plants, over a period ending in 2011. However, any recovery of stranded costs by National Grid from Authority customers will be governed by the existing agreement between National Grid, the Authority, and the New York State Department of Public Service, which allows continued delivery by National Grid of such Authority power for existing Authority customers without such customers paying any National Grid stranded cost charges. In addition, within limitations specified in the agreement, which terminates January 1, 2010, certain new Authority EDP customers can receive Authority power delivered by National Grid without a stranded cost charge. Unless exempted from such charges by the agreement, other Authority customers served by National Grid would be subject to any stranded cost charges imposed on customers as a result of restructuring arrangements concerning National Grid approved by the PSC.

Con Edison

By order issued March 24, 2005, the PSC approved a settlement agreement, materially as submitted, by Con Edison and other parties, including the Authority, pertaining to Con Edison's delivery charges for the three-year period ending March 31, 2008 ("Joint Proposal"). Under the Joint Proposal, Con Edison's delivery charges for service to the Authority's governmental and EDP customers will increase by approximately 19% and 5%, respectively, over the three years. These increases in delivery charges are significantly less than those originally proposed by Con Edison.

The Joint Proposal provides that prior to March 31, 2008, Con Edison will collect its full stranded costs from its customers, except for certain Authority customers. After March 31, 2008, Con Edison will be given a reasonable opportunity to recover its remaining stranded costs.

The Joint Proposal provides that the Authority's EDP customers in the Con Edison service territory will be exempt from Con Edison stranded cost charges up to a maximum of 235 MW of allocations. Existing Authority governmental customers as of October 1, 1996 and their load growth, will be exempt from Con Edison stranded cost charges. With certain limited exceptions, to the extent that customers transferring from Con Edison to Authority service cause governmental customer load levels to exceed the load forecast included in the Joint Proposal, then those governmental customer loads would be subject to Con Edison stranded cost charges.

In May 2007, Con Ed filed with the PSC a request for significant rate increases covering the three-year period ending March 31, 2011. The Authority and its major SENY Governmental Customers are actively participating in the proceeding in opposition to the magnitude of the proposed rate increases. The PSC's final decision in the proceeding is expected in March 2008.

NYSEG

Under previous settlements approved by the PSC, NYPA's existing allocations have been exempt from stranded costs. By order issued July 20, 2007, the PSC approved a settlement agreement between NYSEG, the Authority, and other parties that addresses stranded costs for new NYPA allocations. Under the settlement agreement, new NYPA allocations up to a total of 100 MW (excluding the PFJ Program which is exempt from stranded costs by design) will not be charged a stranded costs component.

Long Island Local Reliability Rule

The NYISO has established a local reliability rule for Long Island, New York, that requires entities serving load on Long Island to have at least 99% of the capacity necessary to service such load located on Long Island. Through a combination of existing generation, capacity purchases and other arrangements, the Authority is meeting the NYISO's capacity requirements for the Summer 2007 Capability Period and expects to meet through these means future capacity requirements.

Environmental

Electric utilities are subject to continuing environmental regulation. Federal, state and local standards and procedures which regulate the environmental impact of electric utilities are subject to change. These changes may arise from continuing legislative, regulatory and judicial action regarding such standards and procedures. Consequently, there is no assurance that the Authority's facilities will remain subject to the regulations currently in effect, will always be in compliance with future regulations, or will always be able to obtain all required operating permits. An inability to comply with environmental standards could result in additional capital expenditures to comply, reduced operating levels or the complete shutdown of individual electric generating units not in compliance.

On July 6, 2005, the U.S. Fish and Wildlife Service ("FWS") initiated a status review under the Endangered Species Act (16 U.S.C. 1531 *et seq*.) to determine if listing the American eel as threatened or endangered is warranted. American eels are a fish species that migrate between freshwater and the ocean, and their wide range includes the Atlantic seaboard of the United States and Canada and the Great Lakes' drainages. In findings issued February 2, 2007, the FWS determined that such a listing is not warranted. However, in the event the FWS were to determine in the future to list the American eel as threatened or endangered, such a determination could potentially result in significant additional costs and operational restrictions on hydroelectric generating facilities located within the range of the species, including the Authority's St. Lawrence-FDR Project.

There is concern by individuals, the scientific community and Congress regarding environmental damage resulting from the use of fossil fuels. The Authority's Poletti, 500-MW Plant, and Flynn plants and its SCPPs use fossil fuels. Congressional action for the increased regulation of air, water and contaminants is periodically considered, and there are a number of pending or enacted legislative proposals which affect the electric utility industry. In particular, legislation was enacted in 1990 that substantially revises the Federal Clean Air Act (the "1990 Amendments"). The 1990 Amendments seek to improve the ambient air quality throughout the United States. A main feature of the 1990 Amendments is the reduction of sulfur dioxide and nitrogen oxide emissions caused by electric utility power plants. The 1990 Amendments also provide for possible further regulation of toxic air emissions from electric-utility fossil-fuel power plants. The impact on the Authority's operations of any such further regulation cannot yet be predicted.

The 1990 Amendments provide facility operators with sulfur dioxide "allowances" based upon a facility's prior operating emission levels and additional statutory allowances as applicable. The sulfur dioxide emissions from a facility are limited to these allocated sulfur dioxide allowances. The sulfur dioxide allowances available to the Authority will be sufficient to operate the Poletti and Flynn plants even during the periods when natural gas may not be available, subject, however, in the case of the Flynn plant, to certain restraints under applicable DEC permits on the use of distillate fuel during winter periods. Moreover, the 1990 Amendments allow facility operators to buy and sell excess sulfur dioxide allowances. In May 2000, the State enacted a law which regulates the sale of these allowances by New York State generators to generators in certain mid-west and southern states and establishes an "offset" payable to the State in an amount equal to the sale price for any such allowance.

In accordance with the 1990 Amendments, the State was required to submit a State Implementation Plan to demonstrate attainment of ozone standards. The 1990 Amendments required the State to submit plans to the United States Environmental Protection Agency ("EPA") that provide a mechanism for reduction of volatile organic compounds and nitrogen oxides, that define Reasonably Available Control Technology ("RACT") for nitrogen oxides, and that require all stationary combustion units, including electric utility power plants, to comply with RACT emission limits in three phases.

A Phase I limit was issued by the State and became effective May 31, 1995. Poletti meets this limit. Phase II limits became effective on May 15, 1999. The State is following the "cap and trade" principle by allocating nitrogen oxide allowances to the utility power plants during ozone control season (May 1 to September 30). The facility operator cannot exceed these nitrogen oxide allowances. However, operators can purchase additional nitrogen oxide allowances in the open market. The State has also established Phase III limits, which became effective in the year 2003. Pursuant to State regulations, the State has allocated 138 nitrogen oxide allowances per control period to the Flynn plant and 912 to the Poletti plant. The Authority has obtained sufficient allocations to operate the Poletti and Flynn plants, as well as the SCPPs, at their present operating levels.

In regard to the Authority's 500-MW Plant, as part of the initial licensing of the project, the Authority was required to and has obtained Emission Offsets for specified amounts of oxides of nitrogen ("NOX") and volatile organic compounds. The Authority must secure for the 500-MW Plant allowances for each ton of NOX and sulfur dioxide emitted which the Authority has done.

The Regional Greenhouse Gas Initiative ("RGGI") is a cooperative effort by Northeastern and Mid-Atlantic states (including New York) to reduce carbon dioxide emissions commencing in 2009. Central to this initiative is the proposed implementation of a multi-state cap-and-trade program with a market-based emissions trading system. The proposed program will require electricity generators to hold carbon dioxide allowances in a compliance account in a quantity that matches their total emissions of carbon dioxide for the compliance period. The Authority's Poletti, Flynn, SCPPs, and 500-MW Plant will be subject to the RGGI requirements. Depending on the final program design and prices of the allowances, the costs of compliance to the Authority and other generators in the region could be significant.

As discussed above, the electric utility industry is currently confronting issues and developments in a number of areas. The Authority is unable to predict the extent to which its construction programs and operations will be affected by such factors, but they could result in its incurrence of substantial additional costs and could adversely affect its revenues.

Other Factors

The electric utility industry in general has been, or in the future may be, affected by a number of other factors which could impact the financial condition and competitiveness of many electric utilities and the level of utilization of generating and transmission facilities.

Investigations into the causes of the August 2003 massive power failure in the Northeastern United States may result in the necessity to upgrade transmission lines or other electrical equipment by the Authority and other electric utilities.

Electric and magnetic fields ("EMF") exist wherever electricity flows, around high voltage transmission and distribution equipment ("power Frequency EMF"), as well as near electrical appliances, computers, and other electrical devices. Epidemiological studies, clinical studies and laboratory experiments have shown that EMF can cause changes in living cells, but there is little evidence that these changes suggest any risk to human health.

In 1999, the National Institute of Environmental Health Sciences ("NIEHS") completed a five-year federally supported EMF research program, concluding that the scientific evidence suggesting that power frequency EMF exposures pose any health risk is weak. The NIEHS study, however, could not discount the epidemiological findings showing associations observed in human populations with two forms of cancer: childhood leukemia and chronic lymphocytic leukemia in occupationally exposed adults. In 2001, the International Agency for Research on Cancer conducted a similar evaluation, and it classified power frequency EMF fields as "possibly carcinogenic to humans" based on a statistical association of power frequency EMF with increased risk of childhood leukemia. "Possibly carcinogenic to humans" is a classification used to denote an agent for which there is limited evidence of carcinogenicity in humans and less than sufficient evidence for carcinogenicity in experimental animals. In 2002, the California Department of Health Services prepared a report examining the evidence regarding possible EMF risk for some 21 different diseases. The report found that the possible risk, while potentially low, nonetheless could be of concern to regulators.

