

New York Power Authority

Report of the Chief Financial Officer

For the Year Ended December 31, 2012

**Report of the Chief Financial Officer
For the Year Ended December 31, 2012*
Executive Summary**

Results of Operations

Net income for the year ended December 31, 2012 was \$175.2 million compared to a budget of \$167 million resulting in an \$8.2 million favorable variance. Results for the year included a higher net margin on sales (\$4.9 million), higher non-operating income (\$6.4 million) and lower operations and maintenance expenses (\$6.7 million), partially offset by higher other operating expenses (\$5.4 million). Higher net margins on sales for the year (\$4.9 million) included positive variances in the MSP market area (\$9 million, lower purchased power costs), the SCPP's (\$22.7 million) and Blenheim-Gilboa (\$7.6 million) due to higher capacity revenues, substantially offset by negative results at Niagara (\$32.8 million, lower energy prices). Higher market-based capacity revenues resulted from higher prices due to an increase in NYISO reserve requirements and the moth-balling of several generating stations throughout New York State. Statewide wholesale energy prices declined by 21% relative to the budget primarily due to lower natural gas prices.

Non-operating income was higher than expected due primarily to lower than budgeted interest costs and a lower mark-to-market loss on the Authority's investment portfolio, resulting from lower market interest rates. Operations and maintenance expenses were lower than anticipated primarily due to less than expected spending for projects at Niagara, St. Lawrence and Flynn. Other operating expenses were higher due to higher retiree health benefits, Power for Jobs rebates and Recharge New York transition payments.

Results for the year ended December 31, 2012 (\$175.2 million) were \$59.7 million lower than the year ended 2011 (\$234.9 million) due to lower non-operating income (\$29 million), a higher voluntary contribution to New York State (\$20 million), and higher other operating expenses (\$9.3 million). Non-operating income in 2011 included \$11 million for the settlement of a claim against the D.O.E. relating to spent fuel disposal at previously owned nuclear plants. Additionally, in 2011 the Authority experienced a \$6.3 million mark-to-market gain on its investment portfolio, versus a \$5.6 million loss in 2012. Voluntary contributions were \$85 million in 2012 compared to \$65 million for 2011. Other operating expenses in 2012 included higher retiree health benefits based upon an updated actuarial valuation.

Cash & Liquidity

The Authority ended 2012 with total operating funds of \$1,350 million as compared to \$1,205 million at the end of 2011. The increase (\$145 million) is primarily attributable to net cash from operations and payments received from Entergy of \$102 million substantially offset by voluntary contributions to New York State, scheduled debt service payments, and utility plant additions.

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

RESULTS OF OPERATIONS

Net Income

Year ended December 31, 2012*

(\$ in millions)

	Actual	Budget	Variance
Niagara	\$106.6	\$134.3	(\$27.7)
St. Lawrence	34.5	33.3	1.2
Blenheim-Gilboa	(11.4)	(16.3)	4.9
SENY	39.4	40.0	(0.6)
SCPP	12.4	(9.3)	21.7
Market Supply Power	(72.0)	(73.6)	1.6
Flynn	18.6	11.2	7.4
Transmission	33.6	40.5	(6.9)
Non-facility	13.5	6.9	6.6
Total	\$175.2	\$167.0	\$8.2

Major Factors

Niagara

Lower net margins on sales (\$32.8) due to lower energy prices, substantially offset by lower O&M (\$3.6, non-recurring projects).

St. Lawrence

Primarily lower O&M (\$1.5, non-recurring projects).

Blenheim Gilboa

Primarily higher capacity revenues.

SENY

SCPP

Higher capacity revenues due to higher prices.

Market Supply Power

Lower purchased power costs due to lower prices, partially offset by additional accruals for P4J rebates and RNY transition payments.

Flynn

Higher net margin on sales (\$3.7, including lower fuel costs due to lower prices) and lower O&M (\$3.4, non-recurring projects).

Transmission

Lower revenues (\$5.3, including lower FACTS revenues) and higher other expenses (\$2.0, primarily retiree health benefits).

Non-facility (including investment income)

Primarily lower interest costs due to lower than anticipated market interest rates during the period.

Total

\$8.2

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

RESULTS OF OPERATIONS

Net Income Years Ended December 31, 2012 and December 31, 2011* (\$ in millions)

	2012	2011	Variance Favorable/ (Unfavorable)
Operating Revenues	2,686.9	2,655.7	31.2
Operating Expenses			
Fuel consumed - oil & gas	227.8	257.9	30.1
Purchased power and ancillary services	743.6	853.1	109.5
Wheeling	606.4	548.1	(58.3)
Operations and maintenance	364.2	330.4	(33.8)
Other expenses	199.7	190.4	(9.3)
Depreciation and amortization	226.2	193.9	(32.3)
Allocation to capital	(10.9)	(8.7)	2.2
Total Operating Expenses	2,357.0	2,365.1	8.1
Net Operating Income	329.9	290.6	39.3
Investment and other income	122.8	139.9	(17.1)
Mark to Market Adjustment	(5.6)	6.3	(11.9)
Total Nonoperating Income	117.2	146.2	(29.0)
Contributions to New York State	85.0	65.0	(20.0)
Interest and other expenses	186.9	136.9	(50.0)
Total Nonoperating Expenses	271.9	201.9	(70.0)
Net Nonoperating Income (Loss)	(154.7)	(55.7)	(99.0)
Net Income	175.2	234.9	(59.7)

