

New York Power Authority

Report of the Chief Financial Officer

For the Eight Months Ended August 31, 2010

**Report of the Chief Financial Officer
For the Eight Months Ended August 31, 2010
Executive Summary**

Results of Operations

Net income for the eight months ended August 31, 2010 was \$114.1 million, which was \$72.4 million lower than the budget and \$49.7 million below the comparable period last year. Net margins on sales were \$84.2 million lower than budget primarily due to lower generation at Niagara and lower prices on the sales of hydro energy into the market. Through August, net margins at the hydro-facilities were \$75.3 million lower than budgeted including negative variances at Niagara (\$54 million), St. Lawrence (\$9.9 million) and Blenheim-Gilboa (\$11.4 million). Generation at Niagara was 5% lower than the forecast due primarily to lower than anticipated lake levels. Average prices for sales from the hydro-facilities into the market through August were approximately 10% lower than budgeted. An additional negative variance resulted from Authority's transfer of \$40 million to New York State for its 2010/11 fiscal year during the month of August, which was not included in the budget. These negatives were partially offset by positive variances in O&M (\$22.9 million), other expenses (\$13.6 million) and investment income (\$11.2 million). O&M expenses were lower than budget primarily due to timing differences related to the 500 MW plant outage (budget assumed April, now scheduled for October) and in maintenance work at St. Lawrence and the Transmission facilities. The under-run in other expenses was due to timing differences related to the North Country Stimulus and Renewable Energy programs. Investment income was higher due to a mark-to-market gain on the Authority's investment portfolio due to a decrease in market interest rates.

Year-end Projection

Year-end net income is projected to be \$176 million, which is \$6 million lower than July's projection, and \$132 million below the official budget. The month-to-month change of \$6 million is principally attributed to a 0.1 Twh decrease in hydro generation expected for the remainder of the year and newly legislated contributions to the Western New York Economic Development Fund (\$2.6 million). The primary drivers of the year-end variance to the official budget continue to be lower hydro flows, overall lower market prices, and the additional \$40 million Voluntary Contribution to New York State. Hydro generation, at approximately 19.5 TWh, is still running nearly 1 TWh below forecast, with a total estimated negative impact of \$41 million on 2010 net income. The impact of lower energy prices on net income for 2010 is forecast to be \$17 million in total. Lower capacity prices result in an annual net income reduction of approximately \$25 million. Other factors affecting net income negatively include the Flynn outage (\$7 million) and the continuation of the hydro rate freeze (\$7.5 million). In contrast, net income is positively affected by lower debt service expenses (\$13 million), a positive mark-to-market variance on the investment portfolio (\$13.5 million), and an estimated

one year deferral in previously forecasted spending related to the renewable energy program (\$5 million).

Cash & Liquidity

The Authority ended the month of August with total operating funds of \$978 million as compared to \$907 million at the end of 2009. The increase of \$71 million was primarily attributed to positive net cash provided by Operating Activities and the Value Sharing payment of \$72 million received from Entergy on January 15th partially offset by a two voluntary contributions to New York State totaling \$159.5 million and scheduled debt service payments. Looking forward, we are anticipating the operating fund balance to generally track the lower net income results. The year-end operating fund balance is currently projected to be \$1.0 billion, an increase of \$98 million during the year, but approximately \$131 million below budgeted level.

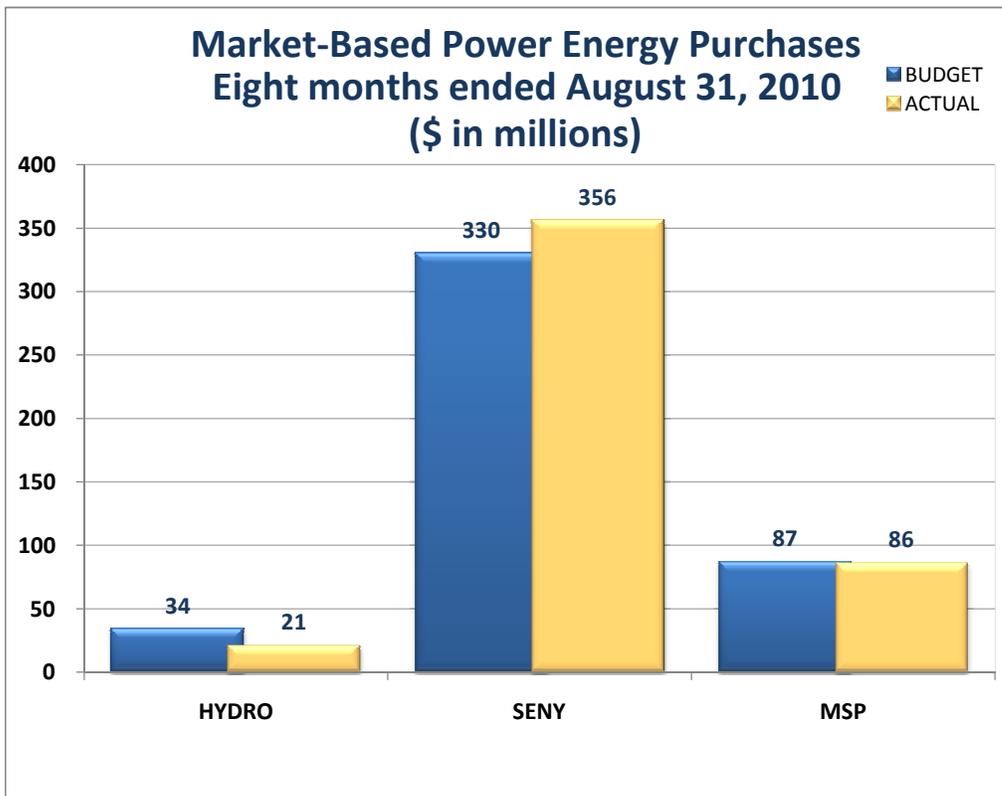
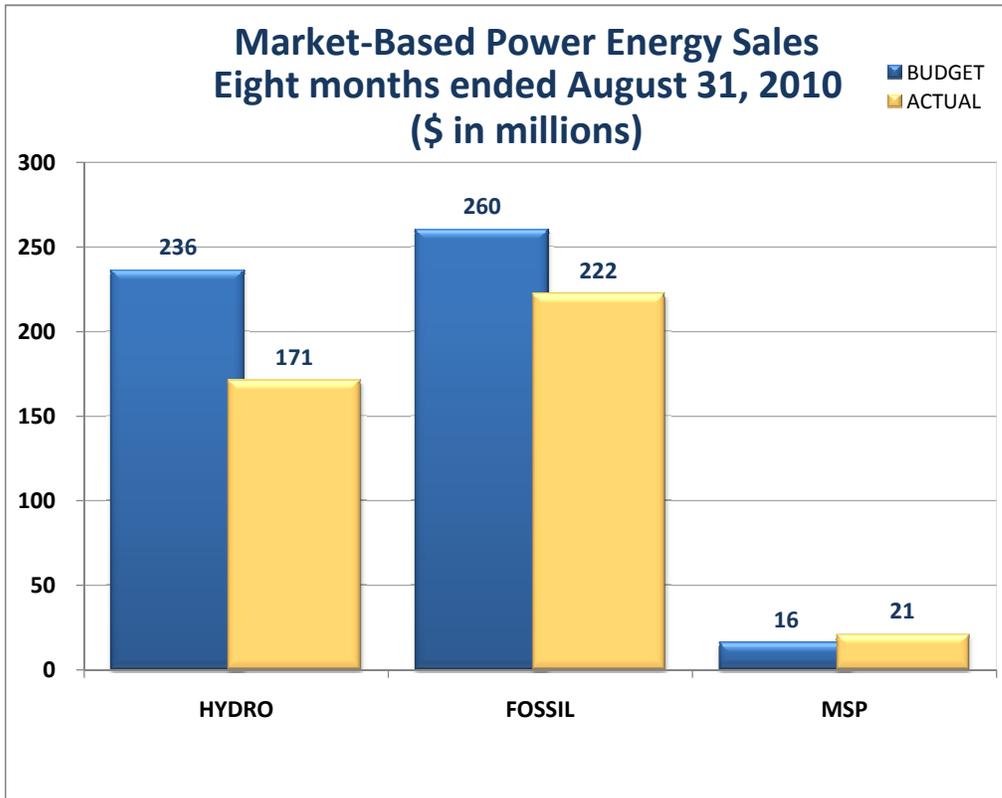
Energy Risk