Claims for damages against electric utilities for injuries alleged to have been caused by power frequency EMF has increased electric utilities attention on this issue. At this time, it is not possible to predict the extent of the costs and other impacts, if any, which power frequency EMF may have on the Authority and other electric utilities.

In addition to the factors affecting the electric utility industry discussed above, such factors also include, among others: (a) effects of compliance with rapidly changing environmental (including climate change), safety, licensing, regulatory and legislative requirements other than those described above, (b) changes resulting from conservation and demand-side management programs on the timing and use of electric energy, (c) effects of competition from other electric utilities (including increased competition resulting from mergers, acquisitions, and "strategic alliances" of competing electric and natural gas utilities and from competitors transmitting less expensive electricity from much greater distances over an interconnected system) and new methods of, and new facilities for, producing low-cost electricity, (d) the role of independent power producers and marketers, brokers and federal power marketing agencies in power markets, (e) "self-generation" or "distributed generation" (such as microturbines and fuel cells) by industrial and commercial customers and others, (f) effects of inflation on the operating and maintenance costs of an electric utility and its facilities, (g) changes from projected future load requirements, (h) increases in costs and uncertain availability of capital, (i) shifts in the availability and relative costs of different fuels (including the recent high cost of natural gas), (j) sudden and dramatic increases in the price of energy purchased on the open market that may occur in times of high peak demand in an area of the country experiencing such high peak demand, (k) inadequate risk management procedures and practices with respect to, among other things, the purchase and sale of energy and transmission capacity, and (l) other legislative changes, voter initiatives, referenda and statewide propositions. Any of these factors (as well as other factors) could have an adverse effect on the financial condition of any given electric utility and likely will affect individual utilities in different ways.

Effects on the Authority

Currently, the Authority is a provider of low cost power and energy in New York State. However, the Authority cannot predict what effect any of the foregoing factors will have on the business operations and financial condition of the Authority, but the effect could be significant. To maintain its position in this changing environment, the Authority has undertaken and continues to carry out a multifaceted program, including:

- the upgrade and relicensing of the Niagara and St. Lawrence-FDR Projects;
- execution of new long-term agreements with its NYC Governmental Customers (see "PART 2—POWER SALES—Marketing Issues and Developments");
- implementing an active energy risk assessment and control policy at the Authority (see "PART 2—CERTAIN FINANCIAL AND OPERATING MATTERS—*Energy Risk Assessment and Control Activities*");
- the construction of its 500-MW Plant (see "PART 2—THE AUTHORITY'S FACILITIES—Generation—*500-MW Combined-Cycle Electric-Generating Plant*"); and
- a significant reduction in the Authority's outstanding debt since 1995.

The Authority can give no assurance that even with these measures the Authority will not lose customers in the future as a result of the restructuring of the New York State electric utility industry and the emergence of new competitors or increased competition from existing competitors. In addition, the Authority's ability to market power and energy on a competitive basis is limited by provisions of the Act which 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.

The foregoing is a brief discussion of certain factors affecting the electric utility industry. This discussion does not purport to be comprehensive or definitive, and these matters are subject to change subsequent to the date hereof. Extensive information on the electric utility industry is, and will be, available from the legislative and regulatory bodies and other sources in the public domain, and potential purchasers of the 2007 Bonds should obtain and review such information.

REGULATION

The operations of the Authority are subject to regulation or review by various State and federal agencies, discussions of which appear in various segments throughout this Official Statement. The principal agencies having a regulatory impact on, or a monitoring function over, the Authority and the conduct of its activities, are as follows:

New York State

Public Service Commission. The PSC is the principal agency in the State regulating the generation, transmission and sale of electric power and energy. It has no jurisdiction over rates for power generated or transmitted by the Authority but does regulate the rates of New York State's investor-owned utilities and certain municipal systems to which the Authority sells power. The PSC is empowered by the New York Public Service Law to issue Certificates of Environmental Compatibility and Public Need prior to the construction of power transmission lines of certain capacities and lengths.

Department of Environmental Conservation. The DEC administers and manages the State program for oil and chemical containment and spill prevention and provides for abatement of water, land and air pollution. Pursuant to State and federal laws, the DEC regulates the transport, treatment and disposal of hazardous and toxic wastes. In addition, the DEC regulates the use of tidal and freshwater wetlands and flood plains. Before any Federal license or permit can be issued for any activity involving a discharge into navigable waters, the DEC must certify that the discharge will comply with the State water quality standards, or otherwise waive certification. Certain aspects of the DEC's regulatory authority over pollutant discharge permits, air quality and hazardous waste regulation arise from delegation of such authority to the State by federal legislation.

New York State Comptroller. The Office of the State Comptroller (the "OSC") audits the Authority's programs, management and operations at least once every five years.

In May 2005, the OSC commenced its most recent "program, financial and operations audit" of the Authority by stating that it would audit the Authority's system of internal controls over procurement operations. In its report issued in July 2006, the OSC concluded that NYPA "has incorporated the necessary controls to ensure that procurement-related expenditures are authorized and appropriate."

In June 2005, the OSC commenced an audit of the vehicle acquisition and use policies and practices of selected New York State public authorities and public benefit corporations including the Authority. The OSC's September 2007 report and summary stated that the Authority "did not always accurately identify vehicles in its inventory records, and did not fully comply with IRS guidelines for calculating the income to be credited to employees for their personal use of employer-provided vehicles." The Authority has addressed the audit report findings and has implemented the four recommendations in the report.

In March 2006, the OSC commenced an audit of the Authority's financial records and related controls over financial reporting of revenues pertaining to the Niagara Project for the period 2004-2005. In its report issued in October 2006, the OSC concluded that for both years "all Niagara revenue and expense items were properly accounted for." The report recommended that the Authority in the future present expense and revenue information separately for the Niagara and St. Lawrence-FDR Projects, and in its response the Authority stated that it would so in its annual reports prepared pursuant to section 2800 of the New York Public Authorities Law.

During the second half of 2006, the OSC conducted an audit of the Authority's policies and procedures under the Freedom of Information Law ("FOIL") as part of a multi-authority audit. The OSC's July 2007 report and summary stated that the Authority was "generally in compliance" with FOIL and that there also was an "opportunity for some improvement."

In addition, in March 2006, the OSC issued regulations that are applicable in whole or in part to many public authorities in New York State, including the Authority. Among other things, the regulations require public authorities, including the Authority, to adhere to prescribed budgeting and financial plan procedures, certain financial reporting and certification requirements, and detailed investment guidelines and procedures, including obtaining the approval of the OSC before adoption of certain changes in accounting principles.

Federal

Federal Energy Regulatory Commission. FERC is authorized by the FPA to license certain hydroelectric power plants and transmission lines, to issue wheeling and interconnection orders and to prescribe rules for the sale of electrical energy to and the purchase of energy from qualifying cogeneration and small power production facilities. See "PART 2— CERTAIN FACTORS AFFECTING THE ELECTRIC UTILITY INDUSTRY—The Electric Utility Industry Generally—*Energy Policy Act of 2005*" for a discussion of FERC's increased regulatory authority over certain entitites, including the Authority.

Environmental Protection Agency. With the exception of the nuclear facilities matters regulated by the United States Nuclear Regulatory Commission, the EPA is the principal agency of the Federal government regulating air and water quality and the use, storage and disposal of hazardous substances. While most of its air, water and waste programs have been delegated to the State, the EPA retains approval authority over the individual state programs, in many instances disapproval authority over individual permit issuance and enforcement authority over all the delegated programs. It is also empowered to initiate administrative and legal action to compel responsible parties to clean up hazardous waste sites. The Authority is subject to EPA rules requiring the securing of routine discharge permits for emissions and effluents from all Authority facilities.

Department of Energy. The Economic Regulatory Administration of DOE is authorized to issue Presidential permits for international transmission interconnections.

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SUMMARY OF CERTAIN PROVISIONS OF THE GENERAL RESOLUTION

The following is a summary of certain provisions of the General Resolution. The following summary is not to be considered a full statement of the terms of the General Resolution and, accordingly, is qualified by reference thereto and is subject to the full text thereof. Capitalized terms not otherwise previously defined in this Official Statement or defined below have the meaning set forth in the General Resolution.

Definitions

The following are definitions in summary form of certain terms contained in the General Resolution and used hereinafter:

