New York Power Authority

Report of the Chief Financial Officer

For the Year Ended December 31, 2010

Report of the Chief Financial Officer
For Year Ended December 31, 2010*
Executive Summary

Results of Operations

Net income for the year ended December 31, 2010, was $182.0 million which was $126.0 million lower than the budget. For the year, negative variances attributable to lower margins on sales ($100.7 million) and a higher than anticipated voluntary contribution to New York State ($40 million) were partially offset by positive variances including lower non-operating expenses ($13.5 million) and lower other operating expenses ($2.3 million). The net margin on sales was $84.7 million lower at Niagara primarily due to lower production (6%) and lower prices on market-based sales (11%). Negative variances in margins were also significant at St. Lawrence ($10.8 million, lower prices) and Blenheim-Gilboa ($19.5 million, lower volumes sold and lower capacity prices). Non-operating expenses were lower due to lower costs on variable rate debt resulting from a decrease in market interest rates. The positive variance in other operating expenses is primarily attributable to: (1) a reduction in anticipated Power for Jobs program obligations accrued in prior years based on current expectations ($12.0 million); and (2) lower than anticipated 2010 Power For Jobs rebates ($15.3 million) due to lower market energy prices; partially offset by (3) the loss from the early transfer of Tri-Lakes assets to National Grid ($6.7 million) (4) an increase in retiree health benefit costs ($7.1 million) based on an updated actuarial valuation, and (5) recognition of the cost of the early retirement incentive program($4.0 million).

Net income for the year ended December 31, 2010 was $71.6 million lower than the year ended 2009 ($253.6 million) primarily due to higher voluntary contributions to New York State during the period ($77 million) partially offset by higher non-operating income ($3.7 million, primarily mark-to-market gains) and a lower interest expense ($1.9 million) due to lower market interest rates. Margins on sales were $4.7 million higher in 2010 reflecting improved performance by the Small Clean Power Plants ($35 million) offset by a lower margin at Niagara ($31 million) due to lower production. Generation at the SCPP's was higher in 2010 as the plants had experienced several planned and unplanned outages in 2009.

* *Preliminary amounts subject to adjustment based on the true-up of estimates and completion of the independent audit.*

Cash & Liquidity

The Authority ended the year with total operating funds of $1.069 billion as compared to $907 million at the end of 2009. The increase of $162 million was primarily attributed to positive net cash provided by operating activities and the value sharing payment of $72 million received from Entergy partially offset by voluntary contributions to New York State totaling $159.5 million and scheduled debt service payments.

Energy Risk

At December 31, 2010, the fair market value of outstanding energy derivatives was an unrealized loss of $244 million for financial contracts extending through 2017. Financial energy derivative settlements for the year resulted in a realized net loss of $64 million. The amount of these losses is subject to virtual full cost recovery, whereby the resulting hedge settlements are incorporated into and recovered through customer rates.

RESULTS OF OPERATIONS

Net Income*
Year ended December 31, 2010
($ in millions)

	Actual	Budget	Variance
Niagara	$101.8	$189.1	($87.3)
St. Lawrence	47.7	56.8	(9.1)
Blenheim-Gilboa	(7.4)	14.1	(21.5)
SENY	60.4	50.7	9.7
SCPP	24.8	28.8	(4.0)
Market Supply Power	(41.5)	(55.8)	14.3
Flynn	12.1	15.4	(3.3)
Transmission	20.8	25.1	(4.3)
Non-facility*	(36.7)	(16.2)	(20.5)
Total	**$182.0**	**$308.0**	**($126.0)**

** Preliminary amounts subject to adjustment based on the true-up of estimates and completion of the independent audit.*

Major Factors	**Better (Worse)**
Niagara Lower net margins on sales ($84.7) primarily due to (a) lower generation volumes (6%), (b) lower average prices for sales into the market (11% below budgeted - $42/mwh actual vs. $47/mwh budgeted), and (c) lower customer revenues due to the continuation of the hydro rate freeze.	($87.3)
St. Lawrence Lower net margins ($10.8) resulting from lower prices on sales into the market partially offset by lower O&M ($2.6).	(9.1)
Blenheim-Gilboa Lower net margin due to lower energy sales (limited price differential between peak and off-peak energy prices) and lower capacity prices.	(21.5)
SENY Higher net margin due to lower fuel costs and lower ISO ancillary service and congestion charges.	9.7
Market Supply Power Includes positive variance due to lower Power for Jobs rebates (based on lower market prices).	14.3
Transmission Primarily the accelerated recognition of the non-cash write-off related to the Tri-Lakes transmission line ($6.7), partially off set by lower O&M and lower variable rate debt costs.	(4.3)
Other facilities Includes negative variance at Flynn ($3.3, extended outage) and the SCPP's ($4.3, primarily higher O&M due to emergent work at Hell Gate and Harlem River).	(7.3)
Non-facility (including investment income) Additional $40 voluntary contribution to NY State in August and retirement incentive accrual ($4) partially offset by a positive variance in net non-operating income ($9.9, mark-to-market gain on Authority's investment portfolio and lower interest expense), and a reduction in anticipated PFJ obligations accrued in prior years ($12).	(20.5)
Total	**($126.0)**

Net Income
Years Ended December 31, 2010 and December 31, 2009
($ in millions)

	2010*	2009	Variance Favorable/ (Unfavorable)
Operating Revenues	**$2,585.1**	**$2,595.3**	**($10.2)**
Operating Expenses			
Fuel consumed - oil & gas	223.8	365.3	141.5
Purchased power and ancillary services	933.9	904.4	(29.5)
Wheeling	533.4	436.3	(97.1)
	1,691.1	1,706.0	14.9
Net Margin	**894.0**	**889.3**	**4.7**
Operations and maintenance	310.7	299.7	(11.0)
Other expenses	139.4	143.6	4.2
Depreciation and amortization	162.9	164.2	1.3
Allocation to capital	(9.8)	(9.2)	.6
Net Operating Income	**290.8**	**291.0**	**(.2)**
Investment and other income	130.9	146.2	(15.3)
Mark to Market Adjustment	6.1	(12.9)	19.0
Total Nonoperating Income	**137.0**	**133.3**	**3.7**
Contributions to New York State	147.0	70.0	(77.0)
Interest and other expenses	98.8	100.7	1.9
Total Nonoperating Expenses	**245.8**	**170.7**	**(75.1)**
Net Nonoperating Income (Loss)	**(108.8)**	**(37.4)**	**(71.4)**
Net Income	**$182.0**	**$253.6**	**($71.6)**