At August 31, 2010, the fair market value of outstanding energy derivatives was an unrealized loss of \$306 million for financial contracts extending through 2017. Year to date, financial energy derivative settlements resulted in a realized net loss of \$38 million. The amount of these losses is subject to virtually full cost recovery, whereby the resulting hedge settlements are incorporated into and recovered through customer rates.

Net Income
Eight Months ended August 31, 2010
(\$ in millions)

	Actual	Budget	Variance
Niagara	\$80.7	\$127.0	(\$46.3)
St. Lawrence	34.3	35.2	(0.9)
Blenheim-Gilboa	1.5	13.1	(11.6)
SENY	30.1	34.5	(4.4)
SCPP	23.4	21.7	1.7
Market Supply Power	(30.3)	(36.3)	6.0
Flynn	9.6	11.3	(1.7)
Transmission	22.0	17.4	4.6
Non-facility*	(56.6)	(36.8)	(19.8)
Total	\$114.7	\$187.1	(\$72.4)

<u>Major Factors</u>	<u>Better (Worse)</u>
<p><u>Niagara</u> Lower net margins on sales (\$54) primarily due to lower volumes available resulting from lower generation (5%). In addition, average energy prices for sales into the market were approximately 9% lower than budgeted (\$43/mwh actual vs. \$47/mwh budgeted).</p>	(\$46.3)
<p><u>St. Lawrence</u> Lower net margins (\$9.9) resulting from lower prices on sales into the market substantially offset by lower expenses due to timing differences in non-recurring projects and the North Country Stimulus program.</p>	(0.9)
<p><u>Blenheim-Gilboa</u> Lower net margin due to lower energy sales (limited price differential between peak and off-peak energy prices) and lower capacity prices.</p>	(11.6)
<p><u>Transmission</u> Primarily lower O&M due to timing differences in recurring maintenance and higher congestion rents due to transmission outages earlier in the year.</p>	4.6
<p><u>Other facilities</u> Includes positive variance in MSP due to lower Power for Jobs rebates (lower market prices partially offset by lower margins at SENY and Flynn).</p>	1.6
<p><u>Non-facility (including investment income)</u> Additional \$40 voluntary contribution to NY State in August partially offset by a positive variance related to a mark-to-market gain (\$19.1) on Authority's investment portfolio due to a decrease in market interest rates.</p>	(19.8)
Total	(\$72.4)