Authorized Investments means and includes any of the following securities, if and to the extent the same are at the time legal for investment of the Authority's funds pursuant to any law, to the extent permitted under any applicable regulation, guideline and policy of the Authority as each is in effect from time to time: (i) any security which is (a) a direct obligation of, or is unconditionally guaranteed by, the United States of America or the State for the payment of which the full faith and credit of the United States of America or the State is pledged or (b) an obligation of an agency or instrumentality of the United States of America the payment of which is unconditionally guaranteed as a full faith and credit obligation by the United States of America; (ii) any obligation of any state or political subdivision of a state or of any agency or instrumentality of any state or political subdivision ("Municipal Bond") which Municipal Bond is fully secured as to principal and interest by an irrevocable pledge of moneys or direct and general obligations of, or obligations guaranteed by, the United States of America, which moneys or obligations are segregated in trust and pledged for the benefit of the holder of the Municipal Bond, and which Municipal Bond is rated in the highest Rating Category by at least two Rating Agencies and provided, however, that such Municipal Bond is accompanied by (1) a Counsel's Opinion to the effect that such Municipal Bond is not subject to redemption prior to the date the proceeds of such Municipal Bond will be required for the purposes of the investment being made therein and (2) a report of a nationally recognized independent certified accountant verifying that the moneys and obligations so segregated are sufficient to pay the principal of, premium, if any, and interest on the Municipal Bond; (iii) bonds, debentures, notes or other obligations issued or guaranteed by any of the following: Federal National Mortgage Association (including Participation Certificates), Government National Mortgage Association, Federal Financing Bank, Federal Home Loan Mortgage Corporation and Federal Home Loan Banks, the Federal Housing Administration, the Federal Farm Credit Banks Funding Corporation, Federal Farm Credit Banks, Federal Intermediate Credit Banks, Federal Banks for Cooperatives, Federal Land Banks, or any other agency controlled by or supervised by and acting as an instrumentality of the United States government; (iv) obligations of any state of the United States of America or any political subdivision thereof or any agency, instrumentality or local government unit of any such state or political subdivision which shall be rated at the time of the investment in any of the three highest long-term Rating Categories or the highest short-term Rating Category by a Rating Agency; (v) certificates or other instruments that evidence ownership of the right to payments of principal of or interest on Municipal Bonds provided that such obligations shall be held in trust by a Bank meeting the requirements for a successor Trustee pursuant to the General Resolution, and provided further that the payments of all principal of and interest on such certificates or such obligations shall be fully insured or unconditionally guaranteed by, or otherwise unconditionally payable pursuant to a credit support arrangement provided by, one or more financial institutions or insurance companies or associations which at the date of investment shall have an outstanding, unsecured, uninsured and unguaranteed debt issue rated in the highest Rating Category by a Rating Agency or, in the case of an insurer providing municipal bond insurance policies insuring the payment, when due, of the principal of and interest on Municipal Bonds, such insurance policy shall result in such Municipal Bonds being rated in the highest Rating Category by a Rating Agency; (vi) certificates that evidence ownership of the right to payments of principal of or interest on obligations described in clause (i) or (ii) above, provided that such obligations shall be held in trust by a Bank meeting the requirements for a successor Trustee pursuant to the General Resolution; (vii) certificates of deposit, whether negotiable or non-negotiable, and banker's acceptances of the 25 largest Banks (measured by aggregate capital and surplus) in the United States or commercial paper issued by the parent holding company of any such Bank which at the time of investment has an outstanding unsecured, uninsured and unguaranteed debt issue rated in the highest short-term Rating Category by a Rating Agency (including the Trustee and its parent holding company, if any, if it otherwise qualifies); (viii) any repurchase agreement or other investment agreement with any Bank as defined in clause (i) or (ii) of the definition thereof or government bond dealer reporting to, trading with, and recognized as a primary dealer by the Federal Reserve Bank of New York, which agreement is secured by any one or more of the securities described in clause (i), (iii) or (vii) above, which securities shall at all times have a market value of not less than the full amount of the repurchase agreement and be delivered to another such Bank, as custodian; (ix) any agreement or other investment agreement with any insurance company or reinsurance company or investment affiliates thereof the obligations of which are rated by a Rating Agency in one of the two highest Rating Categories, which agreement is continuously secured by any one or more of the securities described in clause (i), (iii) or (vii) above, which securities shall at all times have a market value of not less than the full amount held or invested pursuant to the agreement and be delivered to a Bank as defined in clause (i) or (ii) of the definition thereof, as custodian; (x) obligations of any domestic corporation which shall be rated at the time of the investment in either of the two highest long-term Rating Categories or the highest short-term Rating Category by a Rating Agency; and (xi) any other investment in which the Authority is permitted to invest under applicable law, notwithstanding any limitations set forth in clauses (i) through (x) above.

Authorized Officer means any trustee of the Authority or officer of the Authority and any other person authorized by by-laws or resolution of the Authority to perform the act or sign the document in question.

Bank means any (i) bank or trust company organized under the laws of any state of the United States of America, (ii) national banking association, (iii) savings bank or savings and loan association chartered or organized under the laws of any state of the United States of America, or (iv) federal branch or agency pursuant to the International Banking Act of 1978 or any successor provisions of law, or domestic branch or agency of a foreign bank which branch or agency is duly licensed or authorized to do business under the laws of any state or territory of the United States of America.

Capital Costs means the Authority's costs of (i) physical construction of or acquisition of real or personal property or interests therein for any Project, together with incidental costs, working capital and reserves deemed necessary or desirable by the Authority and other costs properly attributable thereto; (ii) all capital improvements or additions, including but not limited to, renewals or replacements of or repairs, additions, improvements, modifications or betterments to or for any Project; (iii) the acquisition of any other real property, capital improvements or additions, or interests therein, deemed necessary or desirable by the Authority for the conduct of its business; (iv) any other purpose for which bonds, notes or other obligations of the Authority may be issued under the Act or under other applicable State statutory provisions (whether or not also classifiable as an Operating Expense); and (v) the payment of principal, interest, and redemption, tender or purchase price of any (a) Obligations issued by the Authority for the payment of any of the costs specified above, (b) any Obligations issued to refund such Obligations, or (c) Obligations issued to pay capitalized interest; provided, however, that the term Capital Costs shall not include any costs of the Authority relating to a Separately Financed Project.

Capital Fund means the fund by that name established pursuant to the General Resolution.

Commercial Paper Notes means any notes issued and outstanding at any time under the Commercial Paper Resolution.

Commercial Paper Resolution means the Amended and Restated Resolution Authorizing Commercial Paper Notes adopted by the Authority on November 25, 1997, as the same may be amended and supplemented in accordance with its terms.

Counsel's Opinion means an opinion signed by an attorney or firm of attorneys of nationally recognized standing in the field of law relating to municipal bonds selected by the Authority.

Credit Facility means any letter of credit, standby bond purchase agreement, line of credit, policy of bond insurance, surety bond, guarantee or similar instrument, or any agreement relating to the reimbursement thereof, which is obtained by the Authority and is issued by a financial, insurance or other institution and which provides security or liquidity in respect of any Outstanding Obligations, Parity Debt or Subordinated Indebtedness.

Defeasance Security means (a) an Authorized Investment as specified in clause (i) of the definition thereof, which is not callable or redeemable at the option of the issuer thereof; (b) any depositary receipt issued by a Bank as custodian with respect to any Defeasance Security which is specified in clause (a) above and held by such Bank for the account of the holder of such depositary receipt, or with respect to any specific payment of principal of or interest on any such Defeasance Security which is so specified and held, provided that (except as required by law) such custodian is not authorized to make any deduction from the amount payable to the holder of such depositary receipt from any amount received by the custodian in respect of the Defeasance Security or the specific payment of principal or interest evidenced by such depositary receipt; (c) any certificate of deposit specified in clause (vii) of the definition of Authorized Investments, including certificates of deposit issued by the Trustee or by a Paying Agent; (d) an Authorized Investment as specified in clause (ii) of the definition thereof and (e) any other security designated in a Supplemental Resolution as a Defeasance Security for purposes of defeasing the Obligations authorized by such Supplemental Resolution.

Event of Default has the meaning provided in the discussion of **Event of Default** below.

Fiduciary or Fiduciaries means the Trustee, any Registrar, any Paying Agent, or any or all of them, as may be appropriate.

General Resolution means the Power Authority of the State of New York General Resolution authorizing Revenue Obligations adopted on February 24, 1998, as from time to time amended or supplemented by any Supplemental Resolutions.

1985 Note Resolution means the resolution adopted by the Authority on April 30, 1985 entitled "Resolution Authorizing the Issuance of $200,000,000 Adjustable Rate Tender Notes," as amended and supplemented in accordance with the terms thereof.

1985 Notes means any notes issued and outstanding under the 1985 Note Resolution.

1974 Bonds means any bond or bonds issued in one or more series under the 1974 Resolution.

1974 Resolution means the General Purpose Bond Resolution adopted by the Authority on November 26, 1974, as amended and supplemented in accordance with the terms thereof.

Obligations means any obligations, issued in any form of debt, authorized by a Supplemental Resolution, including, but not limited to, bonds, notes, bond anticipation notes, and commercial paper, which are delivered under the General Resolution, but such term shall not include any Subordinated Contract Obligation or Subordinated Indebtedness.

Operating Expenses means the Authority's expenses for operation, maintenance, ordinary repairs and ordinary replacements of any Project, including, without limiting the generality of the foregoing, the costs of supplies, fuel, fuel assemblies and components required by the Authority for the operation of any Project (including any payments made pursuant to a "take-or-pay" fuel supply or energy contract that obligates the Authority to pay for fuel, energy or power regardless of whether fuel or energy is delivered or made available for delivery, other than any such contract or portion thereof that is designated by the Authority as either a Subordinate Contract Obligation or a Parity Contract Obligation), administrative expenses, insurance premiums, legal and engineering expenses, consulting and technical services, payments for energy conservation and load management programs, payments relating to fuel or electricity hedging instruments, payments for employee benefits, including payments to savings, pension, retirement, health and hospitalization funds, charges payable by the Authority pursuant to any licenses, orders or mandates from any agency or regulatory body having lawful jurisdiction, any payments in lieu of taxes or other payments to municipal governments agreed to be paid by the Authority and any taxes, governmental charges, and any other expenses required to be paid by the Authority, all to the extent properly and directly attributable to any Project; financing costs of any Series of Obligations; the expenses, liabilities and compensation of the fiduciaries required to be paid under the General Resolution or pursuant to any agreement executed by the Authority; all costs and expenses associated with or arising out of the research, development (including feasibility and other studies) and/or implementation of any project, facility, system, task or measure deemed desirable or necessary by the Authority; and all other costs and expenses arising out of or in connection with the conduct of Authority business (other than costs and expenses attributable to a Separately Financed Project), including those expenses the payment of which is not immediately required, such as those expenses referenced in the second paragaph of the discussion of **Operating Fund**. Operating Expenses shall not include any costs or expenses for new construction or for reconstruction other than restoration of any part of a Project to the condition of serviceability thereof when new.

Operating Fund means the fund by that name established pursuant to the General Resolution.