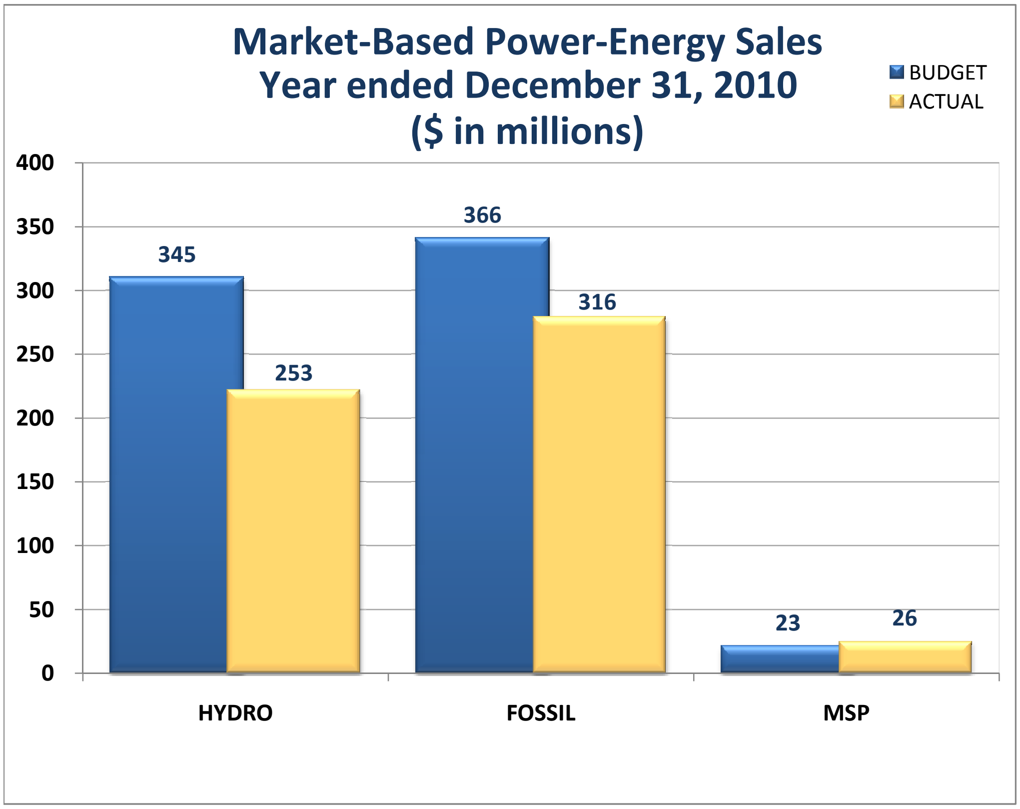
** Preliminary amounts subject to adjustment based on the true-up of estimates and completion of the independent audit.*

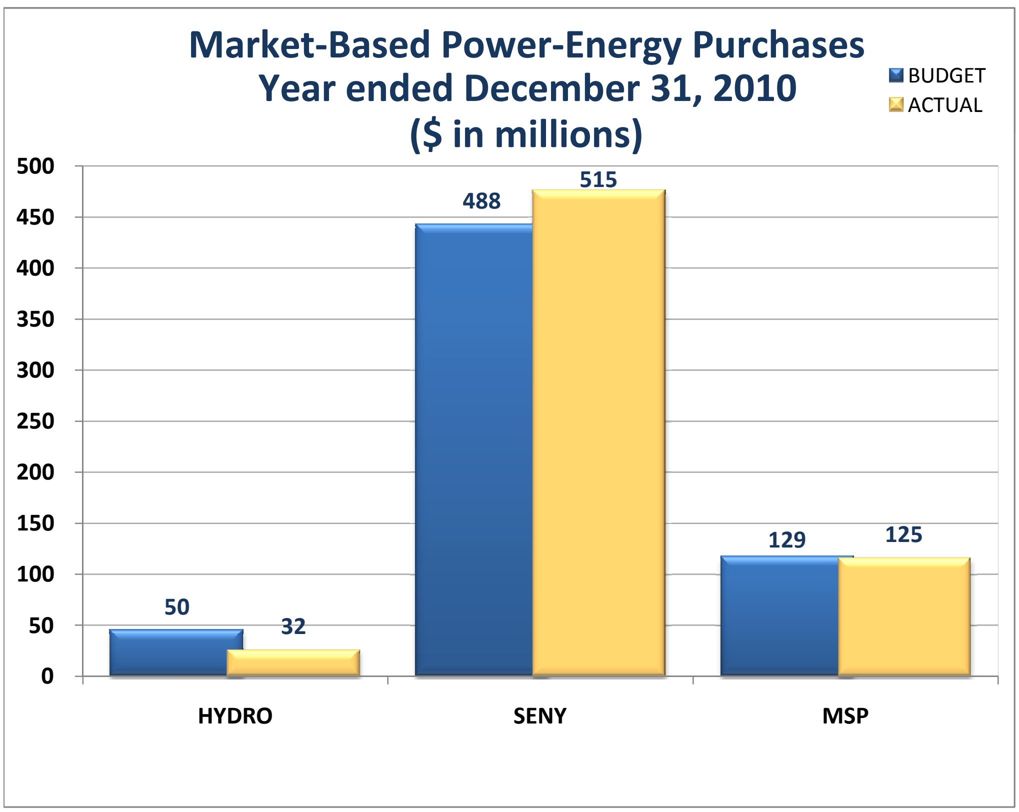
Net income for the year ended December 31 2010 ($182.0) was $71.6 lower than the year ended 2009 ($253.6). The negative impact of higher voluntary contributions to New York State during the period ($77) was partially offset by higher investment income ($3.7) due to mark-to-market gains.

Lower fuel costs and higher purchased power expenses in 2010 were substantially attributable to changes in the resources utilized to serve the SENY governmental customers necessitated by the retirement of the Poletti plant. Wheeling expenses increased due to a Con Ed rate increase for delivery service. The majority of these cost variations are offset through revenues as variances are passed through to customers through rates. On a net basis, margins on sales were $4.7 higher in 2010 reflecting improved performance by the Small Clean Power Plants ($35) offset by a lower margin at Niagara ($31) due to lower production. Generation at the SCPP's was higher in 2010 as the plants had experienced several planned and unplanned outages in 2009.

Higher non-operating income in 2010 reflects a higher mark-to-market adjustment on NYPA's investment portfolio due to lower market interest rates partially offset by lower investment income. Other income in 2009 also included non-recurring insurance recoveries related to 2008 events.

Non-operating expenses in 2010 were higher than the prior year ($75.1) due to higher voluntary contributions to the State. A voluntary contribution of $70 was made in 2009. Voluntary contributions to the State in 2010 include $107 made in March for the State's 2009/10 fiscal year and $40 made in August for the State's 2010/2011 fiscal year.





REVENUES

SALES (MWH)

	BUDGET	ACTUAL
Hydro*	6,006,576	5,141,178
Fossil	3,894,853	4,021,171
MSP	533,350	628,222
TOTAL	10,434,779	9,790,571
PRICES ($/MWH)		
Hydro*	$57.52	$49.18
Fossil	$94.05	$78.46
MSP	$42.91	$41.83
AVERAGE	$70.39	$60.73

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

REVENUES

SALES (MWH)

	BUDGET	ACTUAL
Niagara	2,677,546	2,238,703
St. Law.	2,391,890	2,412,671
PRICES ($/MWH)		
Niagara	$46.81	$41.64
St. Law.	$44.23	$40.13