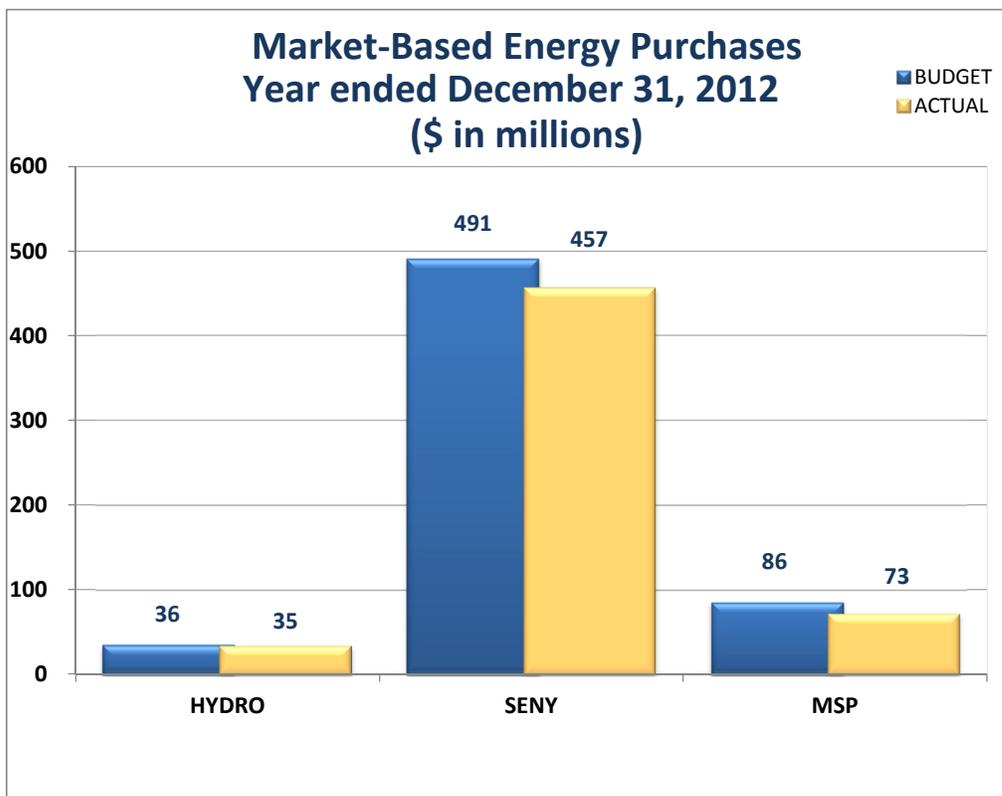
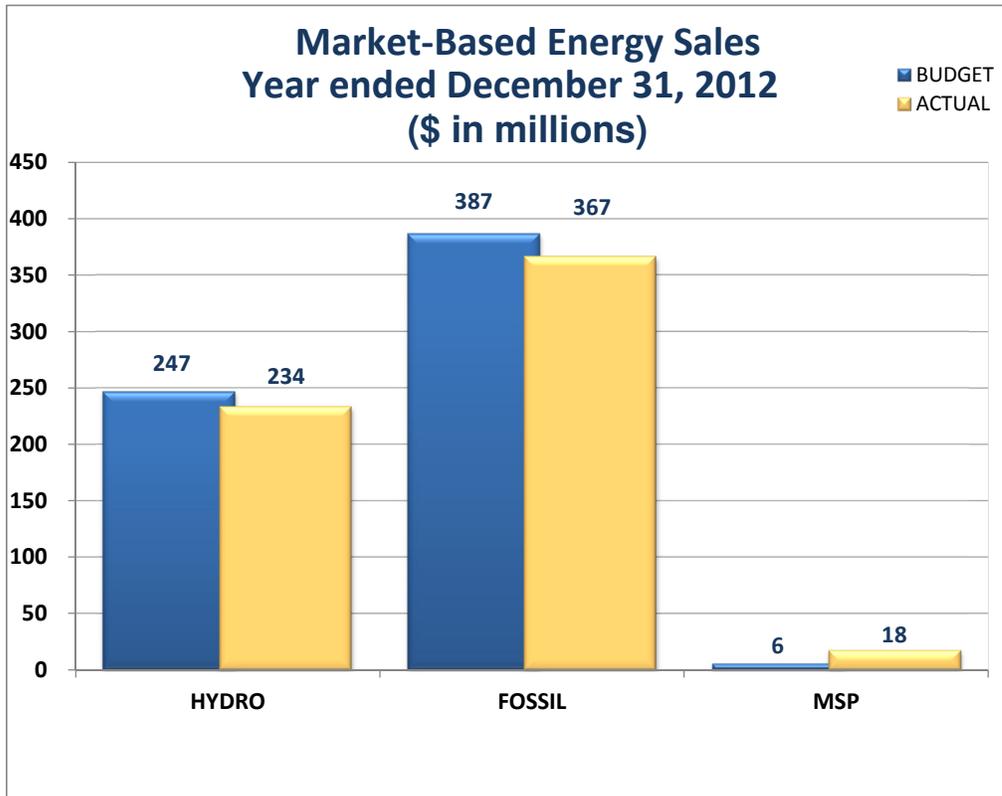
Results for the year ended December 31, 2012 (\$172.2 million) were \$62.7 million lower than the year ended 2011 (\$234.9 million) primarily due to lower non-operating income (\$29 million) and a higher voluntary contribution to New York State (\$20 million).

Non-operating income in 2011 included \$11 million for the settlement of a claim against the D.O.E. relating to spent fuel disposal at previously owned nuclear plants. Additionally, in 2011 the Authority experienced a \$6.3 million mark-to-market gain on its investment portfolio, versus a \$5.6 million loss in 2012.

Voluntary contributions were \$85 million in 2012 compared to \$65 million for 2011.

Higher net operating income in 2012 (\$39.3 million) was more than offset by higher interest expense (\$50 million). These variations were substantially attributable to the operation of Astoria II for a full year in 2012 compared to six months in 2011. Variations in purchased power, depreciation, fuel and operations and maintenance expenses were also substantially attributable to the operation of the Astoria II generating station. These cost variations were recovered through operating revenues. Higher operations and maintenance expenses at most facilities in 2012 were due primarily to emergent work and non-recurring projects as well as the impact of Astoria II.