Outstanding, when used with reference to Obligations or Obligations of a Series, means, as of any date, Obligations or Obligations of such Series theretofore or thereupon being delivered under the General Resolution except: (i) Any Obligations cancelled at or prior to such date; (ii) Obligations the principal and Redemption Price, if any, of and interest on which have been paid in accordance with the terms thereof; (iii) Obligations in lieu of or in substitution for which other Obligations shall have been delivered pursuant to the General Resolution; (iv) Obligations deemed to have been paid as provided in the General Resolution; and (v) Put Obligations tendered or deemed tendered in accordance with the provisions of the Supplemental Resolution authorizing such Obligations on the applicable tender date, if the purchase price thereof and interest thereon shall have been paid or amounts are available and set aside for such payment as provided in such Supplemental Resolution, except to the extent such tendered Put Obligations thereafter may be resold pursuant to the terms thereof and of such Supplemental Resolution.

Owner or any similar terms, means the registered owner of any Obligation as shown on the books for the registration and transfer of Obligations maintained in accordance with the General Resolution.

Parity Contract Obligation has the meaning provided in the discussion of **Credit Facilities; Qualified Swaps and Other Similar Arrangements; Parity Debt** herein.

Parity Debt means the 1985 Notes, any note issued pursuant to the 1995 Revolving Credit Agreement, and any Parity Contract Obligation, Parity Reimbursement Obligation or Parity Swap Obligation.

Parity Reimbursement Obligation has the meaning provided in the discussion of **Credit Facilities; Qualified Swaps and Other Similar Arrangements; Parity Debt** herein.

Parity Swap Obligation has the meaning provided in the discussion of **Credit Facilities; Qualified Swaps and Other Similar Arrangements; Parity Debt** herein.

Paying Agent means any paying agent for the Obligations of any Series and its successor or successors and any other Person which may at any time be substituted in its place pursuant to the General Resolution.

Person means any individual, corporation, firm, partnership, joint venture, association, joint-stock company, trust, unincorporated association, limited liability company, or other legal entity or group of entities, including a governmental entity or any agency or subdivision thereof.

Project means any project, facility, system, equipment, or material related to or necessary or desirable in connection with the generation, production, transportation, distribution, transmission, 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, heretofore or hereafter authorized by the Act or by other applicable State statutory provisions; provided, however, that the term “Project” shall not include any Separately Financed Project.

Purchase Price means, with respect to any Obligation, 100% of the principal amount thereof plus accrued interest, if any, plus in the case of an Obligation subject to mandatory tender for purchase on a date when such Obligation is also subject to optional redemption at a premium, an amount equal to the premium that would be payable on such Obligation if redeemed on such date.

Put Obligations means Obligations which by their terms may be tendered by and at the option of the owner thereof, or are subject to a mandatory tender, for payment or purchase prior to the stated maturity or redemption date thereof.

Qualified Swap means, to the extent from time to time permitted by law, with respect to Obligations, any financial arrangement (i) which is entered into by the Authority with an entity that is a Qualified Swap Provider at the time the arrangement is entered into, (ii) which is a cap, floor or collar; forward rate; future rate; swap (such swap may be based on an amount equal either to the principal amount of such Obligations of the Authority as may be designated or a notional principal amount relating to all or a portion of the principal amount of such Obligations); asset, index, price or market linked transaction or agreement; other exchange or rate protection transaction agreement; other similar transaction (however designated); or any combination thereof; or any option with respect thereto, executed by the Authority for the purpose of moderating interest rate fluctuations or otherwise, and (iii) which has been designated in writing to the Trustee by an Authorized Officer as a Qualified Swap with respect to such Obligations.

Qualified Swap Provider means an entity whose senior long term obligations, other senior unsecured long term obligations, financial program rating, counterparty rating, or claims paying ability, or whose payment obligations under an interest rate exchange agreement are guaranteed by an entity whose senior long term debt obligations, financial program rating, counterparty rating, other senior unsecured long term obligations or claims paying ability, or whose payment obligations under an interest rate exchange agreement are guaranteed by an entity whose senior long term debt obligations, other senior unsecured long term obligations or claims paying ability, are rated either (i) at least as high as the third highest Rating Category of each Rating Agency then maintaining a rating for the Qualified Swap Provider, but in no event lower than any Rating Category designated by each such Rating Agency for the Obligations subject to such Qualified Swap, or (ii) any such lower Rating Categories which each such Rating Agency indicates in writing to the Authority and the Trustee will not, by itself, result in a reduction or withdrawal of its rating on the Outstanding Obligations subject to such Qualified Swap that is in effect prior to entering into such Qualified Swap.

Rating Agency means each nationally recognized securities rating agency then maintaining a rating on the Obligations at the request of the Authority.

Rating Category means one of the generic rating categories of any Rating Agency without regard to any refinement or gradation of such rating by a numerical modifier or otherwise.

Redemption Price means, with respect to any Obligation, 100% of the principal amount thereof plus the applicable premium, if any, payable upon the redemption thereof pursuant to the General Resolution.

Registrar means any registrar for the Obligations of any Series and its successor or successors and any other person which may at any time be substituted in its place pursuant to the General Resolution.

Revenues means all revenues, rates, fees, charges, rents, proceeds from the sale of Authority assets, proceeds of insurance, and other income and receipts, as derived in cash by or for the account of the Authority directly or indirectly from any of the Authority's operations, including but not limited to the ownership or operation of any Project, but not including any such income or receipts attributable directly or indirectly to the ownership or operation of any Separately Financed Project and not including any federal or state grant moneys the receipt of which is conditioned upon their expenditure for a particular purpose.

Securities Depository means The Depository Trust Company, New York, New York, or any substitute Securities Depository, or any successor to any of them.

Separately Financed Project means any project described as such pursuant to the General Resolution.

Series means all of the Obligations delivered upon original issuance pursuant to a single Supplemental Resolution and denominated therein a single series, and any Obligations thereafter delivered in lieu of or in substitution therefor pursuant to the General Resolution, regardless of variations in maturity, interest rate, or other provisions.

Subordinated Contract Obligation means any payment obligation (other than a payment obligation constituting Parity Debt or Subordinated Indebtedness) arising under (a) any Credit Facility which has been designated as constituting a "Subordinated Contract Obligation" in a certificate of an Authorized Officer delivered to the Trustee, (b) any Qualified Swap which has been designated as constituting a "Subordinated Contract Obligation" in a certificate of an Authorized Officer delivered to the Trustee, (c) the 1995 Revolving Credit Agreement, and (d) any other contract, agreement or other obligation authorized by resolution of the Authority and designated as constituting a "Subordinated Contract Obligation" in a certificate of an Authorized Officer delivered to the Trustee. Each Subordinated Contract Obligation shall be payable from the Trust Estate subject and subordinate to the payments to be made with respect to the Obligations and Parity Debt, as provided for in the General Resolution and which shall be secured by a lien on and pledge of the Trust Estate junior and inferior to the lien on and pledge of the Trust Estate created pursuant to the Resolution for the payment of the Obligations and Parity Debt.

Subordinated Indebtedness means any Commercial Paper Notes, and any bond, note or other indebtedness authorized by resolution of the Authority and designated as constituting "Subordinated Indebtedness" in a certificate of an Authorized Officer delivered to the Trustee, and which shall be secured by a lien on and pledge of the Trust Estate junior and inferior to the lien on and pledge of the Trust Estate created for the payment of the Obligations and Parity Debt.

Supplemental Resolution means any resolution supplemental to or amendatory of the General Resolution, adopted by, or adopted pursuant to authorization granted by, the Authority in accordance with the General Resolution.

Tax-Exempt Obligations means any Obligations the interest on which is intended by the Authority to be excluded from gross income for federal income tax purposes and which are designated as Tax-Exempt Obligations in the Supplemental Resolution authorizing such obligations.

Trust Estate means, collectively: (i) all Revenues; (ii) the proceeds of the sale of Obligations until expended for the purposes authorized by the Supplemental Resolution authorizing such Obligations; (iii) all funds, accounts and subaccounts established by the General Resolution, including investment earnings thereon; and (iv) all funds, moneys, and securities and any and all other rights and interests in property, whether tangible or intangible, from time to time hereafter by delivery or by writing of any kind conveyed, mortgaged, pledged, assigned or transferred as and for additional security pursuant to the General Resolution for the Obligations by the Authority, or by anyone on its behalf, or with its written consent, to the Trustee, which is authorized to receive any and all such property at any and all times, and to hold and apply the same subject to the terms of the General Resolution.

Trustee means the trustee appointed in accordance with the General Resolution, and its successor or successors and any other Person which may at any time be substituted in its place pursuant to the General Resolution.

(General Resolution, Sec. 101)

Book-Entry-Only System

Notwithstanding any other provision of the General Resolution, the Authority may employ a book-entry-only system of registration with respect to any Obligations, all as more fully set forth in the General Resolution and the Supplemental Resolution authorizing such Obligations. Any provisions of the

General Resolution inconsistent with book-entry-only Obligations shall not be applicable to such book-entry-only Obligations.

(General Resolution, Sec. 309)

Credit Facilities; Qualified Swaps and Other Similar Arrangements; Parity Debt

The Authority may include such provisions in a Supplemental Resolution authorizing the issuance of a Series of Obligations secured by a Credit Facility as the Authority deems appropriate, and no such provisions shall be deemed to constitute an amendment to the General Resolution.