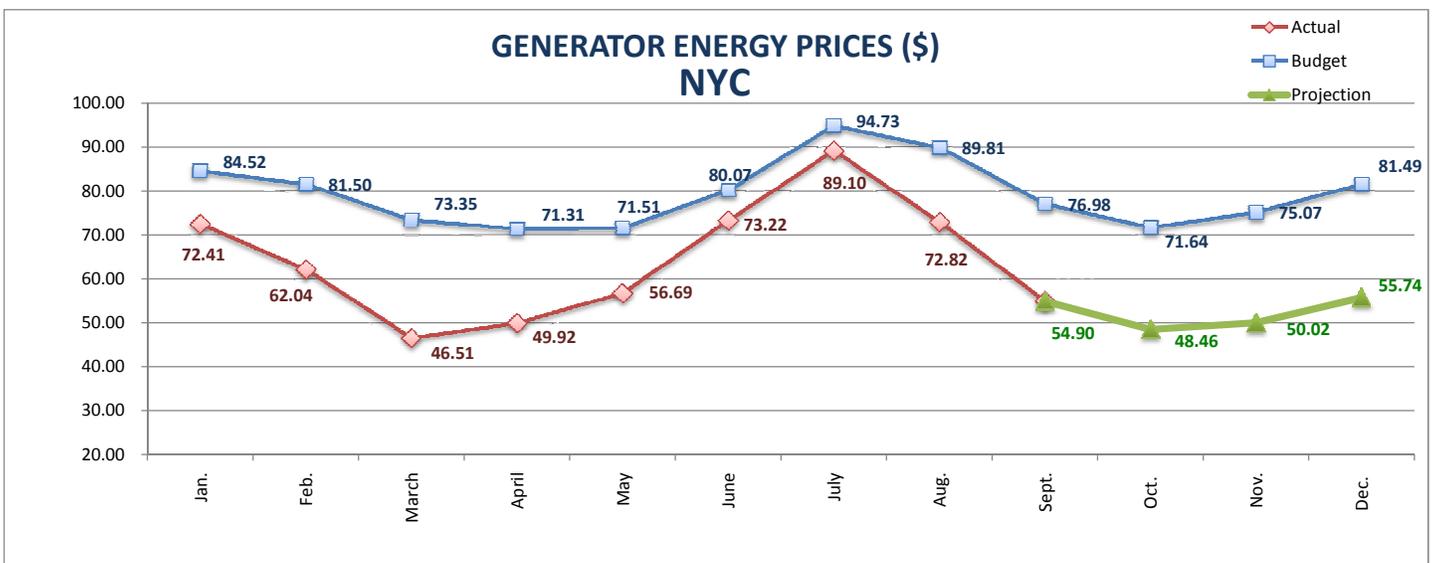
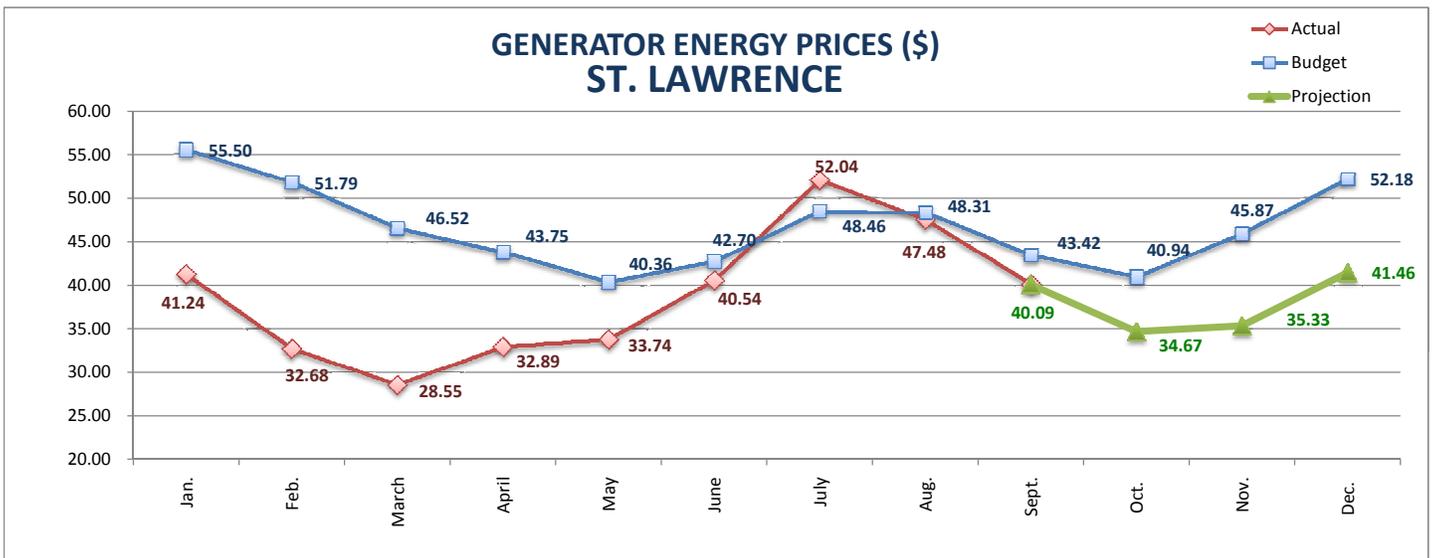
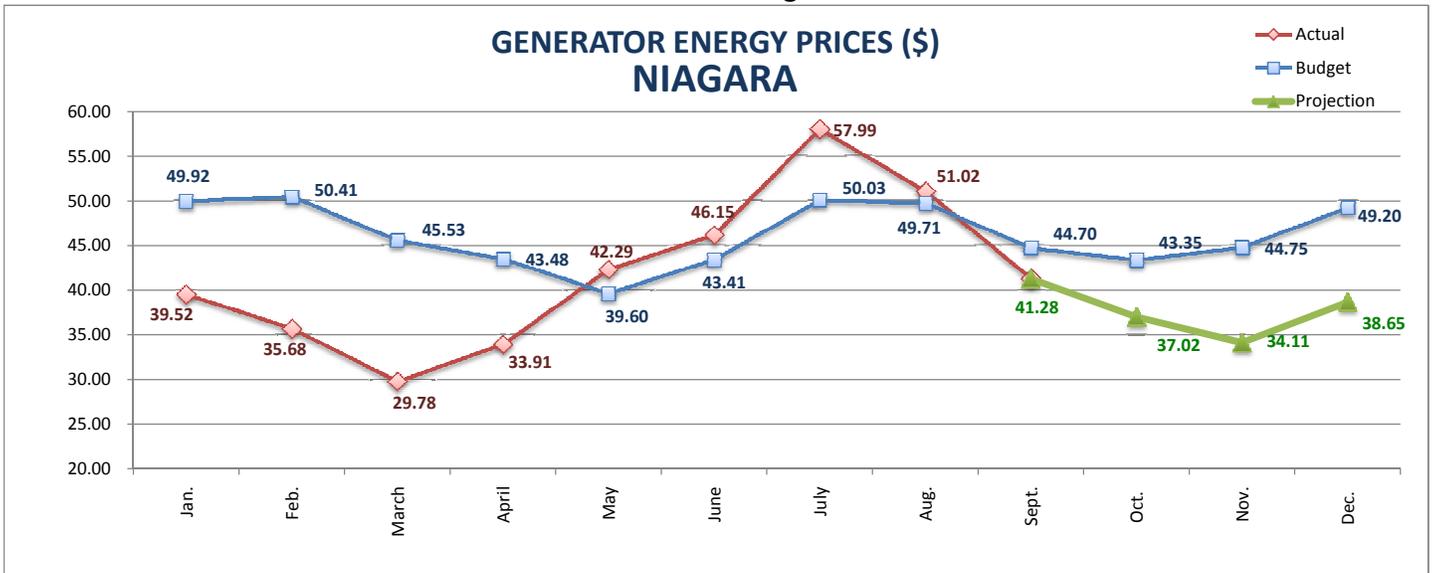
REVENUES		
SALES (MWH)		
	BUDGET	ACTUAL
Hydro*	4,036,003	3,275,735
Fossil	2,703,618	2,714,084
MSP	368,653	510,072
TOTAL	7,108,274	6,499,891
PRICES (\$/MWH)		
Hydro*	\$58.47	\$52.34
Fossil	\$96.12	\$81.66
MSP	\$43.23	\$41.60
AVERAGE	\$72.00	\$63.74