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

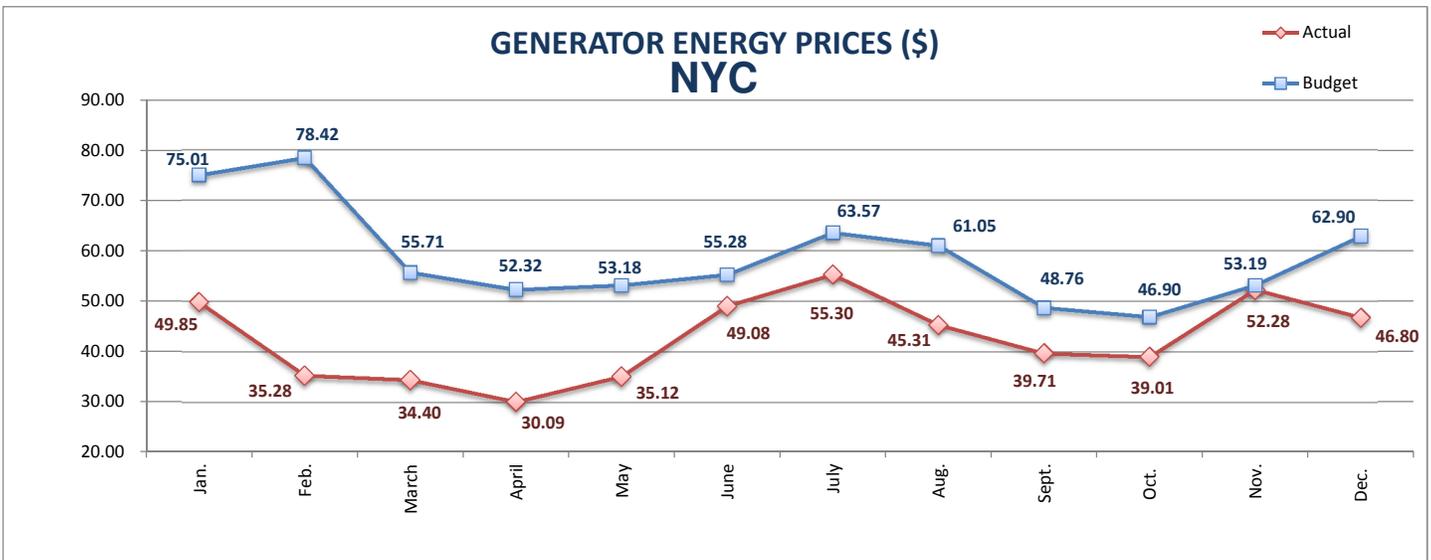
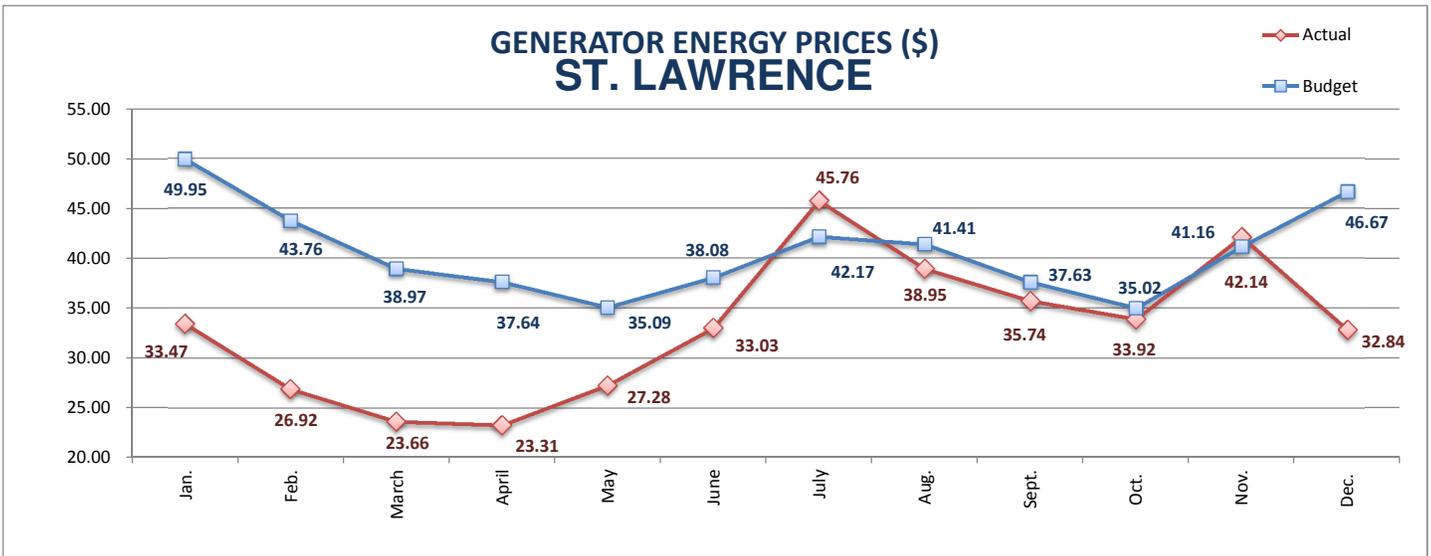
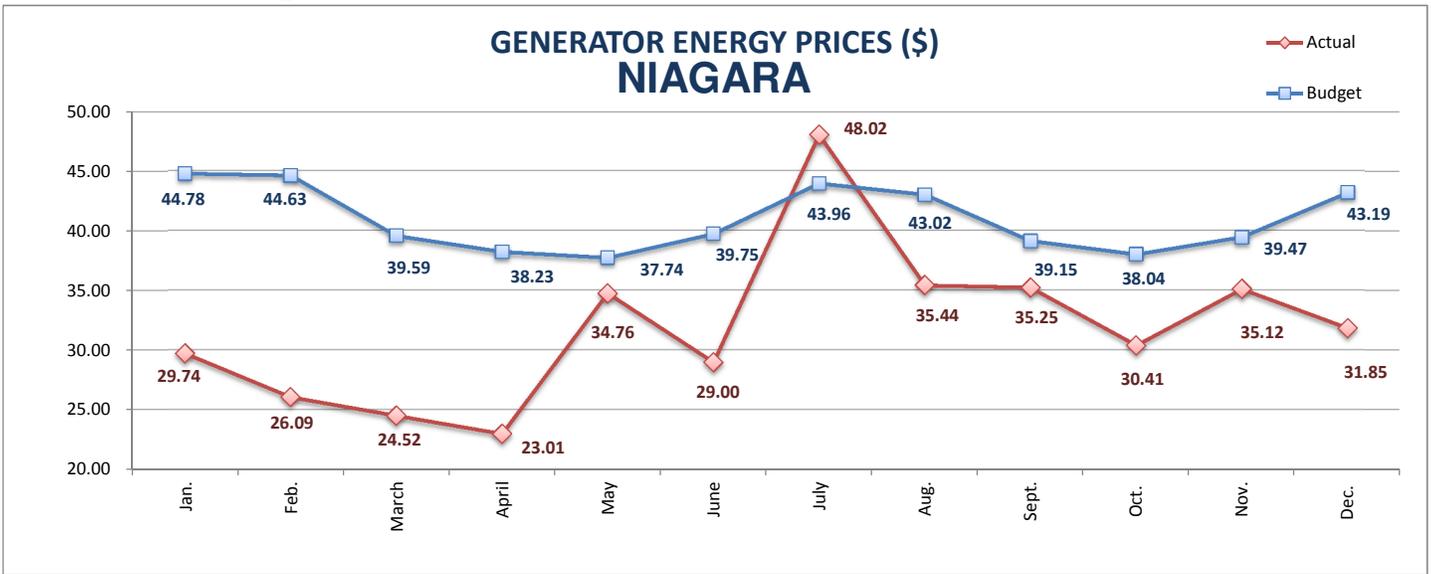