The Authority may secure such Credit Facility by an agreement providing for the purchase of the Obligations secured thereby with such adjustments to the rate of interest, method of determining interest, maturity, or redemption provisions as specified by the Authority in the applicable Supplemental Resolution. The Authority may also in an agreement with the issuer of such Credit Facility agree to directly reimburse such issuer for amounts paid under the terms of such Credit Facility (together with interest thereon, the "**Reimbursement Obligation**"); provided, however, that no Reimbursement Obligation shall be created, for purposes of the General Resolution, until amounts are paid under such Credit Facility. Any such Reimbursement Obligation which may include interest calculated at a rate higher than the interest rate on the related Obligation, may be secured by a pledge of, and a lien on, the Trust Estate on a parity with the lien created by the General Resolution to secure the Obligations (a "**Parity Reimbursement Obligation**"), but only to the extent principal amortization requirements with respect to such reimbursement are equal to the amortization requirements for such related Obligations, without acceleration, or may constitute a Subordinated Contract Obligation, as determined by the Authority. In addition, the Authority may enter into a Reimbursement Obligation with respect to a Credit Facility securing Parity Debt, and any such Reimbursement Obligation may be a Parity Reimbursement Obligation (but only to the extent principal amortization requirements with respect to such reimbursement are substantially equal to the amortization requirements [including principal payments in connection with any optional or mandatory tender for purchase] for such related Parity Debt, without acceleration) or may constitute a Subordinated Contract Obligation, as determined by the Authority. Parity Reimbursement Obligations shall not include any payments of any fees, expenses, indemnification, or other obligations to any such provider, or any payments pursuant to term-loan or other principal amortization requirements in reimbursement of any such advance that are more accelerated than the amortization requirements on such related Obligations or Parity Debt, which payments shall be Subordinated Contract Obligations.

In connection with the issuance of any Obligations or at any time thereafter so long as Obligations remain Outstanding, the Authority also may, to the extent from time to time permitted pursuant to law, enter into Qualified Swaps. The Authority's obligation to pay any amount under any Qualified Swap may be secured by a pledge of, and a lien on, the Trust Estate on a parity with the lien created pursuant to the General Resolution to secure the Obligations (a "**Parity Swap Obligation**"), or may constitute a Subordinated Contract Obligation, as determined by the Authority. Parity Swap Obligations shall not include any payments of any termination or other fees, expenses, indemnification or other obligations to a counterparty to a Qualified Swap, which payments shall be Subordinated Contract Obligations.

The Authority's obligation to pay that portion of any rates, fees, charges or payments which the Authority is contractually obligated to pay to another entity for fuel, energy or power, for the specific purpose of meeting principal or interest or both on that entity's obligations directly associated with such contract and payable to such entity regardless of whether fuel or energy is delivered or made available for delivery, may be secured by a pledge of, and lien on, the Trust Estate on a parity with the lien created by the General Resolution to secure the Obligations (a "**Parity Contract Obligation**"), or may constitute a Subordinated Contract Obligation or an Operating Expense, as determined by the Authority.

(General Resolution, Sec. 310)

Pledge of Revenues and Funds

The Trust Estate is pledged for the payment of the principal and Redemption Price of, and interest on, the Obligations and, on a parity basis, the Parity Debt, in accordance with their terms and the provisions of the General Resolution.

(General Resolution, Sec. 501)

The General Resolution establishes the following funds:

(1) Operating Fund, to be held by the Authority, and

(2) Capital Fund, to be held by the Authority.

The Authority may establish one or more additional funds, accounts or subaccounts by delivering to the Trustee a certificate of an Authorized Officer.

(General Resolution, Sec. 502)

Operating Fund

The General Resolution provides that the Authority shall pay into the Operating Fund all Revenues as and when received. The Authority shall also pay into the Operating Fund such portion of the proceeds of any Series of Obligations which may have been issued to pay Operating Expenses as shall be specified pursuant to the Supplemental Resolution authorizing such Series. Amounts in the Operating Fund shall be paid out or accumulated or withdrawn from time to time for the following purposes and, as of any time, in the following order of priority: (a) payment of reasonable and necessary Operating Expenses or accumulation in the Operating Fund as a reserve (i) for working capital, (ii) for such Operating Expenses the payment of which is not immediately required, or (iii) deemed necessary or desirable by the Authority to comply with orders or other rulings of an agency or regulatory body having lawful jurisdiction; (b) payment of, or accumulation in the Operating Fund as a reserve for the payment of, interest on and the principal or Redemption Price of the Obligations and Payment of Parity Debt, on a parity basis, on their respective due dates or redemption date, as the case may be; (c) payment of principal of and interest on any Subordinated Indebtedness or payment of amounts due under any Subordinated Contract Obligation; (d) withdrawal and deposit in the Capital Fund; and (e) withdrawal for any lawful corporate purpose as determined by the Authority, including but not limited to the purchase or redemption of Obligations or Subordinated Indebtedness, provided, that prior to any withdrawal pursuant to this clause (e), the Authority shall have determined, taking into account among other considerations, anticipated future receipts of Revenues or other moneys constituting part of the Trust Estate, that the funds to be so withdrawn are not needed for any of the purposes set forth in clauses (a), (b) or (c) herein. Amounts paid out, or withdrawn pursuant to clause (e) shall be free and clear of the lien and pledge created by the General Resolution.

The Authority shall from time to time, and in all events prior to any withdrawal of moneys from the Operating Fund pursuant to clause (e) of the preceding paragraph, determine (i) the amount, to be held as a reserve in the Operating Fund, which in the judgment of the Authority is adequate for the purpose of providing for the costs of emergency repairs or replacements essential to restore or prevent physical damage to, and prevent loss of Revenues from, any Project and (ii) the amount, to be held as a reserve in the Operating Fund, which in the judgment of the Authority is adequate to meet the costs of major renewals, replacements, repairs, additions, betterments and improvements with respect to any Project necessary to keep the same in operating condition or required by any governmental agency having jurisdiction over such Project and to provide a reserve for the retirement from service, decommissioning or disposal of facilities comprising either a Project or a part of a Project.

Amounts in the Operating Fund may in the discretion of the Authority be invested in Authorized Investments. Earnings on moneys and investments in the Operating Fund shall be deposited in the Operating Fund. The Authority may sell any such Authorized Investments at any time and the proceeds of such sale shall be deposited in the Operating Fund.

The General Resolution provides that purchases of Obligations, 1985 Notes or Subordinated Indebtedness from amounts in the Operating Fund shall be made at the direction of the Authority, with or without advertisement and with or without notice to other holders of Obligations, 1985 Notes, or Subordinated Indebtedness. In addition, any amounts set aside by the Authority in one or more reserve accounts in the Operating Fund may be used by the Authority as determined by the Authority for the purpose of paying all or a portion of the interest, principal or Redemption Price of Obligations and payment of Parity Debt, on a parity basis.

(General Resolution, Sec. 503)

Capital Fund

The General Resolution provides that the Authority shall pay into the Capital Fund the amounts required to be so paid pursuant to the General Resolution and any Supplemental Resolution authorizing the issuance of any Series of Obligations, for the purpose of financing Capital Costs, including, without limitation, the portion of the proceeds of any such Obligations specified in such Supplemental Resolution, except as may be otherwise provided in a Supplemental Resolution with respect to those Capital Costs referenced in clauses (iv) or (v) of the definition thereof. Amounts in the Capital Fund shall be applied solely to the Capital Costs of the Authority. Any amounts in the Capital Fund which are in excess of the amounts required to pay for such costs may at the direction of the Authority be transferred to the Operating Fund. Amounts in the Capital Fund may in the discretion of the Authority be invested in an Authorized Investments. Earnings on moneys and investments in the Capital Fund shall be deposited in the Capital Fund. The Authority may, and to the extent required for payments from the Capital Fund shall, sell any such obligations at any time, and the proceeds of such sale and of all payment of principal or interest received at maturity or upon redemption or otherwise of such obligations shall be deposited in the Capital Fund. In addition, the General Resolution requires that amounts in the Capital Fund must be applied to the payment of principal and Redemption Price of and interest on the Obligations and the payment of Parity Debt, on a parity basis, when due at any time that other moneys are not available therefor.

(General Resolution, Sec. 504)

Conditions for Issuance of Obligations

General Provisions for Issuance of Obligations. Obligations may be issued pursuant to a Supplemental Resolution in such principal amount or amounts for each such Series as may be specified in such Supplemental Resolution. A Supplemental Resolution shall specify, among other things, the purpose or purposes for which such Obligations are being issued, the authorized principal amount and Series of such Obligations, the maturity date or dates and interest rate or rates of the Obligations and the forms of the Obligations which shall specify terms with respect to tender or redemption, if any. Such Obligations shall be delivered by the Authority under the General Resolution upon the delivery of, among other things, a Supplemental Resolution authorizing such Obligations, a Counsel's Opinion with respect to the validity of the Obligations and a certificate of an Authorized Officer to the effect that, upon delivery of the Obligations, the Authority will not be in default in the performance of the terms and provisions of the General Resolution or of any of the Obligations.

(General Resolution, Sec. 202)

Separately Financed Project. Nothing in the General Resolution shall prevent the Authority from authorizing and issuing bonds, notes, or other obligations or evidences of indebtedness, other than Obligations, for any purpose of the Authority authorized by the Act or by other applicable State statutory provisions (such purpose being referred to herein as a "Separately Financed Project"), which bonds, notes, or other obligations, or evidences of indebtedness and the Authority's share of any operating expenses related to such Separately Financed Project, shall be payable solely from the revenues or other income derived from the ownership or operation of such Separately Financed Project or from other funds withdrawn by the Authority pursuant to the General Resolution.

(General Resolution, Sec. 203)

Rate Covenant

The Authority shall at all times 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 moneys available therefor (including the anticipated receipt of proceeds of sale of Obligations 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 in anticipation of such receipt but not including any anticipated or actual proceeds from the sale of any Project), (i) to pay all Operating Expenses of the Authority, (ii) to pay the debt service on all Obligations then Outstanding and the debt service on all Subordinated Indebtedness then outstanding, and all Parity Debt and Subordinated Contract Obligations, all as the same respectively become due and payable, and (iii) to maintain any reserve established by the Authority pursuant to the General Resolution, in such amount as may be determined from time to time by the Authority in its judgment.