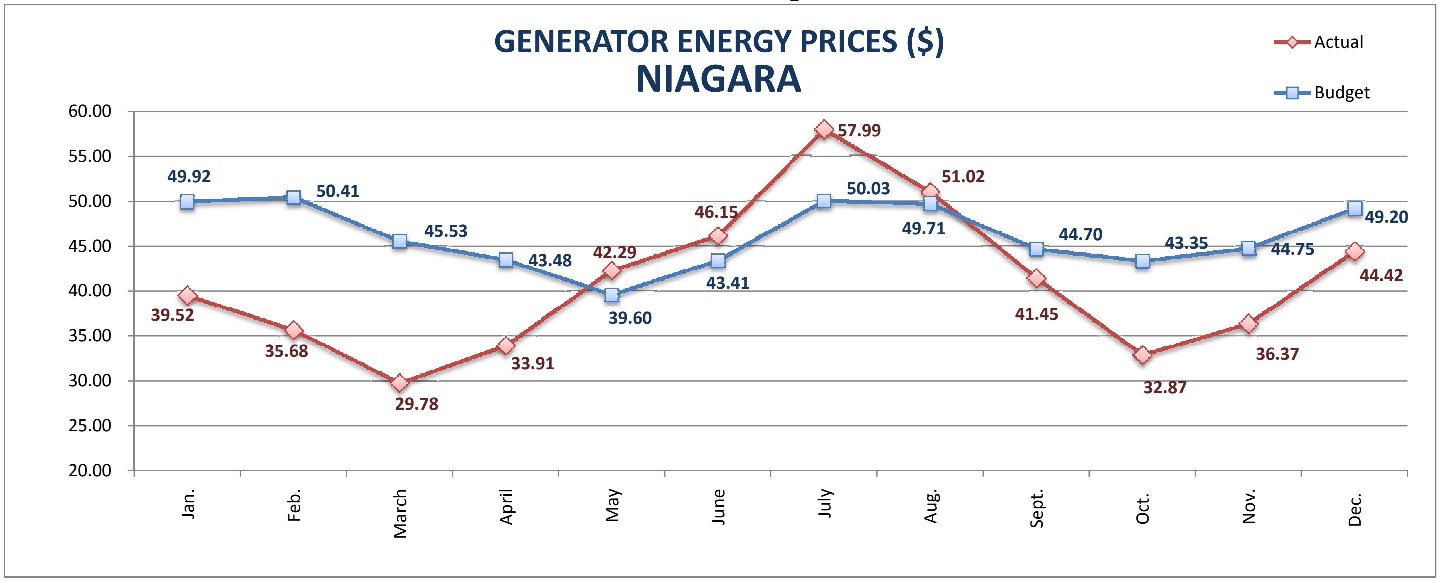
COSTS

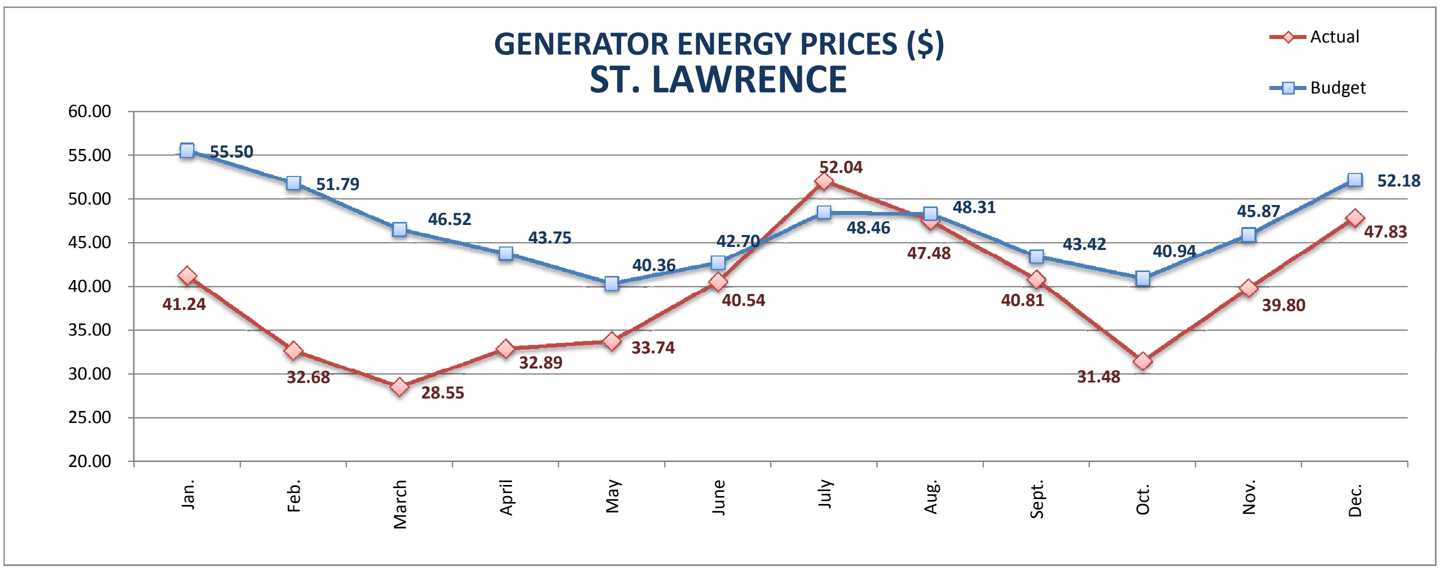
PURCHASES (MWH)

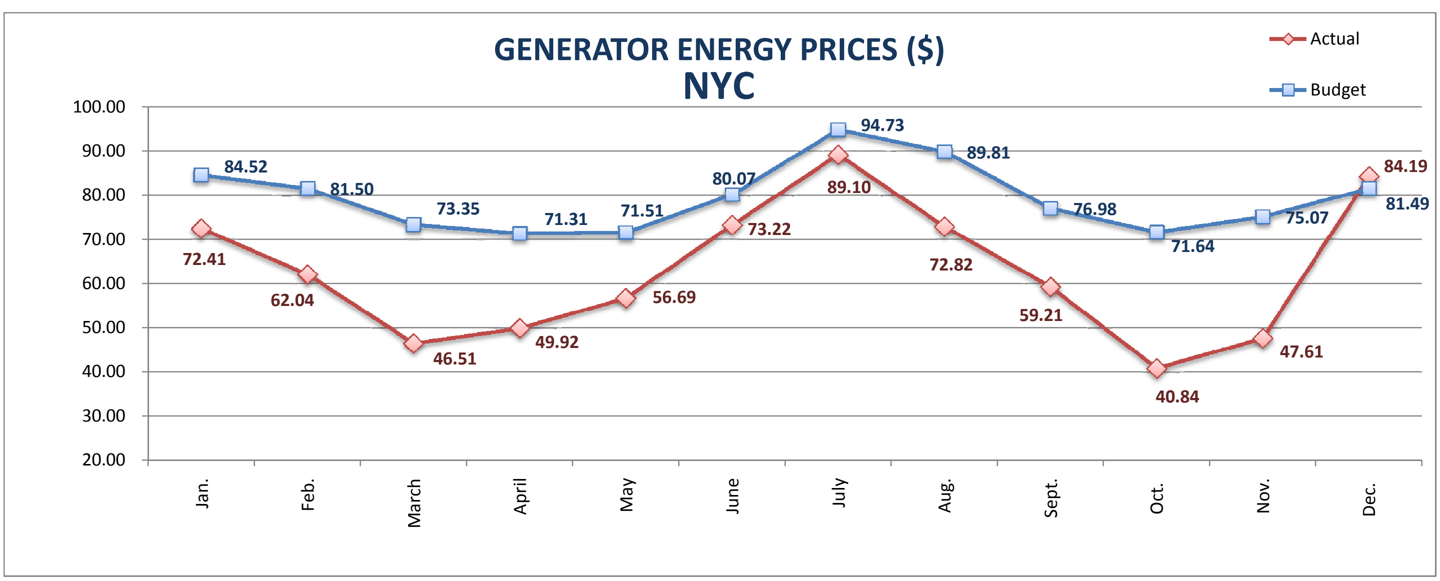
	BUDGET	ACTUAL
Hydro	1,703,829	1,200,150
SENY	9,148,635	9,675,235
MSP	2,833,403	2,847,755
TOTAL	13,685,867	13,723,140
COSTS ($/MWH)		
Hydro	$29.63	$26.51
SENY	$53.27	$53.25
MSP	$45.41	$43.99
AVERAGE	$48.70	$48.99