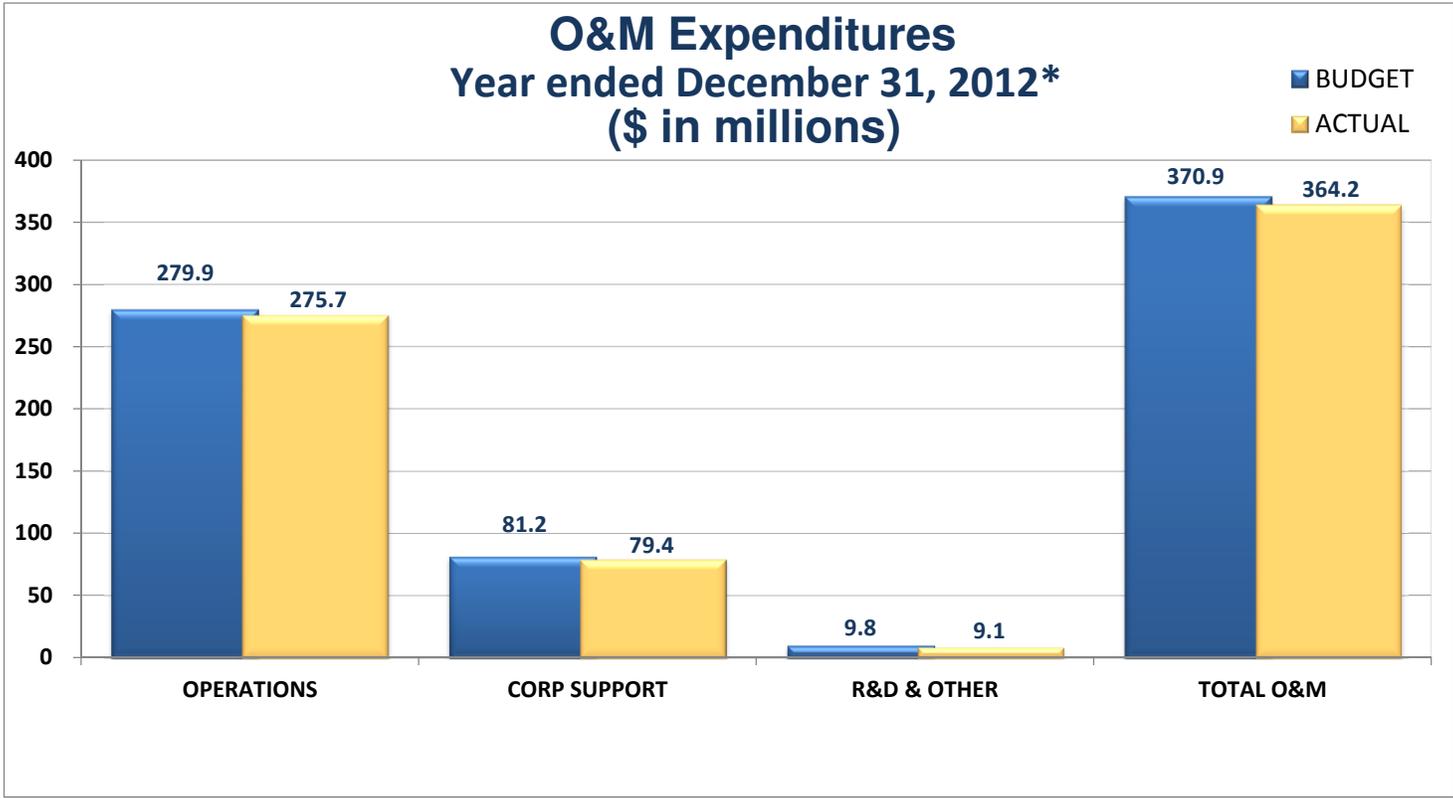
REVENUES		
SALES (MWH)		
	BUDGET	ACTUAL
Hydro*	5,454,516	5,926,513
Fossil	6,238,234	7,313,732
MSP	158,750	524,177
TOTAL	11,851,500	13,764,422
PRICES (\$/MWH)		
Hydro*	\$42.14	\$33.20
Fossil	\$59.02	\$44.42
MSP	\$37.56	\$34.80
AVERAGE	\$50.96	\$39.22

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

REVENUES		
SALES (MWH)		
	BUDGET	ACTUAL
Niagara	3,371,050	3,455,430
St. Law.	1,640,093	2,083,212
PRICES (\$/MWH)		
Niagara	\$40.70	\$31.45
St. Law.	\$38.51	\$30.49