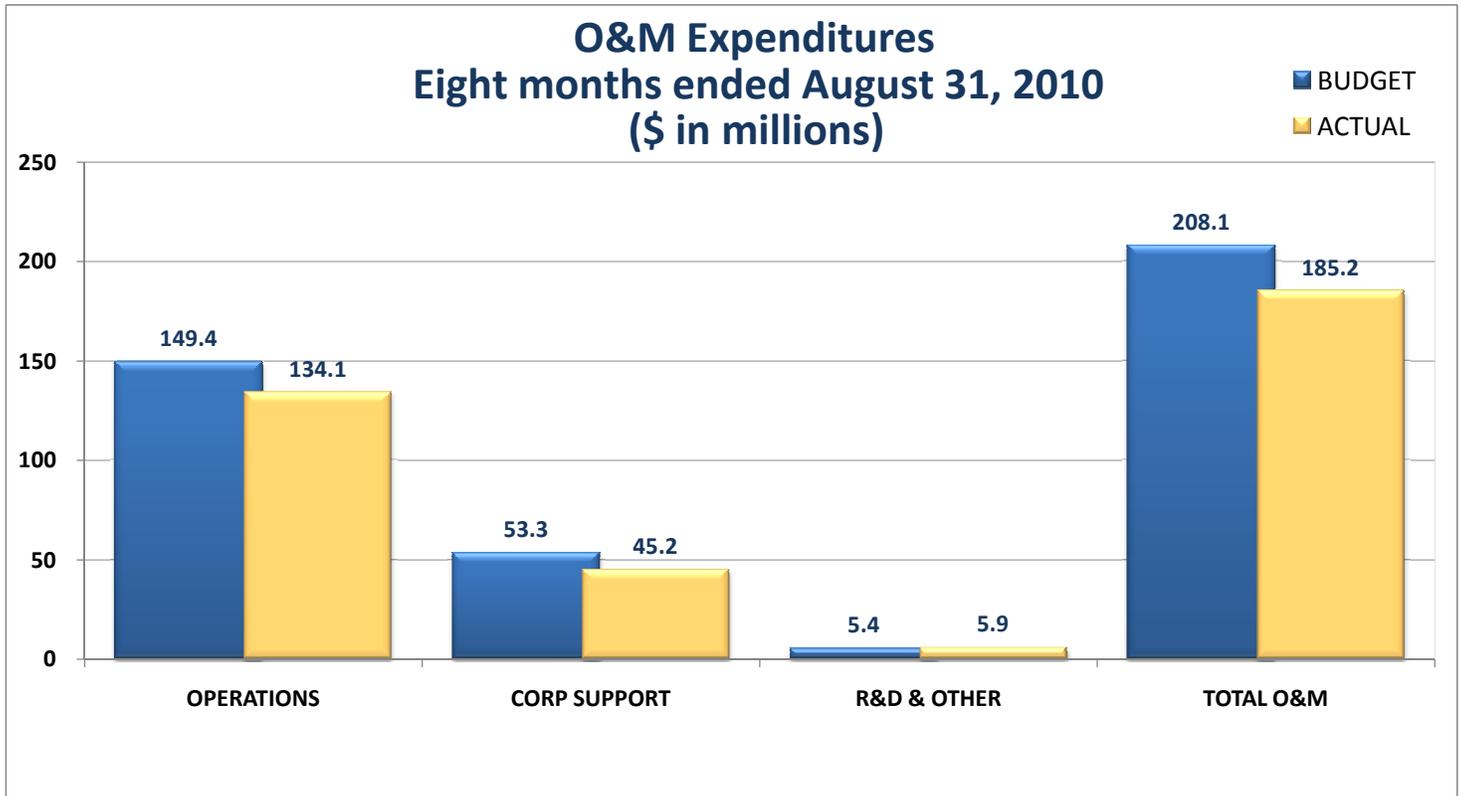
* Includes Niagara, St. Lawrence, B-G, and Small Hydro.

REVENUES		
SALES (MWH)		
	BUDGET	ACTUAL
Niagara	1,762,527	1,394,520
St. Law.	1,644,906	1,553,308
PRICES (\$/MWH)		
Niagara	\$46.96	\$42.51
St. Law.	\$43.69	\$39.97

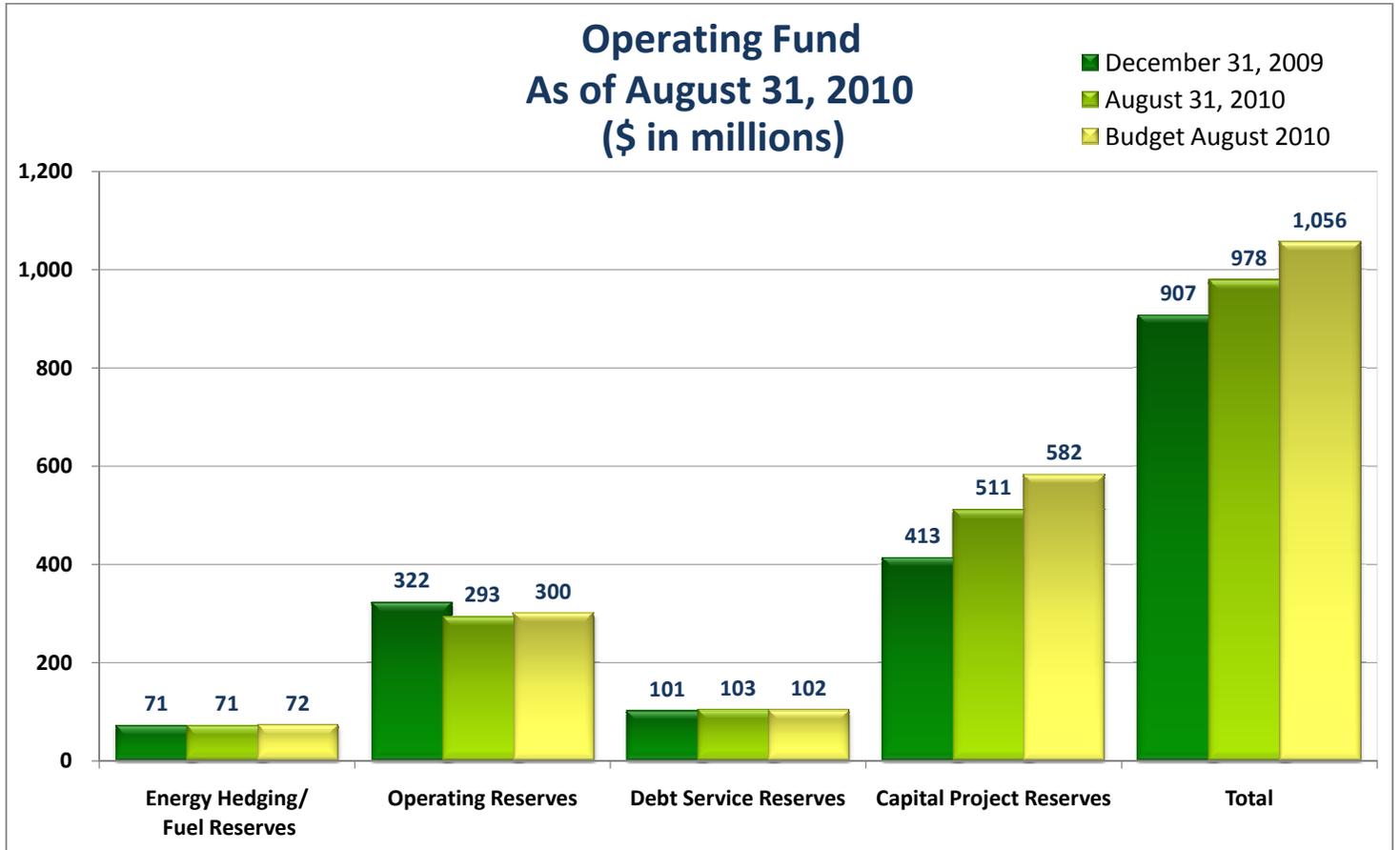
COSTS		
PURCHASES (MWH)		
	BUDGET	ACTUAL
Hydro	1,143,325	825,795
SENY	6,214,896	6,652,148
MSP	1,906,481	1,900,862
TOTAL	9,264,702	9,378,805
COSTS (\$/MWH)		
Hydro	\$29.71	\$25.24
SENY	\$53.08	\$53.50
MSP	\$45.65	\$45.50
AVERAGE	\$48.60	\$49.39