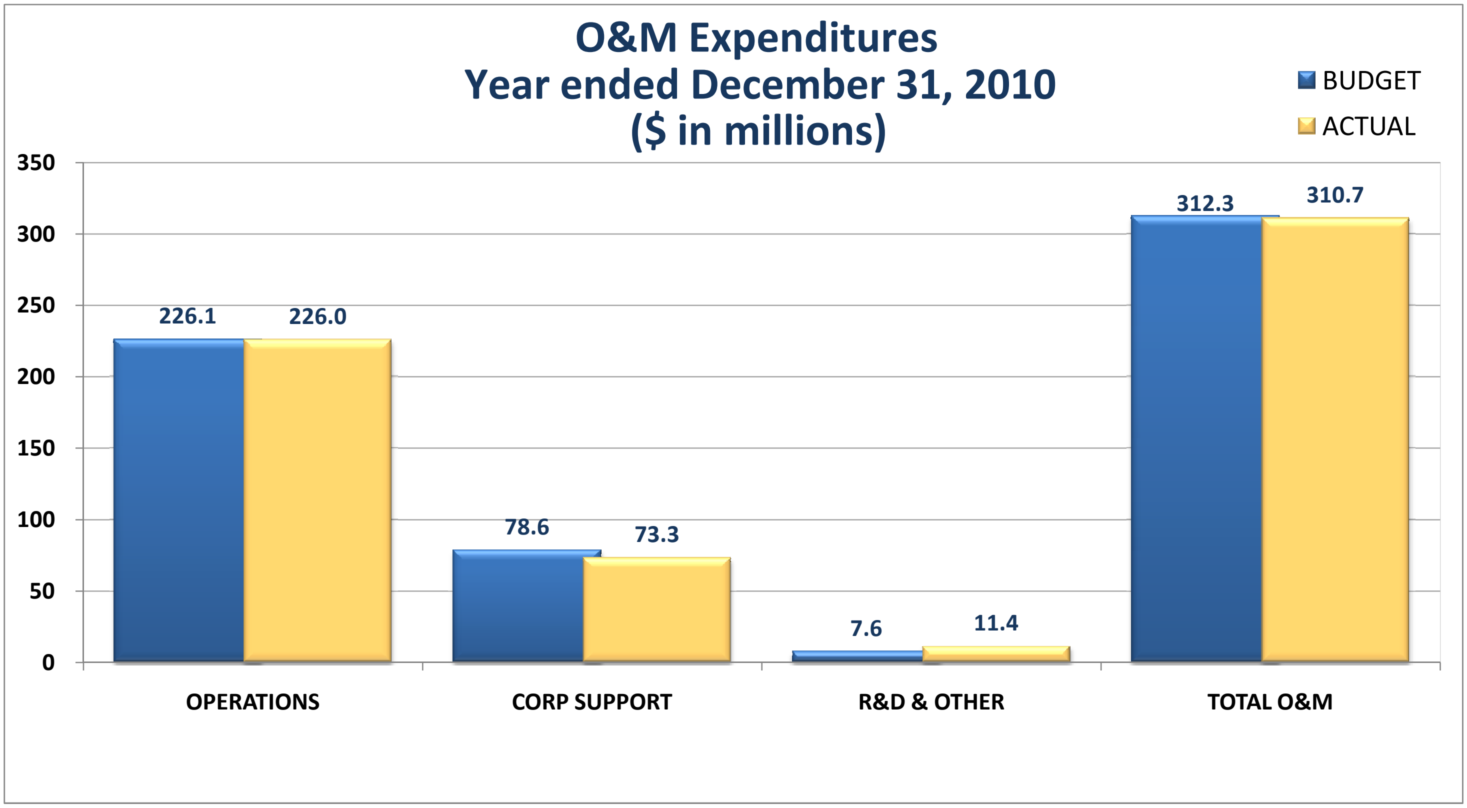
New York Power Authority

RESULTS OF OPERATIONS
Market Energy Prices
Actual vs Budget







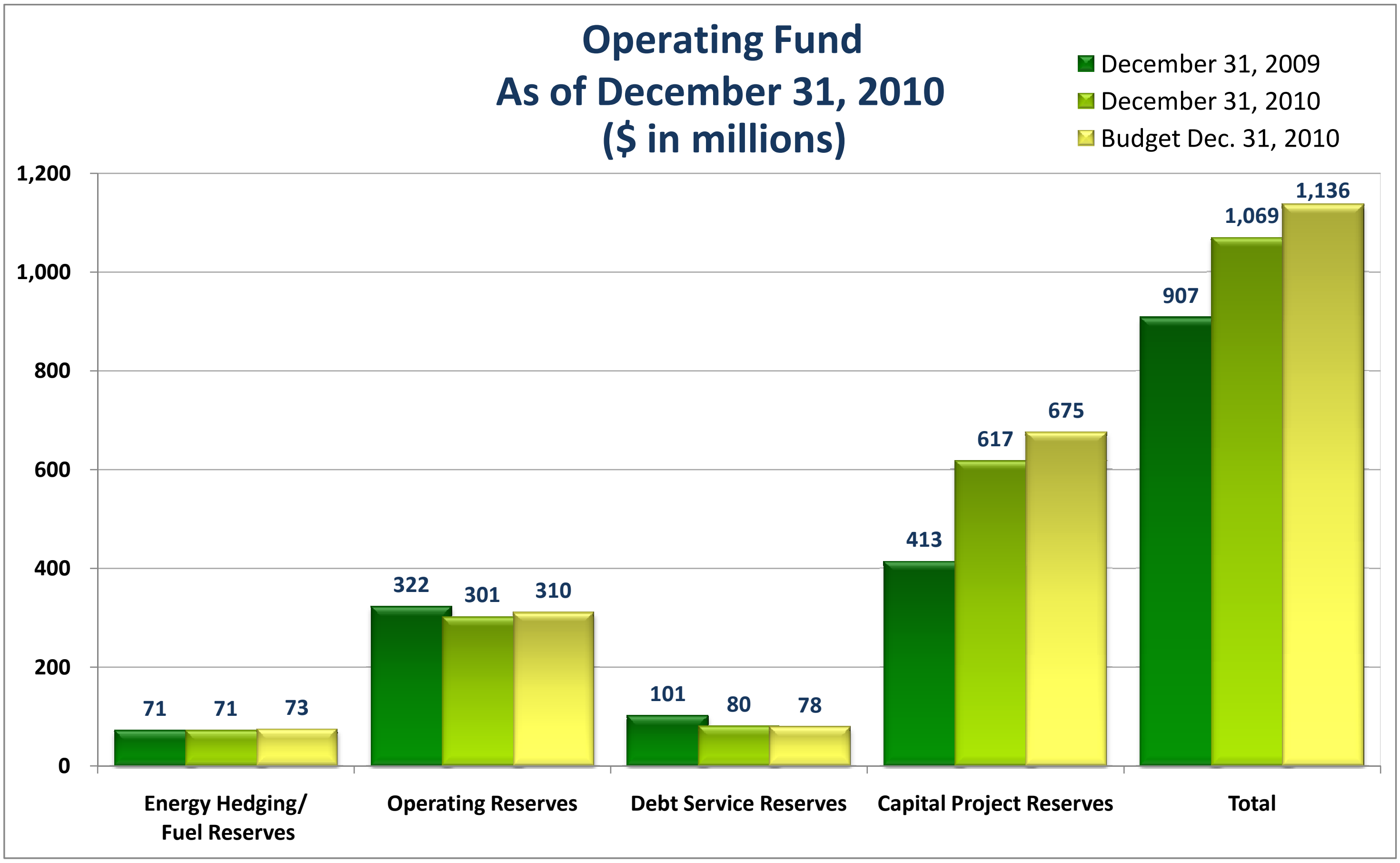


- For the year, O&M expenses were $1.6 lower than the budget.

