
New York Power Authority
Policy for the Use of Interest Rate Exchange Agreements

Article I. Purpose of the Interest Rate Exchange Program

Section 1.01 Introduction

The New York Power Authority (the “Authority”) accesses the capital markets to finance its capital projects and further enhance energy efficiency and renewable projects through its Energy Services program. Within its capital structure, the Authority seeks to maintain an appropriate balance between fixed and variable rate debt and to minimize its debt costs. The Authority is routinely exposed to fluctuations in interest rates for its debt service and working capital requirements. Management of these interest rate risks is essential in forecasting the predictability of the Authority’s financing costs and managing future capital requirements. The Policy for Use of Interest Rate Exchange Agreements (the “Policy”) sets forth the objectives, delegation of authority and overall parameters to govern the Authority’s activities related to interest rate risk management that supports its mission and mitigates financial and counterparty risk. Controls and procedures to be further defined by management (the “Procedures”) shall be in conformance with this Policy.

Section 1.02 Scope and Objective

The objective of the interest rate risk management program is to ensure that the Authority is borrowing funds and financing capital projects at the lowest cost possible, taking into consideration the Authority’s credit rating; identifying financial risks pertaining to changes in interest rates and mitigating those risks where they exceed management determined risk tolerances; improving financial performance for the Authority and its customers by reducing its overall borrowing costs; and ensuring continued access to the capital markets by managing its interest rate exposure and cost of capital.

The Policy will govern all permissible interest rate derivative transactions as further defined in Section 2.03 of this Policy.

Article II. Interest Rate Exchange Policy

Section 2.01 Delegation of Authorities

a) Board of Trustees

This Policy has been established by the Board of Trustees with the review and recommendation of the Finance Committee. Any amendments to this Policy must be reviewed and recommended by the Finance Committee and approved by the Board of Trustees prior to becoming effective.

b) President and Chief Executive Officer and Executive Vice President and Chief Financial Officer

The Authority may enter into an Interest Rate Exchange Agreement (an "Agreement") if the President and Chief Executive Officer ("CEO") or Executive Vice President and Chief Financial Officer ("CFO") shall have determined that such Agreement is reasonably expected to:

1. Reduce its exposure to changes in interest rates on a particular financial transaction, or in the context of the management of interest rate risk derived from the asset/liability balance; or
2. Result in a more certain or lower net cost of borrowing with respect to the related obligations; or
3. Reduce the financial exposure of the Authority with respect to its current financial condition.

The Authority is strictly prohibited from entering into such Agreement for speculative purposes. This Policy mandates that all interest rate hedging activities be based on an underlying interest rate risk which is correlated to a quantifiable exposure.

The Authority is prohibited from entering into an Agreement unless the CEO or the CFO shall have determined that such Agreement can be reasonably expected to achieve at least

one of the objectives listed above after considering the underlying risk and mitigation strategies to be undertaken.

c) Treasurer

The Treasurer, in collaboration with the CFO, shall be is responsible for the following activities:

1. Ensure all interest rate hedging activities are conducted in accordance with this Policy
2. Establish Procedures for administration of the Interest Rate Exchange program including:
 - a) Formulation of hedge strategies
 - b) Selection of qualified counterparties
 - c) Counterparty diversification standards and maximum exposure
 - d) Negotiation and execution of agreements including credit and collateral agreements
 - e) Determining bidding/negotiation procedures
 - f) Utilizing the services of a Swap Advisor registered under the Investment Advisor’s Act of 1940 in bidding/negotiation of all transactions.
 - g) Other controls and procedures necessary for successfully implementing the Interest Rate Exchange program and risk mitigation.

Section 2.02 Separation of Duties

The Chief Financial Officer and the Treasurer shall formulate Procedures for separation of duties in a manner that assures proper governance through a means of separation of powers within the following organizational functions:

1. Front Office – responsible for execution of hedge strategy and Agreements
2. Middle Office – responsible for risk and compliance monitoring
3. Back Office – responsible for deal confirmation, cash management and accounting.

In limited instances, as may be provided for in the Procedures, the Front Office may also share Middle and Back Office responsibilities within designated authorizations.

Section 2.03 Form of Agreement

The Agreement between the Authority and a Qualified Swap Provider (a “Counterparty”) as defined in section 101 of the General Resolution authorizing Revenue Obligations adopted on February 24, 1998 (the “Resolution”) may include those payment, term, security (including provisions for collateral by the Counterparty), default, remedy, termination, and other terms and conditions, and may be with those parties, as the Authority deems reasonably necessary or desirable, and to which the Authority and the Counterparty may mutually agree. As used herein Interest Rate Exchange Agreement means, as the context permits or requires, any or all of the following: interest rate swap transaction (either variable to fixed or fixed to variable), basis swap, forward rate transaction, collar transaction, rate cap or any other transaction meeting the definition of a Qualified Swap as defined in section 101 of the Resolution (including any option with respect to any of these transactions). Such Agreements shall be entered into by the Authority only to the extent they meet the criteria listed within this Policy, provided that failure by the Authority to comply with, or a violation of, the provisions of this Policy shall not be deemed to alter, affect the validity of, modify the terms of, or impair any contract or Agreement.

Section 2.04 Terms of Payment

The term of any Agreement cannot exceed the final maturity of the outstanding related obligations of the Authority.

Section 2.04 Qualified Counterparties

The Authority will pre-approve Counterparties pursuant to a Request for Qualifications. The Counterparty shall be 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, other senior

unsecured long term obligations, financial program rating, counterparty rating, or claims paying ability, are rated at time of execution of the transaction, either (i) at least as high as the third highest Rating Category of each Rating Agency then maintaining a rating for the Counterparty, 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 (appointed in accordance with Section 701 of the Resolution), 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.

Except as the Board of Trustees shall have expressly approved, the Authority will not enter into Agreements having a term greater than one year with any single counterparty in an aggregate notional amount greater than \$250,000,000.

Section 2.05 Reporting

Staff will report to the Board of Trustees and the Finance Committee quarterly with results of the Interest Rate Exchange program including:

1. Interest payments received from or paid to Counterparties;
2. Accrued interest receivable or payable on the Agreements;
3. Current status of interest rate exposure of the Authority, net of the effects of such Agreements and the mitigation strategies and management techniques that may be employed in the upcoming quarter to mitigate any anticipated exposure;
4. The status of individual Agreements in effect, including notional amount, rates, terms, bases employed and the rating of counterparties;
5. The marked-to-market valuations of net credit exposures to the Authority by individual counterparties, and collateralization that has been provided, when deemed necessary; and
6. The summary of the terms and conditions of any Agreement that has been executed since the previous report.