RESULTS OF OPERATIONS
Energy Prices
Actual vs Budget

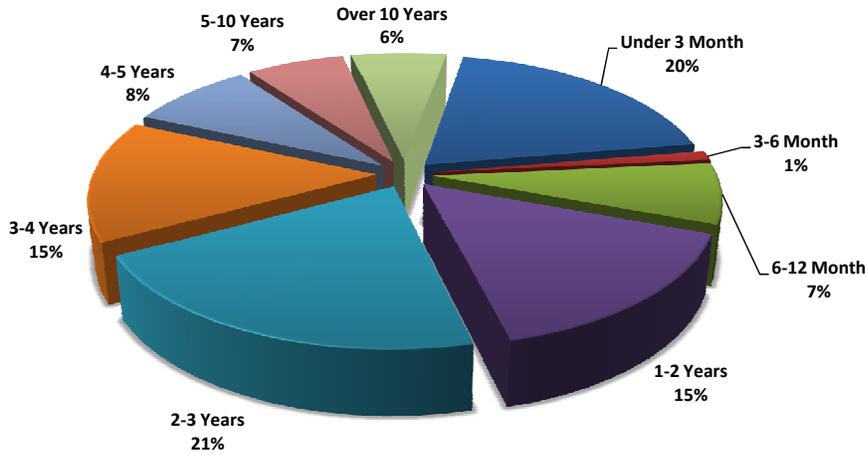




- Through August, O&M expenses were \$22.9 lower than the budget.
- Operations expenditures were \$15.3 lower than budgeted due primarily to the timing of contractor services for the 500 MW unit, lower than expected expenditures for non-recurring work at St. Lawrence and recurring maintenance at the Transmission facilities.
- Corporate Support expenses were under budget by \$8.1 due mostly to under spending for fuel cell maintenance, legal consultants, telecommunication equipment and computer software, and payroll due to unfilled vacancies, as well as higher than anticipated rental income.

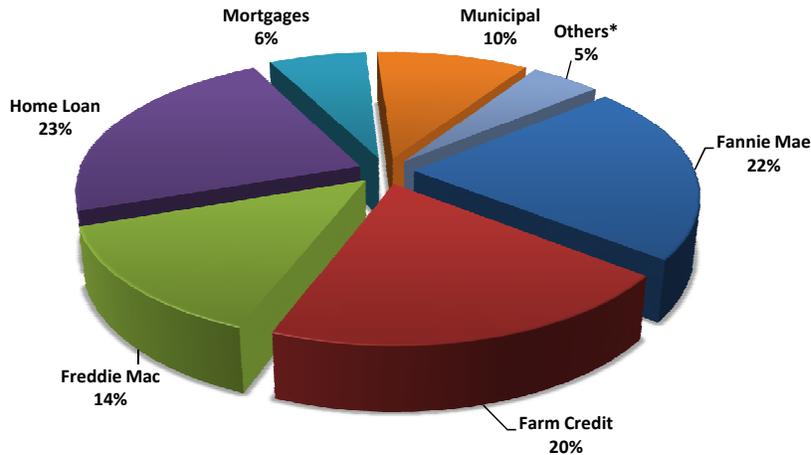


The year-to-date increase of \$71 in the Operating Fund (from \$907 to \$978) was primarily attributable to positive net cash provided by operating activities and the Value Sharing payment of \$72 received from Entergy in January substantially offset by \$159.5 in voluntary contributions to New York State (including \$40 for the State's fiscal year 2010/11 made in August 2010) and scheduled debt service payments. The variance from budget is a result of lower net income for the period.