- Operations expenditures were slightly lower than budgeted. Higher expenditures in Operations Shared Services ($7.3) and the SCPP's ($2.2) were offset by less than anticipated expenses at St. Lawrence ($3.7), Niagara ($1.3), and the transmission facilities ($2.0). Operations Shared Services expenditures exceeded the budget due to higher than anticipated spending for contract services and consultants and less than expected payroll charged to capital projects. The SCPP's included emergent work for the Hell Gate Pot Head Leak and the Harlem River Gas Turbine Engine Repair. St. Lawrence reflected less than anticipated spending in various non-recurring projects. Niagara was under budget due to greater than anticipated labor charged to capital and less than anticipated expenditures for contractor services for the roof replacement and asbestos abatement.

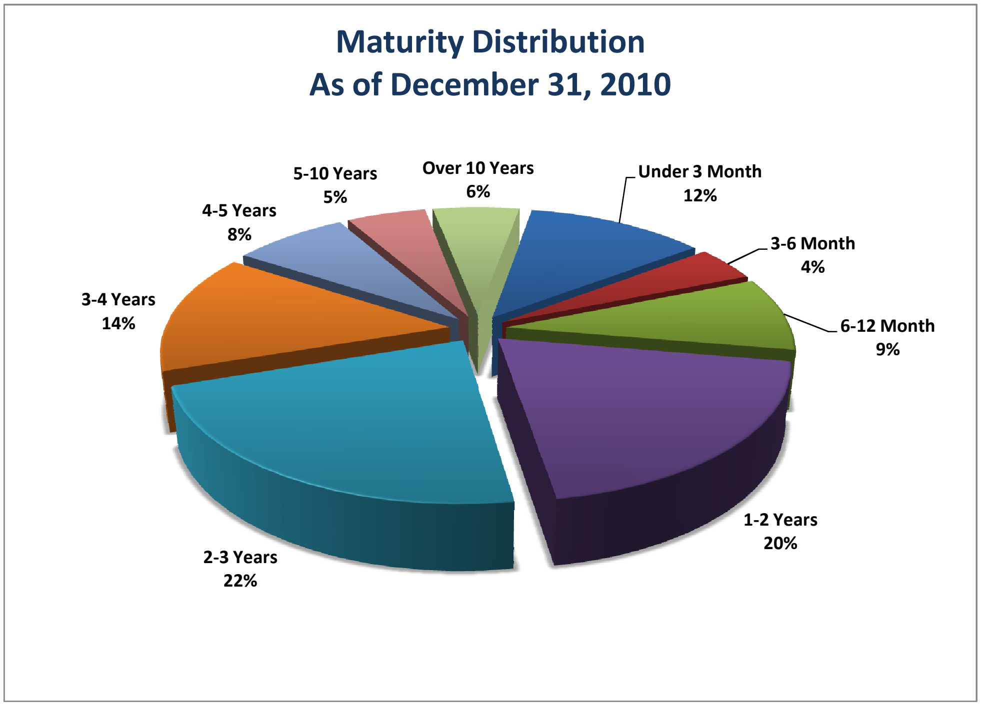
- Corporate Support expenses were under budget by $5.3 due mostly to lower payroll as a result of unfilled vacancies, under spending for fuel cell maintenance, legal consultants, telecommunication equipment and computer software, as well as higher than anticipated rental income.

- R&D and Other was higher than anticipated due to the payment of fees to NYSERDA of $3.2 for state fiscal years 2009-2010 and 2010-2011, not included in the budget.

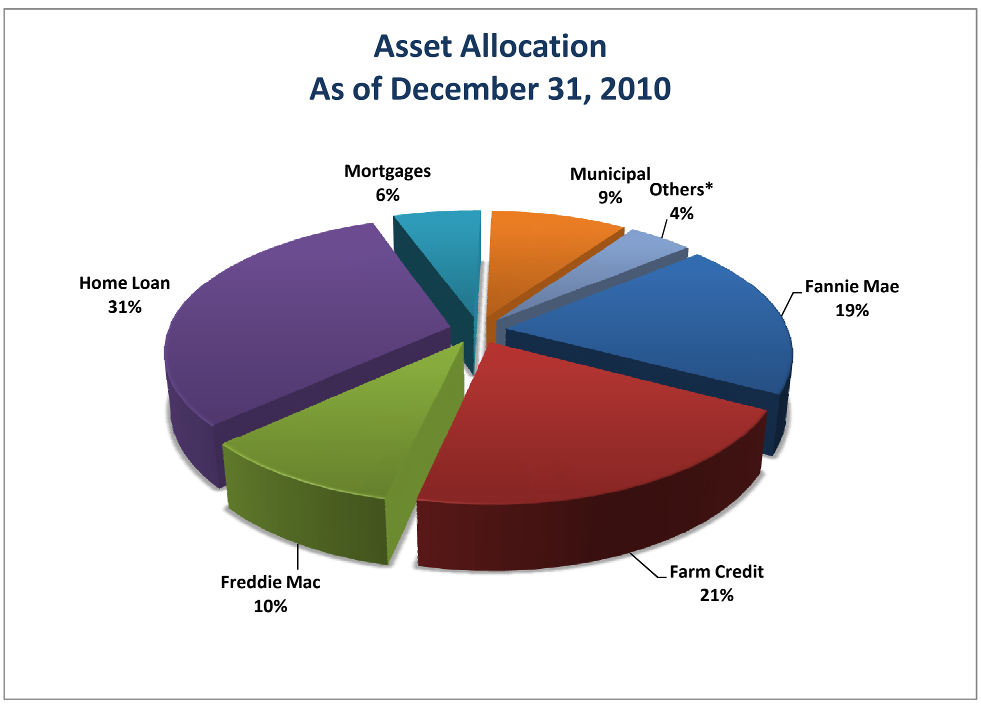


The increase of $162 in the Operating Fund for 2010 (from $907 to $1,069) was primarily attributable to positive net cash provided by operating activities, the Value Sharing payment of $72 received from Entergy in January and other scheduled Entergy payments ($30), substantially offset by $159.5 in voluntary contributions to New York State and scheduled debt service payments. The variance from budget is a result of lower net income for the period.