(General Resolution, Sec. 606)

Supplemental Resolutions; Amendments

Any of the provisions of the General Resolution may be amended by the Authority, upon the written consent of the Owners of a majority in principal amount of the Obligations so affected and Outstanding at the time such consent is given, and in case less than all of the Obligations then Outstanding are affected by the modification or amendment, of the Owners of a majority in principal amount of the Obligations so affected and Outstanding at the time such consent is given; provided, however, that if such modification or amendment will, by its terms, not take effect so long as particular Obligations remain Outstanding, the consent of the Owners of such Obligations shall not be required and such Obligations shall not be deemed to be Outstanding for the purpose of any calculation of Outstanding Obligations under the General Resolution. No such modification or amendment shall permit a change in the terms of redemption or maturity of the principal of any Outstanding Obligation or of any installment of interest thereon or a reduction in the principal amount or the Redemption Price thereof or in the rate of interest thereon without the consent of the Owner of such Obligation, or shall reduce the percentages or otherwise affect the classes of Obligations the consent of the Owners of which is required to waive an Event of Default or otherwise effect any such modification or amendment, create a preference or priority of any Obligation or Obligations over any other Obligation or Obligations (without the consent of the Owners of all such Obligations), create a lien prior to or on a parity with the lien of the General Resolution, without the consent of the Owners of all of the Obligations then Outstanding, or shall change or modify any of the rights or obligations of any Fiduciary without its written assent thereto. For purposes of this paragraph, an Obligation shall be deemed to be affected by a modification or amendment of the General Resolution if the same materially and adversely affects the rights of the Owner of such Obligation.

The Authority may adopt (without the consent of any Owner) supplemental resolutions to authorize additional Obligations; to add to the restrictions contained in the General Resolution upon the issuance of additional indebtedness; to add to the covenants of the Authority contained in, or surrender any rights reserved to or conferred upon it by, the General Resolution; to confirm any pledge under the General Resolution of Revenues or other moneys; to amend the General Resolution in such manner as to permit qualification of the General Resolution under the Trust Indenture Act of 1939 or any similar Federal statute and permit the qualification of the Obligations for sale under the securities laws of any state in the United States; to comply with such regulations and procedures as are from time to time in effect relating to establishing and maintaining a book-entry-only system; or otherwise to modify any of the provisions of the General Resolution (but no such other modification may be effective while any of the Obligations of any Series theretofore issued are Outstanding); or to cure any ambiguity, supply any omission or to correct any defect or inconsistent provision in the General Resolution or to insert such provisions or make such other amendments to the General Resolution as are necessary or desirable which will not be materially adverse to the rights of the Owners of Obligations (provided that the Trustee shall consent thereto).

(General Resolution, Secs. 801, 802, and 902)

Event of Default; Remedies Upon Default

Pursuant to the General Resolution, any of the following events set forth in clauses (i) through (v) constitutes an "Event of Default" if the Authority defaults (i) in the payment of principal or Redemption Price of any Obligation, or (ii) in the payment of interest thereon and such default continues for 30 days, or (iii) in the performance or observance of any other covenant, agreement or condition in the General Resolution or the Obligations, and such default continues for 60 days after written notice thereof, provided, however, that if such default shall be such that it cannot be corrected within such 60 day period, it shall not constitute an Event of Default if corrective action is instituted within such period and diligently pursued until the failure is corrected, or (iv) if the Authority (1) files a petition seeking a composition of indebtedness under the Federal bankruptcy laws, or any other applicable law or statute of the United States of America or of the State; (2) consents to the appointment or taking possession by a receiver, liquidator, assignee, custodian, trustee, sequestrator or other similar official of the Authority or any substantial portion of its property; (3) makes any assignment for the benefit of creditors; (4) admits in writing its inability generally to pay its debts generally as they become due; or (5) takes action in furtherance of any of the foregoing or (v) if (1) a decree or order for relief is entered by a court having jurisdiction of the Authority adjudging the Authority a bankrupt or insolvent or approving as properly filed a petition seeking reorganization, arrangement, adjustment or composition in respect of the Authority in an involuntary case under the Federal bankruptcy laws, or under any other applicable law or statute of the United States of America or of the State; (2) a receiver, liquidator, assignee, custodian, trustee, sequestrator or other similar official of the Authority or of any substantial portion of its property is appointed; or (3) the winding up or liquidation of its affairs is ordered and the continuance of any such decree or order remains unstayed and in effect for a period of sixty (60) consecutive days. Upon an Event of Default, the Trustee or the Owners of 25% in principal amount of the Obligations then Outstanding may declare the principal and accrued interest on the Obligations then Outstanding due and payable immediately, subject, however, to rescission of such declaration and annulment of the default upon the remedying thereof.

Under the General Resolution, the Authority covenants that upon a default the books of record of the Authority and all other records relating to all projects and facilities of the Authority will be subject to the inspection and use by the Trustee, and that the Authority will, upon demand by the Trustee, account for the Trust Estate under the General Resolution as if the Authority were the trustee of an express trust. Upon a default, the Trustee may protect and enforce its and the Owners' rights under the General Resolution by a suit in equity or at law, whether for the specific performance of any covenant contained in the General Resolution, or in aid of execution of any power granted therein or for an accounting against the Authority as if it were the trustee of an express trust, or in the enforcement of any other legal or equitable right as the Trustee deems most effectual to enforce its rights or perform its duties under the General Resolution. No Owner has any right to institute suit to enforce any provision of the General Resolution or the execution of any trust thereunder or for any remedy thereunder, unless the Trustee has been requested by at least 25% of the Owners, and such Owners shall have offered the Trustee adequate security against expenses and liabilities to be incurred therein, and the Trustee has failed to commence such suit in the manner provided in the General Resolution.

(General Resolution, Art. X)

Defeasance

Outstanding Obligations or any portion thereof shall, prior to the maturity or redemption date thereof, be deemed to have been paid pursuant to the General Resolution and shall cease to be entitled to any lien, benefit or security under the General Resolution if the following conditions are met: (i) in the case of Obligations to be redeemed, the Authority shall have given to the Trustee irrevocable instructions to mail the notice of redemption therefor, (ii) there shall have been irrevocably deposited with the Trustee in trust either moneys in an amount which shall be sufficient, or Defeasance Security, the principal of and the interest on which, when due, will provide moneys which, together with any moneys also deposited, shall be sufficient, without further investment or reinvestment of either the principal amount thereof or the interest earnings thereon, to pay when due, the principal or Redemption Price, if applicable, and interest due and to become due on such Obligations on and prior to the redemption date or maturity date thereof, as the case may be, and (iii) in the event such Obligations are not maturing or subject to redemption within the next succeeding 60 days, the Authority shall have given the Trustee irrevocable instructions to mail, as soon as practicable, a notice to the Owners of such Obligations that the above deposit has been made with the Trustee and that such Obligations are deemed to be paid and stating the maturity or redemption date upon which moneys are to be available to pay the principal or Redemption Price, if applicable, of such Obligations.

(General Resolution, Sec. 1101)

Unclaimed Moneys

Any moneys held by a Fiduciary in trust for the payment and discharge of the principal or Redemption Price of or interest on any of the Obligations which remain unclaimed for 2 years after the date when such principal, Redemption Price or interest, respectively, have become due and payable, either at their stated maturity dates or by call for earlier redemption, if such moneys were held by the Fiduciary after such date, or for 2 years after the date of deposit of such moneys if deposited with the Fiduciary after the date when such principal, Redemption Price or interest, respectively, became due and payable, shall, at the written request of the Authority, be repaid by the Fiduciary to the Authority, as its absolute property and free from trust, and the Fiduciary shall thereupon be released and discharged with respect thereto and the principal, Redemption Price or interest, respectively. Any moneys held by a Fiduciary in trust for the payment and discharge of any Obligations which remain unclaimed after such moneys were to be applied to the payment of such Obligations in accordance with the General Resolution may be applied in accordance with the provisions of the Abandoned Property Law of the State, being Chapter 1 of the Consolidated Laws of the State or any successor provision thereto, and upon such application, the Fiduciary shall thereupon be released and discharged with respect thereto and the Owners of Obligations shall look only to the Authority or the Comptroller of the State for the payment of such Obligations. Before being required to make any such payment to the Authority or to apply such moneys in accordance with the Abandoned Property Law of the State, the Fiduciary shall, at the expense of the Authority, cause to be mailed to the Owners entitled to receive such moneys a notice that said moneys remain unclaimed and that, after a date named in said notice, which date shall be not less than 30 days after the date of the mailing, the balance of such moneys then unclaimed will be returned to the Authority or applied in accordance with the Abandoned Property Law of the State, as the case may be.

(General Resolution, Sec. 1101)

APPENDIX 2

BACKGROUNDS OF THE AUTHORITY'S TRUSTEES AND CERTAIN SENIOR MANAGEMENT STAFF

Trustees

Frank S. McCullough, Jr. Chairman

Mr. McCullough was appointed a Trustee of the Authority in July 1997 and was elected Vice Chairman in May 2002. He was elected Chairman of the Authority in May 2006. He is also Chairman of the New York State Economic Development Power Allocation Board and a board member of the Seaway Private Equity Corporation which provides funding from the Authority to promote job development in St. Lawrence County. Mr. McCullough is a senior partner in the law firm of McCullough, Goldberger & Staudt, LLP, with offices in White Plains, New York, and has been a partner with the firm since 1972 focusing on administrative law in the land use and development field. He has served as a member of the Board of Trustees and the Executive Committee of New York United Hospital, a division of New York Hospital; the Pace University School of Law Board of Visitors; the Board of Trustees of Greenwood Union Cemetery; and the Board of Directors of Village Bank. Mr. McCullough has also served as Chairman of the Board of Governors of the Westchester Golf Classic; President of the Board of Trustees of St. Vincent's Hospital, Westchester Division, the Rye Historical Society and the Rye Lions Club; and a member of the Iona College Advisory Board of Trustees. He has been a member of the Board of Directors of the Foundation for Westchester Community College since 1985, with service as the Board's President from 1987 to 1990 and as Chairman from 1990 to 1993. Mr. McCullough has a Bachelor of Arts degree from St. Lawrence University and a Juris Doctor degree from Albany Law School.