**Maturity Distribution
As of August 31, 2010**

MATURITY DISTRIBUTION

(\$ in millions)

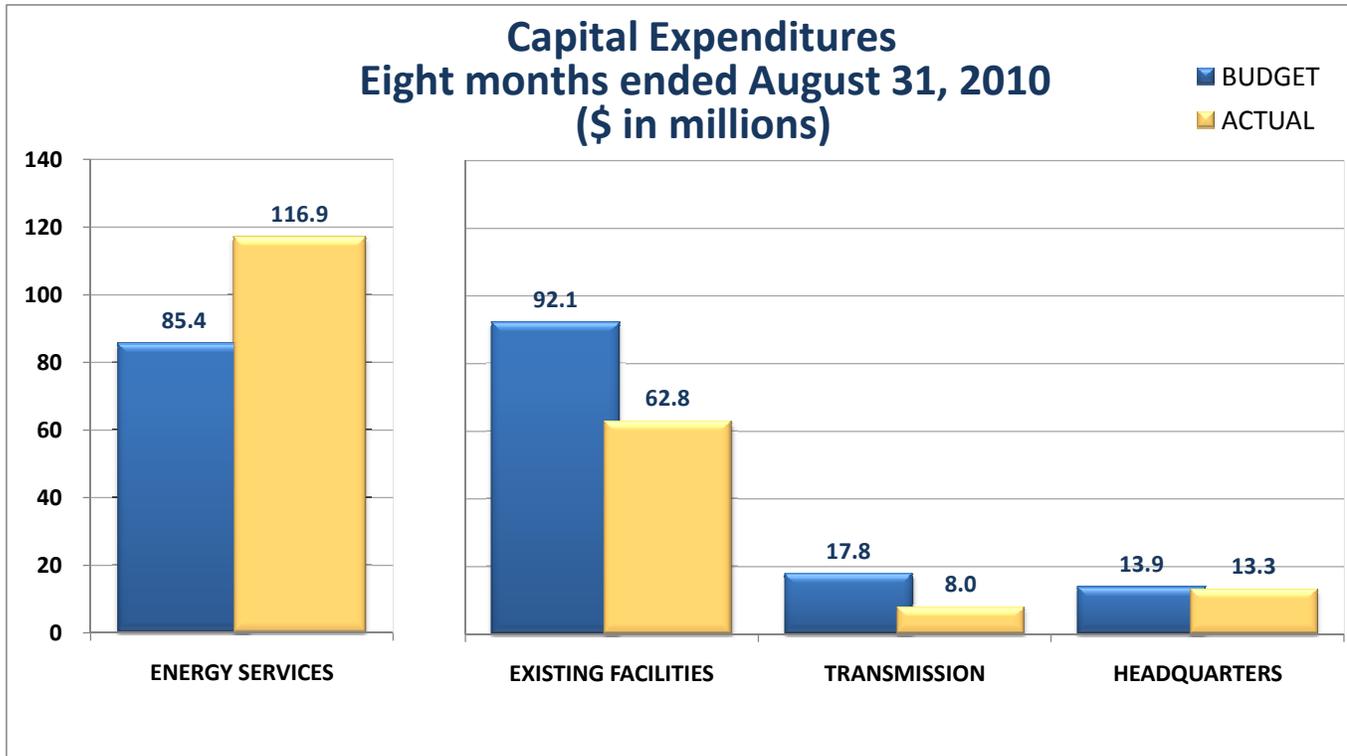
Under 3 Months	\$222.5
3-6 Months	12.7
6-12 Months	82.9
1-2 Years	175.7
2-3 Years	237.9
3-4 Years	166.5
4-5 Years	94.4
5-10 Years	73.8
Over 10 Yrs	71.9
Total	\$1,138.2

**Asset Allocation
As of August 31, 2010**

ASSET ALLOCATION

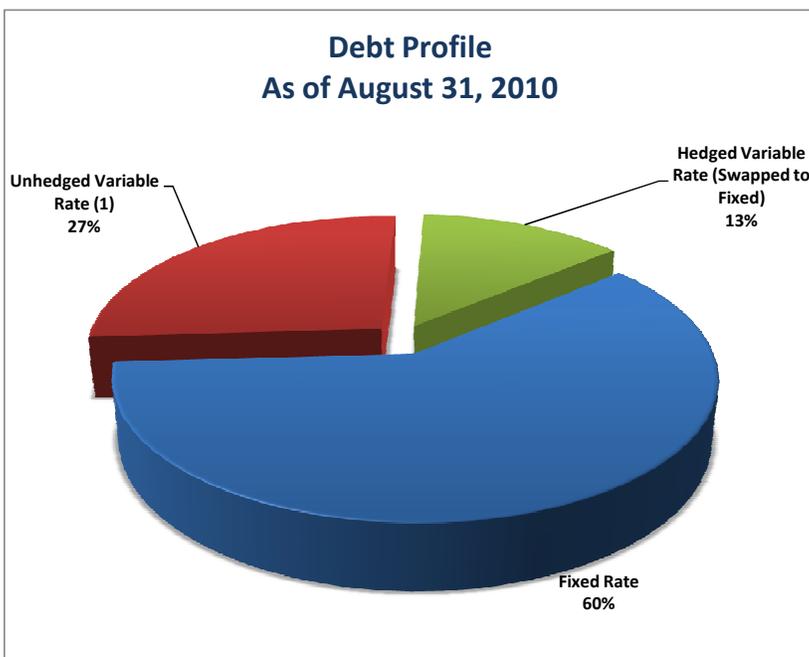
(\$ in millions)

Fannie Mae	\$247.0
Farm Credit	230.6
Freddie Mac	157.1
Home Loan	260.4
Mortgages	74.1
Municipal	115.8
Others*	53.2
Total	\$1,138.2

*Includes CDs and Repos



- Energy Services expenditures exceeded the budget by \$31.5 due to accelerated construction activity related to NYCHA’s Hot Water Storage Tank Replacement and CUNY Central Heating and Cooling Project.
- Lower capital expenditures at Existing Facilities were primarily due to timing differences related to the B-G and St. Lawrence life extension and modernization projects.
- Transmission was under budget due to timing differences related to the Niagara 115 kv Oil Circuit Breaker upgrade and the St. Lawrence Relay replacement project.
- Under the Expenditure Authorization Procedure, the President has authorized new expenditures on budgeted capital projects of \$20.3 for the year to date. There were no new expenditures authorized in August.



DEBT PROFILE (\$ in millions)	
Fixed Rate	\$1,173.4
Unhedged Variable Rate (1)	\$519.3
Hedged Variable Rate (Swapped to Fixed)	\$257.1
Total	\$1,949.8

(1) On August 15, 2010, the SIFMA based interest rate cap on a \$300 notional amount of Commercial Paper Series 1 expired. Staff is evaluating alternatives in consideration of the cap expiring.

ENERGY DERIVATIVES

Results

Year-to-date financial energy derivative settlements resulted in a net loss of \$38.41 million that was incurred by entering into hedge positions as requested by or transacted on behalf of the Authority's Customers. The amount of losses would be subject to virtually full cost recovery, whereby the resulting hedge settlements would be incorporated into and recovered through Customer rates.