CASH AND LIQUIDITY
INVESTMENT PORTFOLIO

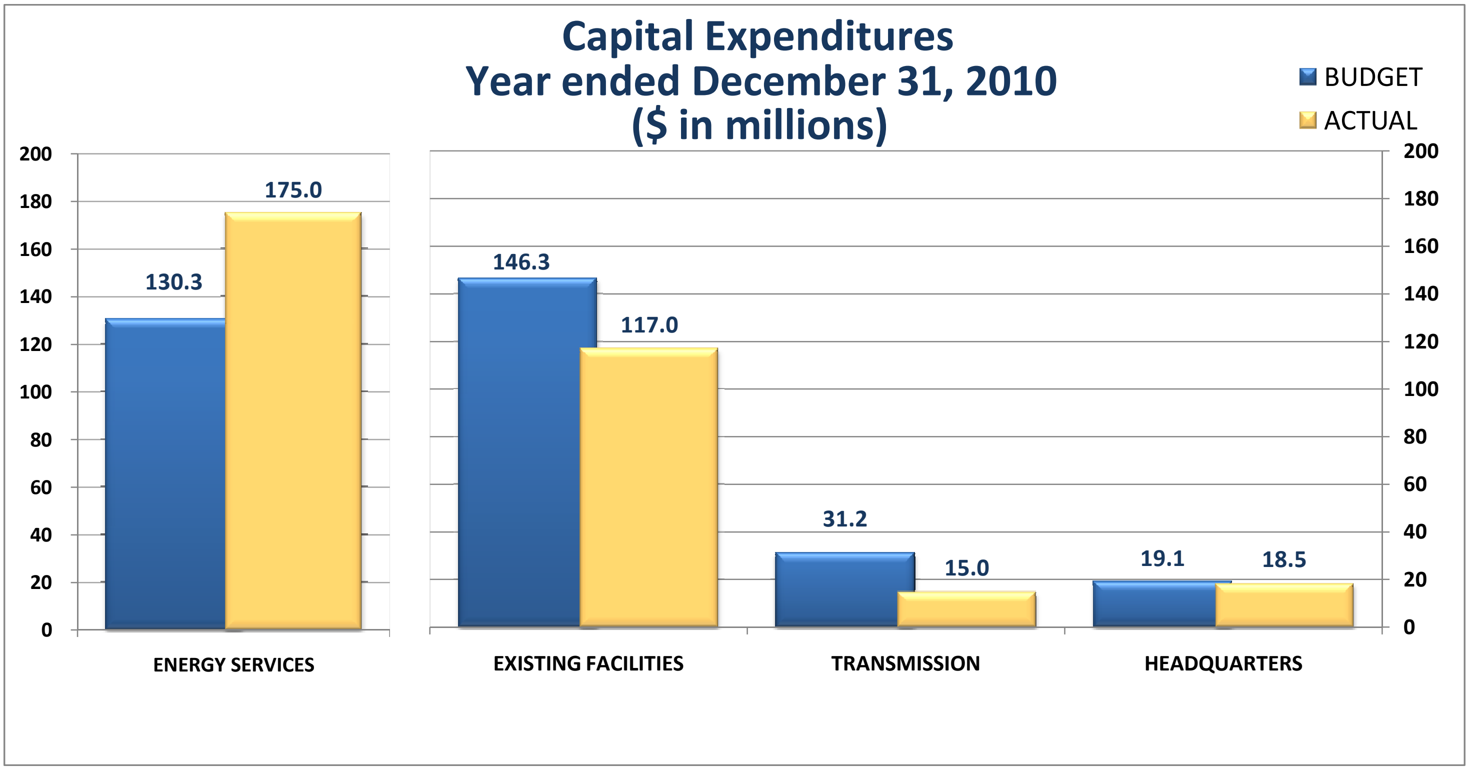


MATURITY DISTRIBUTION	
($ in millions)	
Under 3 Month	$145.9
3-6 Month	50.9
6-12 Month	108.5
1-2 Years	243.2
2-3 Years	274.1
3-4 Years	175.7
4-5 Years	93.5
5-10 Years	64.0
Over 10 Years	70.8
Total	$1,226.6



ASSET ALLOCATION	
($ in millions)	
Fannie Mae	$231.2
Farm Credit	254.9
Freddie Mac	118.5
Home Loan	384.6
Mortgages	72.7
Municipal	111.7
Others*	53.0
Total	$1,226.6

*Includes CDs and Repos

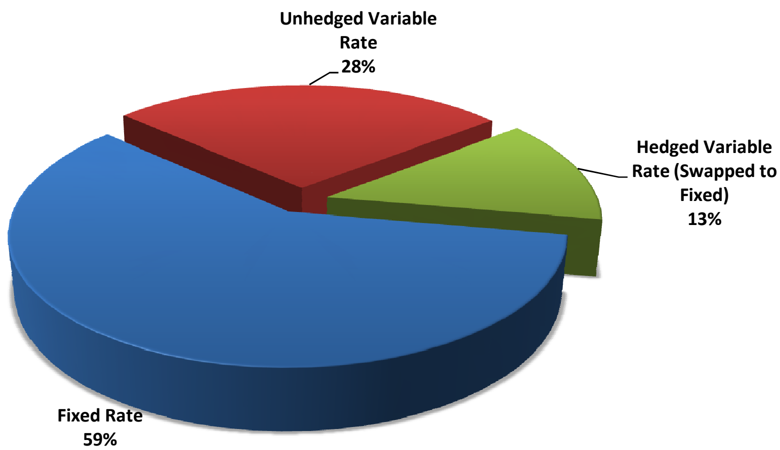


- Energy Services expenditures exceeded the budget by $44.7 due to accelerated construction activity related to NYCHA's Hot Water Storage Tank Replacement and CUNY Central Heating and Cooling Project.
- Lower capital expenditures at Existing Facilities were primarily due to timing differences related 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 December.

Year Ended December 31, 2010
($ in millions)

	Beginning Balance	New Issues	Scheduled Retirements	Additional Retirements	Ending Balance
Fixed Rate Debt	$1,173.4	-	$39.0	-	$1,134.4
Variable Rate Debt	531.3	-	88.2	-	443.1
Variable Rate Energy Srvcs Debt	308.7	163.7	-	125.2	347.2
Sub-total Variable Rate Debt	840.0	163.7	88.2	125.2	790.3
Total	**$2,013.4**	**$163.7**	**$127.2**	**$125.2**	**$1,924.7**

DEBT



DEBT PROFILE	
($ in millions)	
Fixed Rate	1,134.4
Unhedged Variable Rate **(1)**	533.2
Hedged Variable Rate (Swapped)	257.1
Total	1,924.7

(1) *On August 15, 2010, the SIFMA based interest rate cap on a $300 notional amount of Commercial Paper Series 1 expired. Staff received Board authorization to enter into a Replacement Cap which is expected to be bid in January 2011.*

Interest Rate Derivatives

The Authority periodically enters into Interest Rate Swaps and Caps to manage interest rate volatility associated with variable rate debt and to hedge future debt issuance. Each transaction is approved by the Board of Trustees and is governed by an ISDA Master Agreement and Schedule to the Agreement with authorized Counterparties. The SVP – Corporate Planning & Finance and the Treasury department, in consultation with the Authority's financial advisor Public Financial Management, continually monitor market conditions for potential hedging strategies that may benefit the Authority and its customers. All transactions were competitively bid.