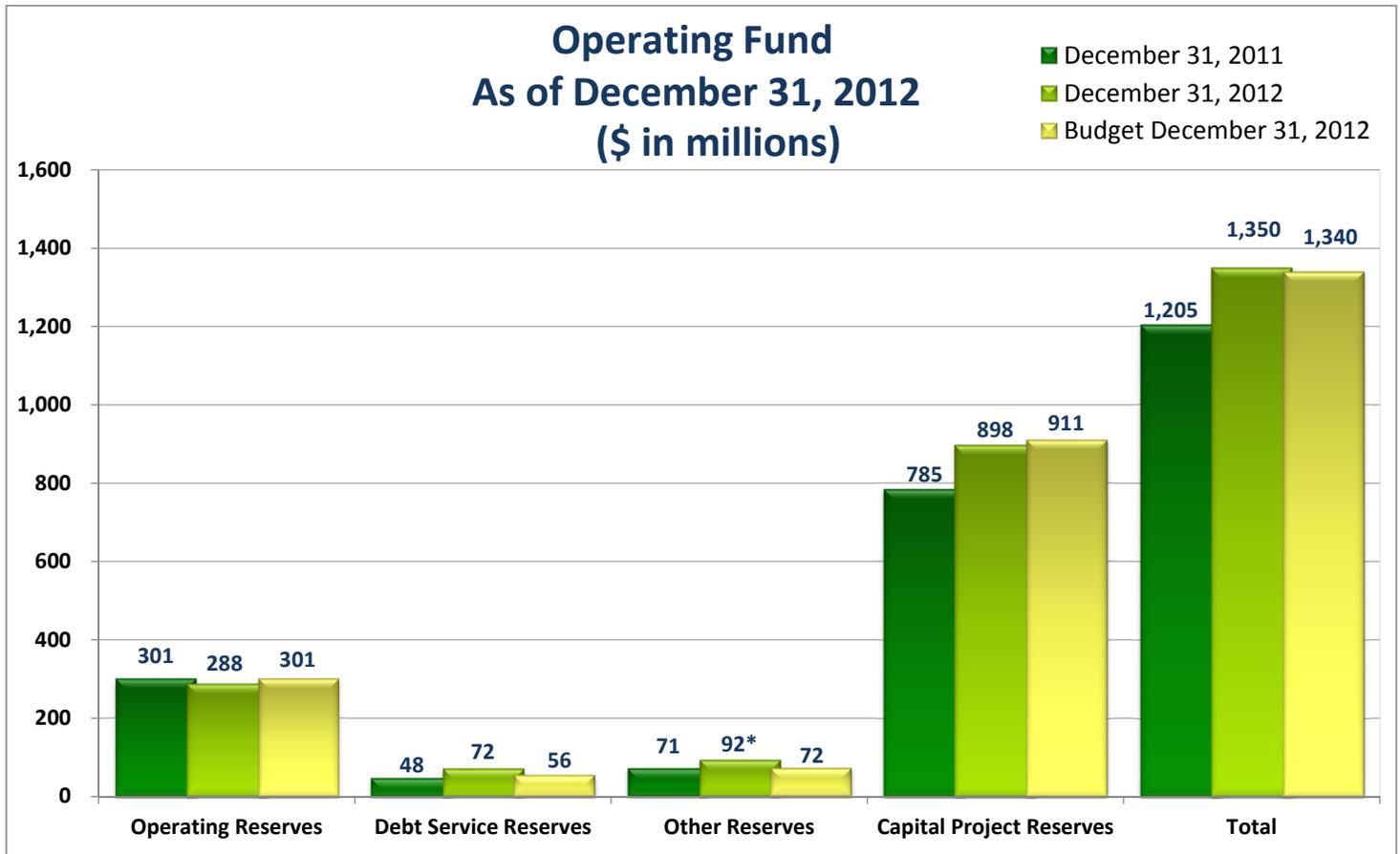
COSTS		
PURCHASES (MWH)		
	BUDGET	ACTUAL
Hydro	1,376,807	1,526,026
SENY	8,983,327	9,040,935
MSP	2,018,147	2,136,418
TOTAL	12,378,281	12,703,379
COSTS (\$/MWH)		
Hydro	\$26.05	\$23.14
SENY	\$54.58	\$50.57
MSP	\$42.83	\$33.93
AVERAGE	\$49.49	\$44.48





- For the year ended December 31, 2012, O&M expenses were \$6.7 lower than the budget.
- Operations expenditures were lower than anticipated primarily due to less than expected spending for projects at Niagara (RMNPP Head-gate Refurbishment and Unit #2 Standardization) and Flynn (HRSG Stack Painting and Refurbishment).
- HQ Corporate Support was under budget due to lower than anticipated expenditures for payroll, outside legal consultants and fuel cell maintenance.

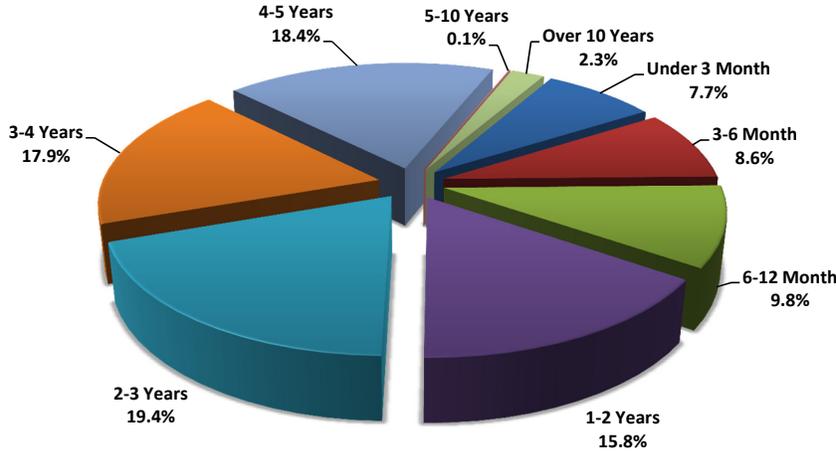
**Preliminary amounts subject to adjustment based on the true-up of estimates and completion of the independent audit*



The increase of \$145 in the Operating Fund (from \$1,205 to \$1,350) was primarily attributable to positive net cash provided by operating activities and payments of \$102 received from Entergy, substantially offset by voluntary contributions to New York State, scheduled debt service payments, and utility plant additions.