Year-to-Date 2010 Energy Derivative Settlements & Fair Market Valuation of Outstanding Positions
(\$ in Millions)

	Settlements ¹	Fair Market Value			
	YTD	2010	2011	>2011	Total
NYPA	\$ (0.05)	\$ -	\$ -	\$ -	\$ -
Customer Contracts	\$ (38.36)	\$ (39.14)	\$ (96.27)	\$ (170.65)	\$ (306.06)
Total	\$ (38.41)	\$ (39.14)	\$ (96.27)	\$ (170.65)	\$ (306.06)

¹ Based on Updated Settlements for July & Final Settlement Figures through August 2010.

At the end of August, the fair market value of outstanding positions was valued at an unrealized loss of \$306.06 million for positions extending through 2017.

Market Summary

Exhibit 1 shows the average price of futures contracts for the balance of 2010 (September to December 2010) and how they have traded since mid-2009, while Exhibit 2 illustrates the average price of futures contracts for 2011.

Exhibit 1: Average September to December 2010 Forward Price as Traded

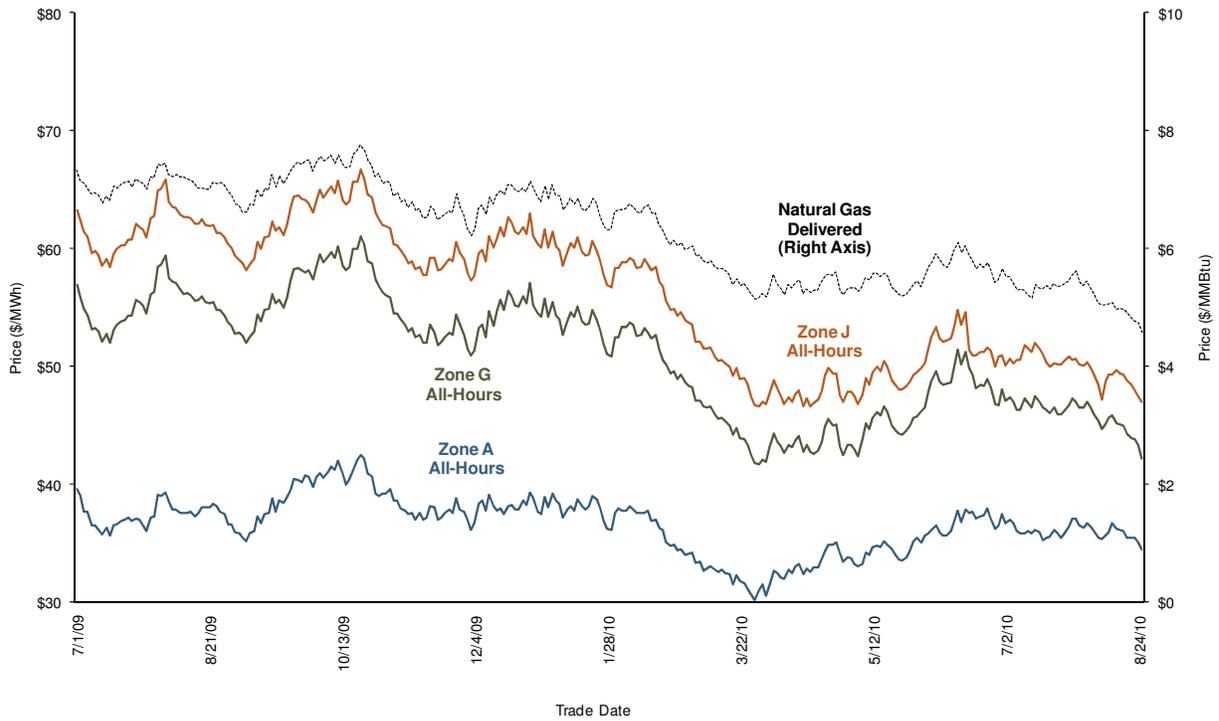
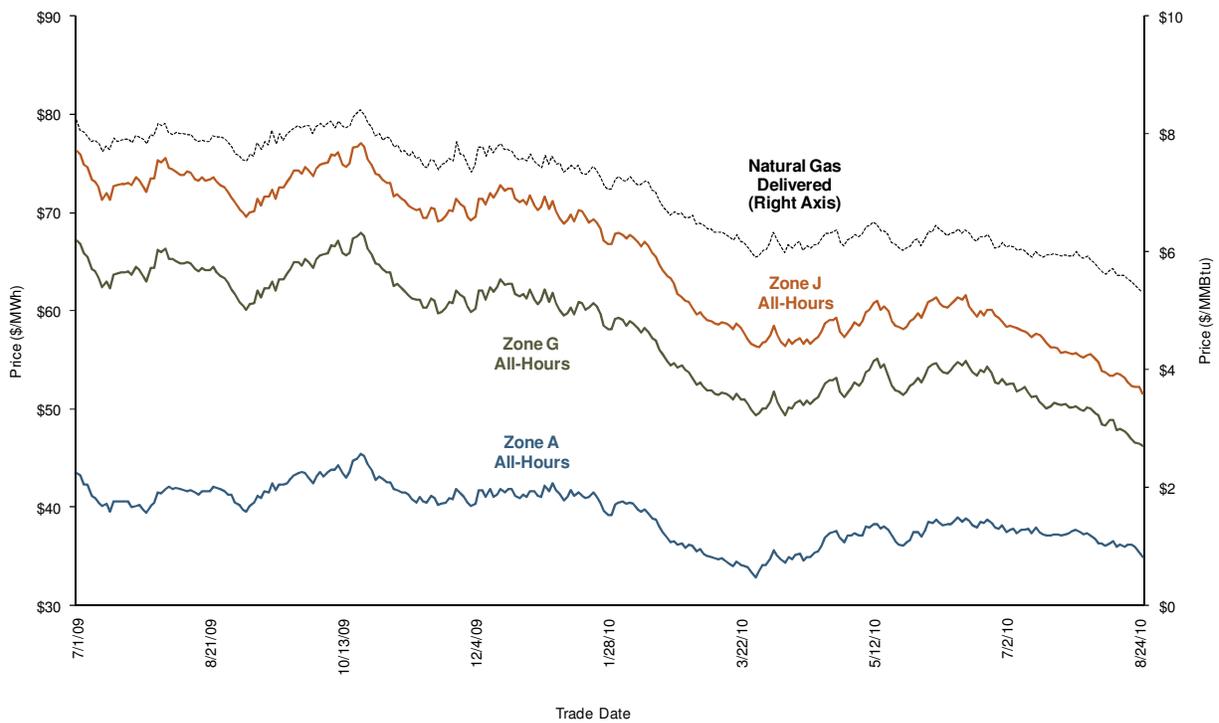