Open Positions

The 1998B transaction is an interest rate swap that was bid March 13, 1998 with an effective date of November 15, 2002. The swap had the effect of fixing the rate on tax-exempt commercial paper at 5.123% on a forward starting basis. It was one component of the 1998 debt refinancing that reduced debt service costs by $740 million and allowed the Authority to adopt a new *General Resolution authorizing Revenue Obligations* in preparation for the competitive marketplace.

The ARTN transaction is an interest rate swap that was bid July 27, 2006 with an effective date of September 1, 2006. It allowed the Authority to lock in a 3.7585% synthetic fixed rate on the Adjustable Rate Tender Notes ("ARTN's"). The synthetic fixed rate was below the historical average rate on the ARTN's and below the rate used in developing NYPA's transmission tariff.

Summary of Derivative Positions ($ in millions)

Transaction	Counterparty	Notional Amount*	Effective Date	Type of Swap	Mark-to-Market
1998B	Goldman Sachs Mitsui Marine Derivatives	$38.0	11/15/2002	Floating-to-Fixed	($2.9)
1998B	Merrill Lynch Cap. Srvcs	63.3	11/15/2002	Floating-to-Fixed	(4.8)
1998B	Citigroup Financial Prod.	25.3	11/15/2002	Floating-to-Fixed	(1.9)
ARTN	Merrill Lynch Cap. Srvcs	130.5	9/1/2006	Floating-to-Fixed	(14.2)
Totals		**$257.1**			**($23.8)**

* *The notional amount of each SWAP amortizes according to the provisions contained in the transaction documents.*

ENERGY DERIVATIVES

Results

For year ended December 31, 2010, financial energy derivative settlements resulted in a realized loss of $64 million. The amount of these losses is subject to virtual full cost recovery, whereby the resulting hedge settlements are incorporated into and recovered through Customer rates.

Year-to-Date 2010 Energy Derivative Settlements & Fair Market Valuation of Outstanding Positions

($ in Millions)

	Settlements	Fair Market Value			
	YTD	**2011**	**2012**	**>2012**	**Total**
NYPA	$ (0.05)	$ (0.13)	$ -	$ -	$ (0.13)
Customer Contracts	$ (64)	$ (79)	$ (89)	$ (76)	$ (244)
Total	**$ (64)**	**$ (79)**	**$ (89)**	**$ (76)**	**$ (244)**

At the end of December, the fair market value of outstanding positions was valued at an unrealized loss of $244 million for positions extending through 2017. In the third quarter of 2006, NYPA entered into multi-year positions through 2017 for renewable energy on behalf of the New York City Government Customers. In October 2009, NYPA procured additional contracts for the New York City Government Customer for the period beginning January 2010 through December 2014 to secure pricing for the medium-term horizon. At this time, current market prices are at levels below the contracted prices, thereby accounting for the unfavorable mark-to-market valuation.

Market Summary

Exhibit 1 shows the average price of February to December 2011 futures contracts and how they have traded since the beginning of 2010, while Exhibit 2 illustrates the average price of futures contracts for entire year 2012.

Exhibit 1: Average February to December 2011 Forward Price as Traded

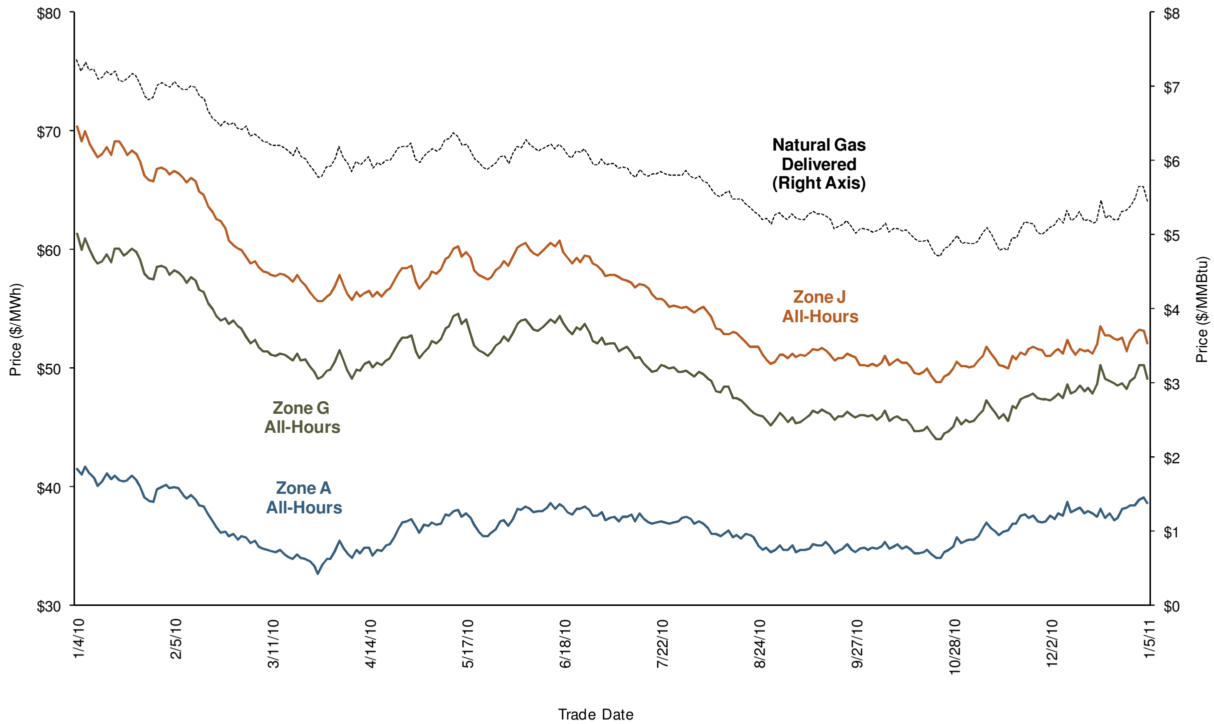
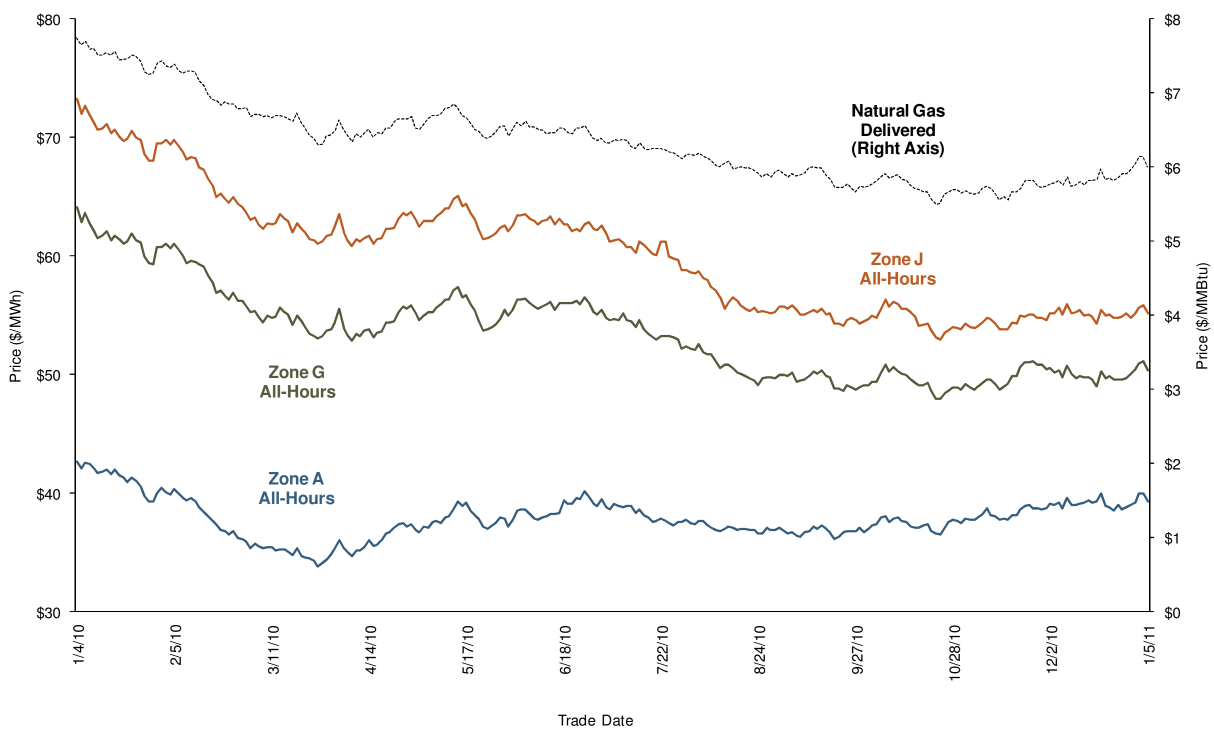