Michael J. Townsend, Vice Chairman

Mr. Townsend was appointed a Trustee of the Authority in February 2004 and was elected Vice Chairman in April 2006. He is a partner in Harris Beach PLLC, a law firm based in Rochester, New York, and focuses his practice in the areas of public finance and commercial real estate. Mr. Townsend is a director of the State Tobacco Settlement Financing Corporation and the New York State Mortgage Bond Bank Agency. He has also served as counsel to the Monroe County Industrial Development Agency; counsel to the Greater Rochester Outdoor Sports Facility; in-house counsel to the Rochester-Genesee Regional Transit Authority; counsel to the Monroe County Empire Zone, and deputy counsel to the Greater Rochester Sports Authority. Mr. Townsend received a Bachelor of Science degree from the University of Maine in 1976 and received his Juris Doctor degree from Western New England College School of Law in 1981.

Elise M. Cusack, Trustee

Mrs. Cusack was appointed a Trustee of the Authority in June 2005. She was an Erie County Legislator (2002-2005) and has served as a member of the Erie Niagara Regional Partnership and the Buffalo Niagara Convention & Visitors Bureau board. Mrs. Cusack also served as Chair of the Local Organizing Committee for the Empire State Games. She started her career as a legislative assistant to Congressman Bill Paxon, served as finance director for the campaign of former New York State Attorney General Dennis Vacco, and worked in the communications field. Mrs. Cusack has a degree in History from Hamilton College.

Robert E. Moses, Trustee

Mr. Moses was appointed a Trustee of the Authority in March 2006. From 1982 to present he has served as a member of the New York State Economic Development Council and is also currently active as a Board Trustee of the SUNY College of Environmental Science and Forestry; an officer of the Association of College Trustees of the State University of New York; a Board Trustee of the New York State Industrial Exhibit Authority; a Board Director of the Audubon Society of New York; and with the

Empire State Forest Products Association. Mr. Moses also is a Director of the Onondaga County Bar Foundation and a member of the New York State Bar Foundation. He was a member of the Board of Regents, LeMoyne College; the Board of Governors, Georgetown University; and the Advisory Board, New York Sports Academy at Lake Placid.

Mr. Moses is a former legal officer, U.S. Coast Guard (R) and past President and former member of the Board, Otisco Lake Community Association. He attended Syracuse University and the University of Fribourg, Switzerland; received a Bachelor of Arts degree from Georgetown University; and received a Juris Doctor degree from Georgetown University Law Center.

Mr. Moses was a partner in the law firm of Bond, Schoeneck & King, PLLC, until 2004. He assisted clients, including tourism organizations, with projects requiring private and public participation to advance economic development which included analysis of economic development, commercial real estate issues, and government incentives.

Thomas W. Scozzafava, Trustee

Mr. Scozzafava was appointed a Trustee of the Authority in March 2006. He is a native of St. Lawrence County, and is the Founder, President, and Chief Executive Officer of Seaway Valley Capital Corporation, a venture capital and buyout company. Seaway co-found GS AgriFuels Corporation, a publicly traded company focused on renewable fuels and energy from agricultural products. Mr. Scozzafava serves as GS AgriFuels President and CEO. Seaway and Mr. Scozzafava also founded WiseBuy Stores Inc., a chain of retail stores, primarily in Northern New York, specializing in name-brand merchandise. He currently serves as Chief Financial Officer of WiseBuys, which the New York State Small Business Development Center selected for its Excellence Award in 2004. Mr. Scozzafava's earlier career in finance included work with the Prudential Merchant Banking Group, Lehman Brothers and GE Capital Corporation. He has served as Chairman of the St. Lawrence County United Way Campaign and on the Advisory Board for the State University of New York Canton School of Business and Public Service. He earned a Bachelor's degree in Economics from Hamilton College in 1992.

Leonard N. Spano, Trustee

Mr. Spano was appointed a Trustee of the Authority in June 2006. He served as Westchester County Clerk from 1993 to 2005 and on the Westchester County Board of Legislators, representing White Plains and Yonkers, from 1971 to 1993. Mr. Spano headed a home heating and fuel business in Yonkers, Spano Fuel Company, from 1961 to 1978. He served in the U.S. Marine Corps from 1951 to 1954.

James A. Besha, Sr., Trustee

Mr. Besha was appointed a Trustee of the Authority in June 2007. Mr. Besha is a licensed professional engineer and President of Albany Engineering Corporation, a consulting engineering firm specializing in hydroelectric generation projects. He has been involved with the planning, development, design, construction management and operation of hydroelectric projects both in the U.S. and internationally, and has provided engineering services for numerous hydroelectric, flood control and water supply dams. Mr. Besha has been in private engineering practice since 1971. Throughout his career, he has worked on wide-ranging public works projects involving water resources, energy conservation and electric generation. Mr. Besha's professional affiliations include the American Society of Civil Engineers, the New York State Society of Professional Engineers, the Institute of Electrical and Electronics Engineers, the Society of Mining Engineers and the United States Society on Dams. Mr. Besha graduated from Syracuse University in 1970 with a Bachelor of Science degree in Industrial Engineering and a Bachelor of Arts degree in Sociology.

Senior Management Staff

The senior management staff of the Authority includes the following:

Roger B. Kelley, President and Chief Executive Officer

Mr. Kelley was appointed to his current position effective July 1, 2007. He is an electrical engineer with more than 30 years experience in the electric utility industry. Mr. Kelley had served since 1997 as

Senior Vice President-Chief Technical Officer of Fortistar of White Plains, a leading developer and operator of power plants. He oversaw technical and operational matters for the company's 45 domestic power plants, as well as project acquisition and development in the United States and other countries. As Vice President and General Manager at Fortistar from 1992 to 1997, Mr. Kelley was responsible for financial and operational performance of the company's 200-megawatt gas-fired Lockport Cogeneration Facility in Western New York. He previously managed construction of the plant and had a lead role in development and negotiation of key commercial contracts, including all environmental permits, natural-gas supply and transportation contracts and operation and maintenance agreements. During this time, Mr. Kelley was extensively involved in the restructuring of New York State's electric utility industry and establishment of the New York Independent System Operator, which administers the State's wholesale power markets and electric transmission system. From 1989 until 1992, he served as Manager, Project Development at Commercial Union Energy Corporation, which had acquired the Lockport Project and then as Vice President, Engineering at LS Power Corp. of North Brunswick, N.J. Mr. Kelley also worked on several other cogeneration and combined-cycle power plants in Massachusetts, Rhode Island, Minnesota and Wisconsin. In 1988, Mr. Kelley was one of four principals who formed Empire Energy Corp. of Vestal, N.Y., and structured a successful bid for the Lockport Cogeneration Project. He served as the company's Vice President, Engineering and, as a member of its Board of Directors, was extensively involved in negotiating the Lockport Project's sale to Commercial Union Energy Corporation. Mr. Kelley began his career in 1974 as an electrical engineer at New York State Electric & Gas Corporation (NYSEG) and served in positions of increasing responsibility during 14 years with the utility. From 1980 to 1986, he was Manager of a corporate engineering group which oversaw all electrical and instrumentation and control work for six multiple-unit coal-fired power stations and eight multiple-unit hydroelectric stations. Mr. Kelley was promoted in 1987 to Supervising Senior Engineer in the Quality Assurance Department, with responsibility for establishing and implementing a testing and examination program to ensure the safety of the high-pressure steam production systems at NYSEG's power plants. He is a registered professional engineer in New York State and is a member of the Institute of Electrical and Electronics Engineers. Mr. Kelley also has served as Chairman of the Independent Power Producers of New York and has authored various technical articles and papers. Mr. Kelley received a Bachelor of Science degree in Electrical Engineering from Northeastern University in 1974 and has done graduate work at C.W. Post College in Engineering Management and Engineering Economics.

Thomas J. Kelly, Executive Vice President, General Counsel and Chief of Staff

Thomas J. Kelly joined the Power Authority in February 2006 as Executive Vice President and General Counsel. He has extensive knowledge of state and federal environmental laws, municipal finance, labor relations and corporate law. Mr. Kelly previously served as President of the New York State Environmental Facilities Corporation (EFC). During his tenure, the EFC became one of the largest revenue bond issuers in the country for environmental projects protecting public health. This included working with local and state governments and private enterprise to finance projects engaged in air-pollution control, drinking-water and wastewater treatment and solid- and hazardous-waste disposal. He initiated a major refunding by EFC that resulted in savings of more than $140 million for municipal borrowers. Before joining the EFC, Mr. Kelly operated his own law firm in Brewster, New York, along with representing the Village as its municipal attorney. He also served as Assistant Counsel to then-State Senator George Pataki and to State Senator Vincent Liebell. Mr. Kelly graduated from Pace University School of Law in 1989 and holds a Bachelor's degree in Business from the State University of New York at Buffalo.

Vincent C. Vesce, Executive Vice President—Corporate Services and Administration

Mr. Vesce joined the Authority in October 1997 and was promoted to his current position in April 2002. He is responsible for procurement, real estate, corporate support services, fleet operations and all Human Resources policies and practices throughout the Authority, including compensation and benefits, employee ethics, employee/organizational development, employee and labor relations, the Human Resource Information System, and the Information Resource Center. In addition, Mr. Vesce oversees the Authority's Public and Governmental Affairs activities. Prior to joining the Authority, Mr. Vesce was an executive in the footwear industry for BBC International, Ltd., where he served as that company's Executive Vice President. Before working for BBC International, Ltd., Mr. Vesce served in a number of executive positions for the Kinney Shoe Corporation. Mr. Vesce holds a Bachelor of Science degree in Business Administration from Bryant University in Rhode Island.