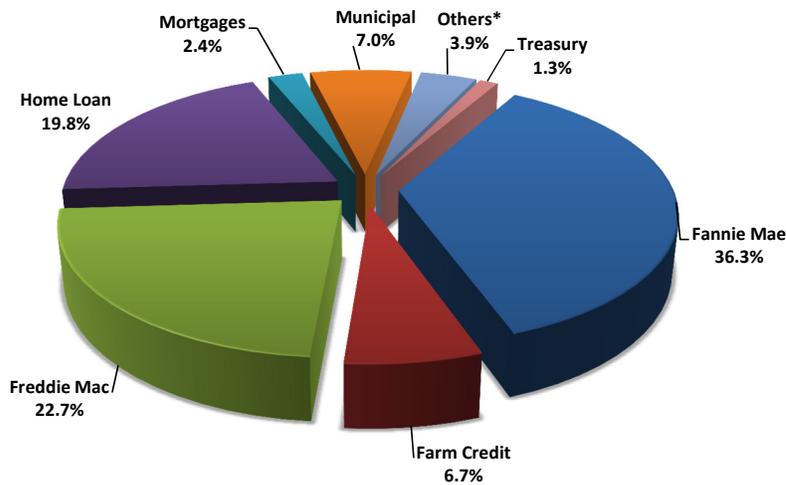
* Includes \$71 in Energy Hedging/Fuel Reserves and \$21 in the Western New York Economic Development Fund.

Maturity Distribution As of December 31, 2012



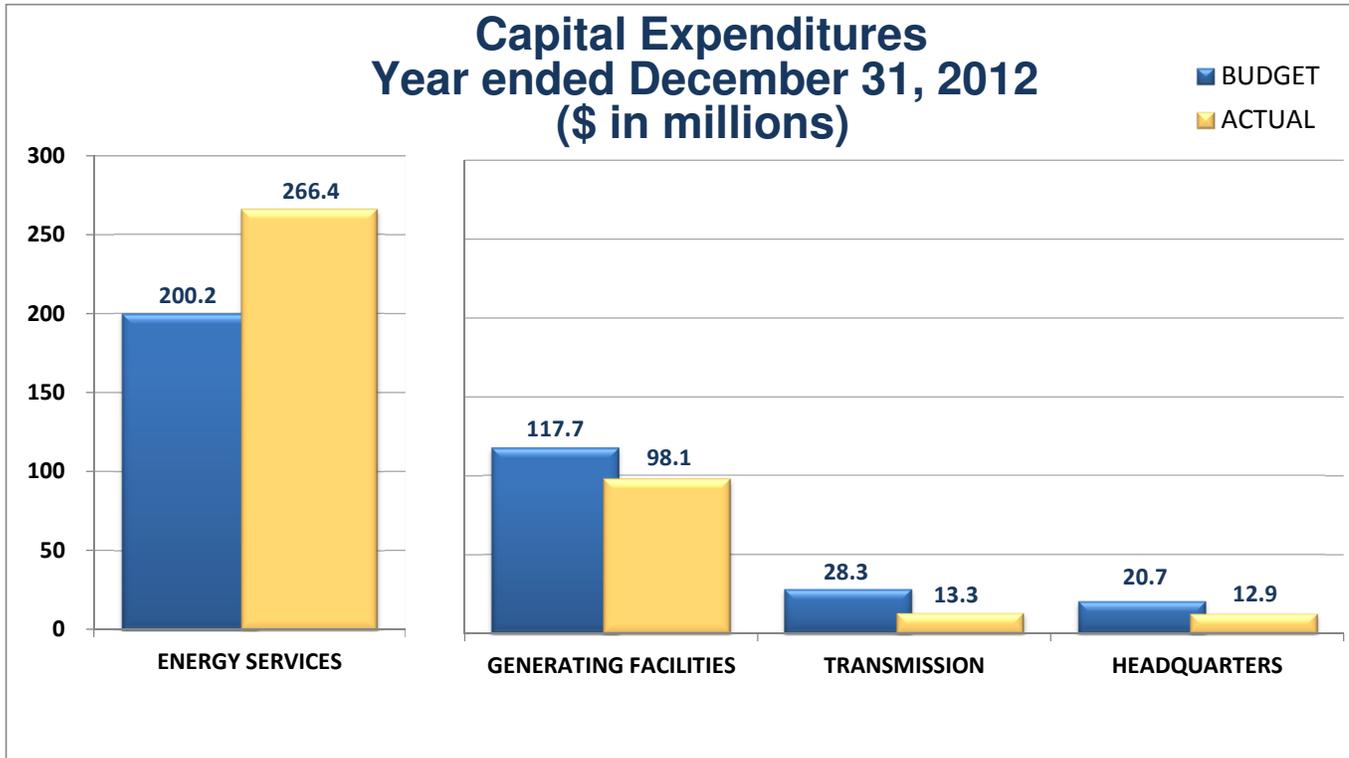
MATURITY DISTRIBUTION	
(\$ in millions)	
Under 3 Month	\$107.6
3-6 Month	120.0
6-12 Month	137.0
1-2 Years	219.2
2-3 Years	269.4
3-4 Years	249.0
4-5 Years	256.4
5-10 Years	1.0
Over 10 Years	31.7
Total	\$1,391.3

Asset Allocation As of December 31, 2012



ASSET ALLOCATION	
(\$ in millions)	
Fannie Mae	\$504.6
Farm Credit	\$93.0
Freddie Mac	\$316.3
Home Loan	\$276.1
Mortgages	\$32.8
Municipal	\$97.2
Others*	\$53.8
Treasury	\$17.5
Total	\$1,391.3