Exhibit 2: Average January to December 2011 Forward Price as Traded



STATEMENT OF NET INCOME
For the Eight Months Ended August 31, 2010
(\$ in millions)

Annual Budget		Actual	Budget	Variance Favorable/ (Unfavorable)
	Operating Revenues			
\$2,052.0	Customer	\$1,315.5	\$1,382.8	(\$67.3)
601.8	Market-based power sales	323.4	420.1	(96.7)
54.4	Ancillary services	21.3	34.4	(13.1)
102.9	NTAC and other	76.9	69.1	7.8
759.1	Total	421.6	523.6	(102.0)
2,811.1	Total Operating Revenues	1,737.1	1,906.4	(169.3)
	Operating Expenses			
864.8	Purchased power	594.6	590.2	(4.4)
340.8	Fuel consumed - oil & gas	155.1	234.0	78.9
91.0	Ancillary services	46.9	61.0	14.1
519.9	Wheeling	350.3	346.8	(3.5)
312.3	Operations and maintenance	185.2	208.1	22.9
160.3	Depreciation and amortization	110.7	106.9	(3.8)
141.7	Other expenses	84.0	97.6	13.6
(10.8)	Allocation to capital	(6.1)	(6.8)	(.7)
2,420.0	Total Operating Expenses	1,520.7	1,637.8	117.1
391.10	Net Operating Income	216.4	268.6	(52.2)
	Nonoperating Revenues			
88.9	Post nuclear sale income	69.0	69.0	-
53.1	Investment income	27.4	35.3	(7.9)
(5.8)	Mark to market - investments	15.2	(3.9)	19.1
136.2	Total Nonoperating Revenues	111.6	100.4	11.2
	Nonoperating Expenses			
107.0	Contributions to New York State	147.0	107.0	(40.0)
112.3	Interest and other expenses	66.3	74.9	8.6
219.3	Total Nonoperating Expenses	213.3	181.9	(31.4)
(83.1)	Net Nonoperating Income (Loss)	(101.7)	(81.5)	(20.2)
\$308.0	Net Income	\$114.7	\$187.1	(\$72.4)

**New York Power Authority
Financial Reports**

**COMPARATIVE BALANCE SHEETS
August 31, 2010
(\$ in millions)**

Assets		August 2010	August 2009	December 2009
Current Assets				
	Cash	\$0.1	\$0.1	\$0.1
	Investments in government securities	1,009.4	903.1	913.4
	Interest receivable on investments	7.2	7.7	5.8
	Accounts receivable - customers	215.2	150.9	191.7
	Materials and supplies, at average cost:			
	Plant and general	77.5	82.4	82.3
	Fuel	17.4	29.9	21.7
	Prepayments and other	176.3	224.9	124.4
	Total Current Assets	1,503.1	1,399.0	\$1,339.4
Noncurrent Assets				
Restricted Funds	Investment in decommissioning trust fund	970.6	884.8	942.4
	Other	90.3	99.4	94.1
	Total Restricted Funds	1,060.9	984.2	1,036.5
Capital Funds	Investment in securities and cash	166.2	201.1	189.2
	Total Capital Funds	166.2	201.1	189.2
Net Utility Plant	Electric plant in service, less accumulated depreciation	3,311.5	3,337.3	3,347.8
	Construction work in progress	152.1	146.9	144.8
	Net Utility Plant	3,463.6	3,484.2	3,492.6
Other Noncurrent Assets	Receivable - NY State	318.0	215.0	318.0
	Deferred charges, long-term receivables and other	676.9	449.2	545.6
	Notes receivable - nuclear plant sale	167.1	179.8	170.1
	Total other noncurrent assets	1,162.0	844.0	1,033.7
	Total Noncurrent Assets	5,852.7	5,513.5	5,752.0
	Total Assets	\$7,355.8	\$6,912.5	\$7,091.4
Liabilities and Net Assets				
Current Liabilities				
	Accounts payable and accrued liabilities	\$889.6	\$821.8	\$809.5
	Short-term debt	303.5	270.4	289.2
	Total Current Liabilities	1,193.1	1,092.2	1,098.7
Noncurrent Liabilities				
Long-term Debt	Revenue bonds	1,191.0	1,231.3	1,192.7
	Adjustable rate tender notes	130.5	137.5	137.5
	Commercial paper	342.4	421.8	413.3
	Total Long-term Debt	1,663.9	1,790.6	1,743.5
Other Noncurrent Liabilities	Nuclear plant decommissioning	970.6	884.8	942.4
	Disposal of spent nuclear fuel	216.0	215.7	215.8
	Deferred revenues and other	377.1	198.6	270.5
	Total Other Noncurrent Liabilities	1,563.7	1,299.1	1,428.7
	Total Noncurrent Liabilities	3,227.6	3,089.7	3,172.2
	Total Liabilities	4,420.7	4,181.9	4,270.9
Net Assets				
	Accumulated Net Revenues - January 1	2,820.4	2,566.8	2,566.9
	Net Income	114.7	163.8	253.6
	Total Net Assets	2,935.1	2,730.6	2,820.5
	Total Liabilities and Net Assets	\$7,355.8	\$6,912.5	\$7,091.4

SUMMARY OF OPERATING FUND CASH FLOWS
For the Eight Months Ended August 31, 2010
(\$ in millions)

Operating Fund	
Opening	\$906.8
Closing	978.1
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Increase/(Decrease)	71.3
 Cash Generated	
Net Operating Income	216.4
Adjustments to Reconcile to Cash Provided from Operations	
Depreciation & Amortization	110.7
Net Change in Receivables, Payables & Inventory	(48.7)
Other	(3.9)
 Net Cash Generated from Operations	 274.5
 (Uses)/Sources	
Utility Plant Additions	(55.9)
Debt Service	
Commercial Paper 2	(67.6)
Commercial Paper 3 & Extendible Municipal Commercial Paper 1	(3.3)
ART Notes	(7.3)
Investment Income	17.7
Energy Value Sharing Agreement	72.0
Voluntary Contribution to NY State	(159.5)
Other	.7
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Total (Uses)/Sources	(203.2)
 Net Increase in Operating Fund	 71.3