Joseph M. Del Sindaco, Executive Vice President and Chief Financial Officer

Mr. Del Sindaco joined the Authority in May 2004 as Senior Vice President and Chief Financial Officer. He was appointed to his current position in April 2006. In addition to being responsible for the traditional accounting, finance and treasury areas, he is also responsible for budgeting, the financial planning function, physical asset insurance, risk management, energy resource management, and the information technology group. Mr. Del Sindaco has over 30 years of experience in both the private and public sector. As a government official, he served as Chief Operating Officer of the Empire State Development Corporation. Additionally, he served on the Economic Development Power Allocation Board, and served as Town Supervisor of the Town of Bedford, New York. In the private sector, Mr. Del Sindaco spent over 13 years with the International Paper Corporation, holding several management positions in accounting, treasury and general management. His experience in public/private partnerships included the development of environmentally sensitive energy projects utilizing alternative fuels. Mr. Del Sindaco joined the Authority from Henningson, Durham and Richardson, where he was responsible for programs which enabled local, county and state governments to increase revenues, reduce costs and improve services. Mr. Del Sindaco holds an MBA degree in management from the University of New Haven.

Brian Vattimo, Senior Vice President—Public and Governmental Affairs

Mr. Vattimo was appointed to his current position in August 2004. His areas of responsibility include media relations, internal and external corporate communications, community outreach, relicensing, and state and federal governmental affairs. Prior to joining the Authority, he served as an Assistant Commissioner at the New York State Department of Transportation and as Chief of Staff and Press Secretary for New York State Lieutenant Governor Mary Donohue. He also is a former Director of Communications with the New York State Office of Parks, Recreation and Historic Preservation and worked for several years in the New York State Assembly. He holds a Bachelor of Arts degree in Communications from Buffalo State College.

Steven J. DeCarlo, Senior Vice President—Transmission

Mr. DeCarlo was appointed to his current position in September 2005. He is responsible for the Authority's Energy Control Center, energy scheduling and settlements with the New York Independent System Operator, maintenance of the Authority's transmission system, transmission and operations planning, transmission interconnection agreements, reliability compliance, and meter engineering. Mr. DeCarlo joined the Authority in 1985 as an elecrical engineer and throughout his tenure has assumed increasing responsibilty in operations, maintenance, engineering, and asset management. He has previously served as Operations Supervisor, Central Region Operations Superintendent, and Regional Manager, Central New York. Mr. DeCarlo is a member of several professional committees. He is a graduate of Manhattan College in Riverdale, New York, with a Bachelor of Engineering degree in electrical engineering and holds an MBA degree in finance from the Long Island University.

William J. Nadeau, Senior Vice President-Energy Resource Management and Strategic Planning

Mr. Nadeau joined the Authority in his current position in September 2006. He is responsible for generation resource management, including bidding the Authority's generation resources into the New York State Independent System Operator markets, fuel planning and operations, energy market analysis, energy supply planning, and strategic planning. Previously, Mr. Nadeau worked for Northeast Utilities System (NU) companies for over 25 years, including service as Vice President and Chief Operating Officer of Northeast Generation Services Company and as Vice President, Fossil and Hydro Engineering and Operations, for three New England states served by NU. From 1972 to 1980, he served in the U.S.

Navy's nuclear submarine force, culminating with his becoming Chief Engineer of the U.S.S. Shark. Mr. Nadeau earned a Bachelor of Science degree in Physics from the U.S. Naval Academy in 1972, a Master of Science degree in Nuclear Engineering from M.I.T. in 1973, and a MBA from the University of New Haven in 1985.

Edward A. Welz, Senior Vice President and Chief Engineer—Power Generation

Mr. Welz assumed his current position in December 2005. He joined the Authority in 1982 and throughout his tenure has assumed increasing responsibilty in the power engineering, operation and maintenance, and project and construction management areas. Mr. Welz is responsible for the operation and maintenance, engineering, project management, and asset management of the Authority's generation and transmission facilities, together with the environmental, health, and safety aspects of the Authority's facilities and operations. He is a member of the EPRI Research Council for Power Generation. Mr. Welz is a licensed professional engineer and holds an Associate degree from Queensborough Community College and a Bachelor of Science degree in electric engineering from Pratt Institute in Brooklyn, New York.

James H. Yates, Senior Vice President—Marketing and Economic Development

Mr. Yates assumed his present position in July 2007. He is responsible for Authority customer account management for governmental, business, municipal, cooperative and utility customers; customer load forecasting (short-term and long-term), management of the Authority's power programs for economic development, load research, demand response programs, and customer pricing. He joined the Authority in March 1995 as Director, Business Marketing and Economic Development and was promoted to Vice President, Major Account Marketing and Economic Development in January 2000. Mr. Yates has over 30 years of experience in both the private and public sector. Prior to joining the Authority, Mr. Yates worked for Delmarva Power and Light from 1991 to 1995 in their Strategic Energy Markets group. Mr. Yates began his career with Dayton Power and Light where he held a variety of positions over 16 years including: Manager of Marketing, Manager of Rates, Director of Corporate Staff and Assistant Corporate Secretary, Supervisor of Employee Services, Coordinator of Sales Forecasting and Planning Engineer. Mr. Yates also served as a Senior Consultant for Cresap, McCormick and Paget in 1981 specializing in utility reviews of corporate planning and human resources. Mr. Yates serves on the Board of the New York Energy Consumers Council and the Energy Committee of the New York City Building Congress. Mr. Yates received a Bachelor of Science degree in Electrical Engineering from the University of Cincinnati in 1974 and has done graduate work in Business Administration at the University of Dayton.

Angelo S. Esposito, Senior Vice President—Energy Services and Technology

Mr. Esposito was appointed Senior Vice President of Energy Services and Technology in August 2004. He is responsible for implementation of all energy services and technology programs and electric transportation initiatives for the Authority's customers, including those provided for government entities throughout New York State. In addition, Mr. Esposito is responsible for the Authority's electric transportation and research and technology development activities. This encompasses a broad range of electric drive vehicles and other clean transportation technologies; energy utilization; and advanced mechanical and electrical technologies, such as distributed generation. Mr. Esposito holds a Bachelor's Degree in Business Administration from Bernard M. Baruch College and has done graduate work at Pace University.

Arnold M. Bellis, Vice President—Controller

Mr. Bellis was appointed to his current position in 1994. He is responsible for accounting, budgeting, financial planning, payroll, billing, and accounts payable. Mr. Bellis joined the Authority in 1980 as a member of its marketing department, and since then has headed a number of Authority departments, including strategic planning, information services, budgets, and nuclear business operations prior to assuming his current duties. Before joining the Authority, Mr. Bellis held a number of financial positions with the Atlantic Bank of New York and the East River Savings Bank. He is a graduate of York University with Bachelor's and Master's degrees in Economics, specializing in public utility economics. Mr. Bellis is a member of the New York State Government Finance Officers Association.

Donald A. Russak, Vice President—Finance

Mr. Russak was appointed to his current position in 2003 after having served as Director—Financial Planning since 1997. He joined the Authority in 1979 and held several positions in the marketing and transmission departments including the position of Senior Economist from 1987 to 1997. Mr. Russak's current responsibilities include overseeing the Authority's treasury, revenue planning and physical asset insurance—risk management functions. Prior to joining the Authority, he worked in various capacities in the pension-actuarial department of the Mutual Life Insurance Company of New York. Mr. Russak holds a Bachelor of Arts degree in Mathematical-Economics from Colgate University.

Thomas H. Warmath, Vice President and Chief Risk Officer—Energy Risk Assessment and Control

Mr. Warmath joined the Authority in April 2002. He is responsible for establishing policies and procedures for identifying, reporting and controlling risk exposure including the impact of energy prices and fuel cost changes. Previously, Mr. Warmath worked for Equiva Trading Company (Shell Oil Products US) in Houston, Texas, where he held the position of Manager, Risk Control. Between 1992 and 1998, he was Marketing Manager for Richardson Products Company a subsidiary of Bass Enterprises, Ft. Worth, Texas. Between 1987 and 1992 he worked for the Coastal Corporation where he held a number of positions including Director, Western Division, and Manager, Gulf Coast. Prior to 1987, he held positions with several energy companies, including El Paso Energy and Amoco Oil Company. He is a Civil Engineering graduate of the Georgia Institute of Technology in Atlanta, Georgia. He is a licensed professional petroleum engineer in Texas.

Daniel Wiese, Inspector General and Vice President—Corporate Security

Col. Daniel Wiese joined the Authority in April 2003. He is responsible for supervising Authority activities in the areas of security and investigations. Prior to joining the Authority, he served in the New York State Police for nearly twenty-five years. His law enforcement experience includes directing protective services for New York State's Chief Executive; managing multi-agency cooperation on anti-terrorism efforts; overseeing activation and deployment of the State Police Mobile Response Team; commanding the Organized Crime Unit while assigned to the Manhattan District Attorney's Office; and investigating crime as a member of the State Police Criminal Squad and Gambling Unit.

Brian McElroy, Treasurer

Mr. McElroy was appointed Treasurer in January 2007. He is responsible for the Authority's cash and investment management, debt management and its interest rate swap program. Mr. McElroy began his career with the Authority in 1989. He has held positions of increasing responsibility, including Treasury Analyst, Senior Investment Analyst, and Deputy Treasurer. He holds a Bachelor of Science degree in Management Information Systems and Managerial Sciences from Manhattan College, and is completing his MBA in Finance and Business Economic and Accounting at Fordham University.

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