*Includes CDs and Repos



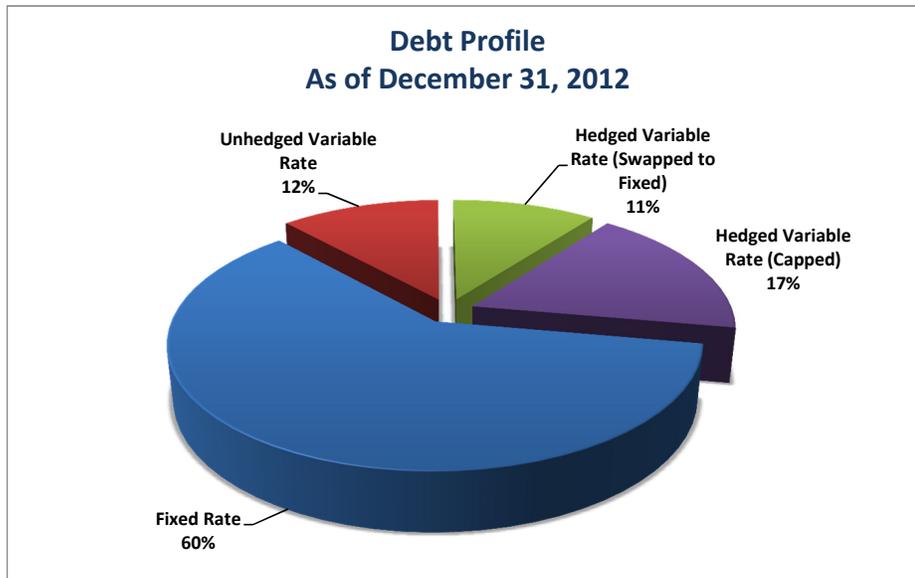
- Generating Facilities were under budget by \$19.6 primarily due to delays related to the Blenheim Gilboa relicensing project, the St. Lawrence LEM and SCADA projects and Astoria Infrastructure Upgrade.
- Transmission expenditures were less than anticipated due to delays in the Transmission Initiative and the Moses-Willis Double Circuitry projects.
- Headquarters expenditures were under budget primarily due to delays and timing differences related to IT Initiative Projects.
- Energy Services expenditures were over budget by \$66.2 due to greater than expected spending in the Governmental Services program.
- Under the Expenditure Authorization Procedure, the President authorized new expenditures on budgeted and emergent capital projects of \$19.5 for the year. The following expenditure was authorized for November:

SCCP Spare Transformer	\$1.5
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 There were no authorizations in December.

Debt Activity Year ended December 31, 2012 (\$ in millions)

	Beginning Balance	New Issues	Scheduled Retirements	Additional Retirements	Ending Balance
Fixed Rate Debt	\$1,083.4	-	\$43.2	-	\$1,040.2
Variable Rate Debt	303.1	-	36.8	16.9	249.5
Variable Rate Energy Svcs Debt	397.6	218.2	-	184.7	431.1
Sub-total Variable Rate Debt	700.8	218.2	36.8	201.6	680.6
Total	\$1,784.1	\$218.2	\$79.9	\$201.6	\$1,720.8



DEBT PROFILE	
(\$ in millions)	
Fixed Rate	\$1,040.2
Unhedged Variable Rate	200.3
Hedged Variable Rate (Swapped)	180.2
Hedged Variable Rate (Capped)	300.0
Total	\$1,720.8

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 NYPA's SWAP policy and an ISDA Master Agreement and Schedule to the Agreement with authorized Counterparties. The EVP, CFO and the Treasury department, in consultation with the Authority's financial independent swap advisor 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.

On January 24, 2011 the Authority purchased an interest rate cap on the Series 1 Commercial Paper with a strike rate of 5.50% and term of 2 years. The transaction provides customers participating in the energy services program an interest rate ceiling on their financial rate. The cap was approved by the Board in October 2010 and the Authority's independent swap advisor administered the competitive bid.

Transaction	Counterparty	Notional Amount*	Effective Date	Type of Swap	Mark-to-Market
1998B	Goldman Sachs Mitsui Marine Derivatives	\$19.6	11/15/2002	Floating-to-Fixed	(\$1.0)
1998B	Merrill Lynch Cap. Svcs	32.7	11/15/2002	Floating-to-Fixed	(1.6)
1998B	Citigroup Financial Prod.	13.1	11/15/2002	Floating-to-Fixed	(0.6)
ARTN	Merrill Lynch Cap. Svcs	114.8	9/1/2006	Floating-to-Fixed	(11.3)
CP - 1	Morgan Stanley Cap. Svcs	300.0	1/26/2011	CAP	-
Totals		\$480.2			(\$14.5)

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

ENERGY DERIVATIVES

Results

For year 2012, energy derivative settlements have resulted in a net loss of \$146.98 million. Gains and losses on these positions are substantially passed through to customers as resulting hedge settlements are incorporated into and recovered through customer rates.

Year 2012 Energy Derivative Settlements & Fair Market Valuation of Outstanding Positions (\$ in Millions)

	Settlements	Fair Market Value			
	2012 ¹	2013	2014	>=2015	Total
NYPA	\$ (0.60)	\$ 0.02	\$ 0.03	\$ -	\$ 0.05
Customer Contracts	\$ (146.39)	\$ (52.51)	\$ (53.59)	\$ (18.69)	\$ (124.79)
Total	\$ (146.98)	\$ (52.50)	\$ (53.56)	\$ (18.69)	\$ (124.74)

¹Reflects December final settlements.

At the end of calendar year 2012, the fair market value of outstanding positions was at an unrealized loss of \$124.74 million for positions extending through 2017.

Market Summary

Exhibit 1 shows the average price of futures contracts for February to December 2013 and how they have traded since 11/30/2010. Exhibit 2 shows the average price of futures contracts for entire year 2014 since 11/30/2011.