Exhibit 2: Average January to December 2012 Forward Price as Traded



STATEMENT OF NET INCOME*
For the Year Ended December 31, 2010
($ in millions)

	Actual	Budget	Variance Favorable/ (Unfavorable)
Operating Revenues			
Customer	**$1,969.9**	**$2,062.1**	**($92.2)**
Market-based power sales	471.9	591.7	(119.8)
Ancillary services	30.2	54.4	(24.2)
NTAC and other	113.1	102.9	10.2
Total	**615.2**	**749.0**	**(133.8)**
Total Operating Revenues	**2,585.1**	**2,811.1**	**(226.1)**
Operating Expenses			
Purchased power	871.1	864.8	(6.3)
Fuel consumed - oil & gas	223.8	340.9	117.1
Ancillary services	62.8	91.0	28.2
Wheeling	533.4	519.9	(13.5)
Operations and maintenance	310.7	312.3	1.6
Depreciation and amortization	162.9	160.3	(2.6)
Other expenses	139.4	141.7	2.3
Allocation to capital	(9.8)	(10.8)	(1.0)
Total Operating Expenses	**2,294.3**	**2,420.1**	**125.8**
Net Operating Income	**290.8**	**391.1**	**(100.3)**
Nonoperating Revenues			
Post nuclear sale income	89.0	89.0	-
Investment income	42.0	53.1	(11.1)
Mark to market - investments	6.1	(5.9)	11.9
Total Nonoperating Revenues	**137.0**	**136.2**	**.8**
Nonoperating Expenses			
Contributions to New York State	147.0	107.0	(40.0)
Interest and other expenses	98.8	112.3	13.5
Total Nonoperating Expenses	**245.8**	**219.3**	**(26.5)**
Net Nonoperating Income (Loss)	**(108.8)**	**(83.1)**	**(25.7)**
Net Income	**$182.0**	**$308.0**	**($126.0)**

** Preliminary amounts subject to adjustment based on the true-up of estimates and completion of the independent audit.*

COMPARATIVE BALANCE SHEETS
December 31, 2010
($ in millions)

Assets		December 2010*	December 2009
Current Assets			
	Cash	$0.1	$0.1
	Investments in government securities	1,091.1	913.4
	Interest receivable on investments	5.5	5.8
	Accounts receivable - customers	204.0	191.7
	Materials and supplies, at average cost:		
	Plant and general	75.1	82.3
	Fuel	15.3	21.7
	Prepayments and other	144.4	124.4
	Total Current Assets	**1,535.5**	**$1,339.4**
Noncurrent Assets			
Restricted Funds	Investment in decommissioning trust fund	1,032.4	942.4
	Other	83.3	94.1
	Total Restricted Funds	**1,115.7**	**1,036.5**
Capital Funds	Investment in securities and cash	144.8	189.2
	Total Capital Funds	**144.8**	**189.2**
Net Utility Plant	Electric plant in service, less accumulated depreciation	3,344.1	3,347.8
	Construction work in progress	123.3	144.8
	Net Utility Plant	**3,467.4**	**3,492.6**
Other Noncurrent Assets	Receivable - NY State	318.0	318.0
	Deferred charges, long-term receivables and other	650.7	545.6
	Notes receivable - nuclear plant sale	157.1	170.1
	Total other noncurrent assets	**1,125.8**	**1,033.7**
	Total Noncurrent Assets	**5,853.7**	**5,752.0**
	Total Assets	**$7,389.2**	**$7,091.4**
Liabilities and Net Assets			
Current Liabilities	Accounts payable and accrued liabilities	$853.6	$809.5
	Short-term debt	323.2	289.2
	Total Current Liabilities	**1,176.8**	**1,098.7**
Noncurrent Liabilities			
Long-term Debt	Revenue bonds	1,151.2	1,192.7
	Adjustable rate tender notes	130.5	137.5
	Commercial paper	336.5	413.3
	Total Long-term Debt	**1,618.2**	**1,743.5**
Other Noncurrent Liabilities	Nuclear plant decommissioning	1,032.4	942.4
	Disposal of spent nuclear fuel	216.1	215.8
	Deferred revenues and other	343.3	270.5
	Total Other Noncurrent Liabilities	**1,591.8**	**1,428.7**
	Total Noncurrent Liabilities	**3,210.0**	**3,172.2**
	Total Liabilities	**4,386.8**	**4,270.9**
Net Assets	Accumulated Net Revenues - January 1	2,820.4	2,566.9
	Net Income	182.0	253.6
	Total Net Assets	**3,002.4**	**2,820.5**
	Total Liabilities and Net Assets	**$7,389.2**	**$7,091.4**

** Preliminary amounts subject to adjustment based on the true-up of estimates and completion of the independent audit.*

SUMMARY OF OPERATING FUND CASH FLOWS*
For the Year Ended December 31, 2010
($ in millions)

Operating Fund	
Opening	$906.8
Closing	1,069.2
Increase/(Decrease)	**162.4**
Cash Generated	
Net Operating Income	290.8
Adjustments to Reconcile to Cash Provided from Operations	
Depreciation & Amortization	162.9
Net Change in Receivables, Payables & Inventory	(16.6)
Other	(5.8)
Net Cash Generated from Operations	**431.3**
(Uses)/Sources	
Utility Plant Additions	(80.8)
Debt Service	
Revenue Bonds - Series A	(69.5)
Commercial Paper 2	(69.0)
Commercial Paper 3 & Extendible Municipal Commercial Paper 1	(8.0)
ART Notes	(7.3)
Investment Income	26.0
Entergy Value Sharing Agreement	72.0
Entergy Payment (IP2 Purchase Agreement)	10.0
Entergy Payment (Additional Facilities Note)	20.0
Voluntary Contribution to NY State	(159.5)
Other	(2.8)
Total (Uses)/Sources	**(268.9)**
Net Increase in Operating Fund	**$162.4**

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