Exhibit 1: Average February to December 2013 Forward Price

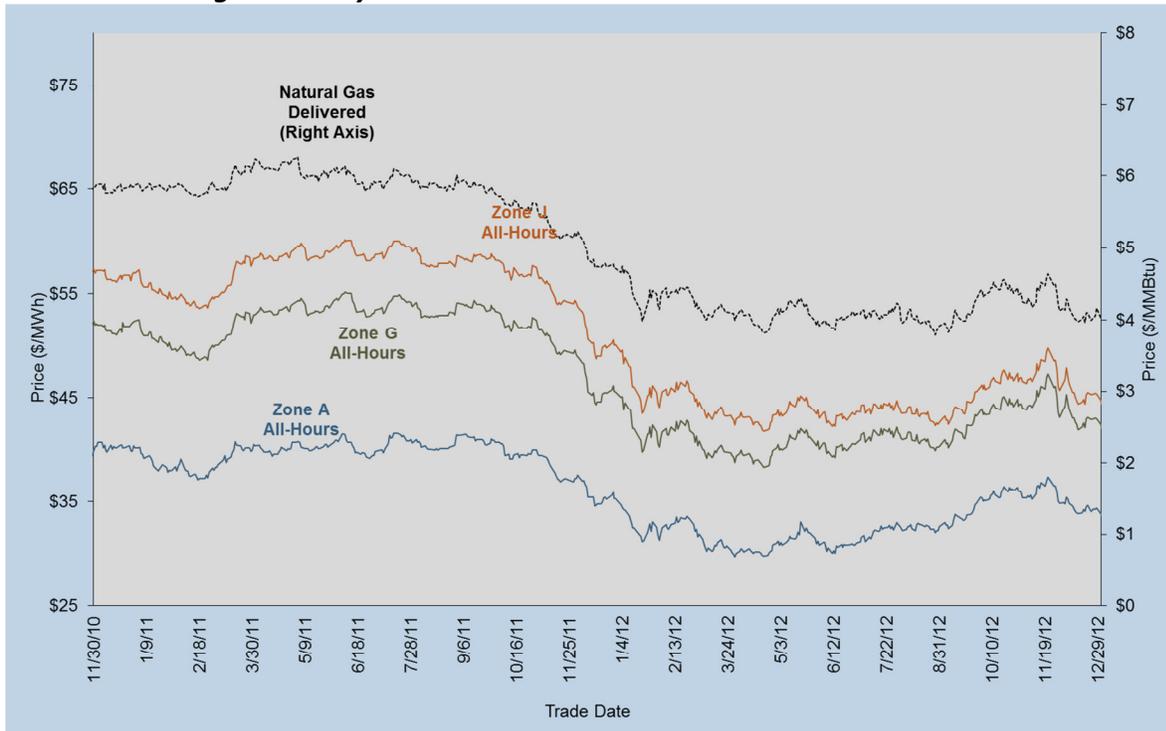
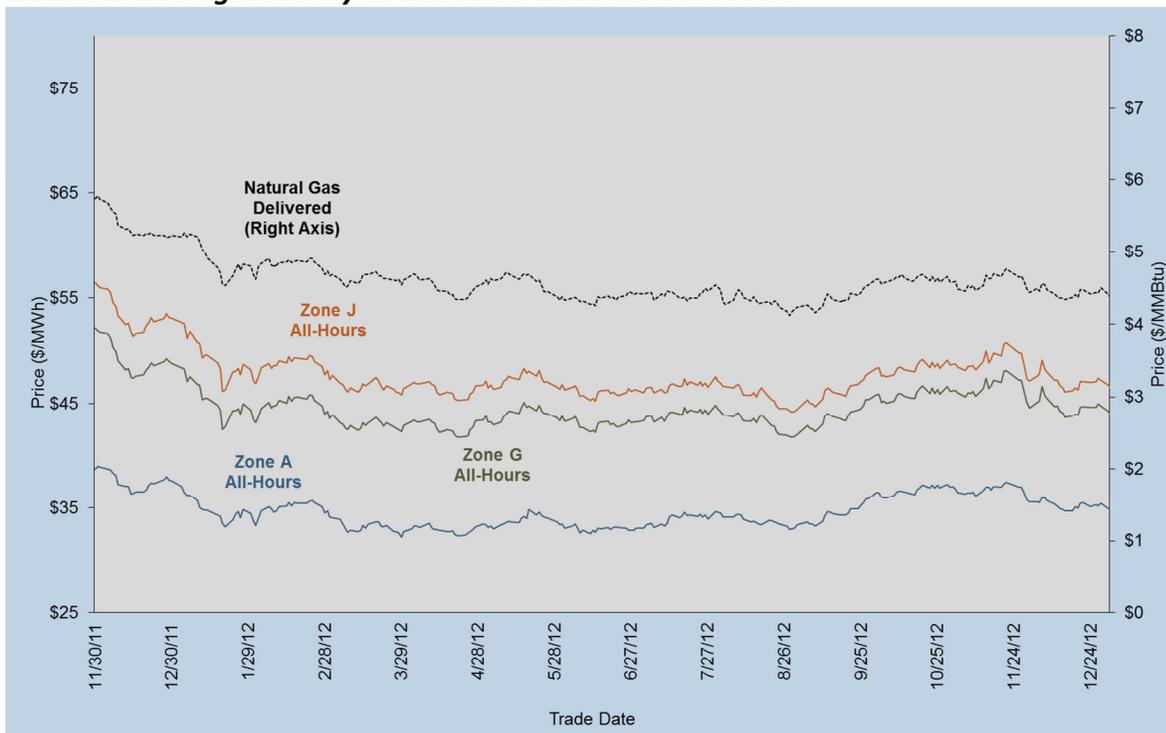


Exhibit 2: Average January to December 2014 Forward Price



New York Power Authority Financial Reports

STATEMENT OF NET INCOME For the Year Ended December 31, 2012* (\$ in millions)

	Actual	Budget	Variance Favorable/ (Unfavorable)
Operating Revenues			
Customer	\$ 2,007.8	\$ 2,173.0	\$ (165.2)
Market-based power sales	536.3	552.7	(16.4)
Ancillary services	25.6	28.9	(3.3)
NTAC and other	117.2	118.3	(1.1)
Total	679.1	699.9	(20.8)
Total Operating Revenues	2,686.9	2,872.9	(186.0)
Operating Expenses			
Purchased power	696.0	752.9	56.9
Fuel consumed - oil & gas	227.8	329.5	101.7
Ancillary services	47.6	76.5	28.9
Wheeling	606.4	610.2	3.8
Operations and maintenance	364.2	370.9	6.7
Depreciation and amortization	226.2	222.2	(4.0)
Other expenses	199.7	194.3	(5.4)
Allocation to capital	(10.9)	(11.7)	(0.8)
Total Operating Expenses	2,357.0	2,544.8	187.8
Net Operating Income	329.9	328.1	1.8
Nonoperating Revenues			
Post nuclear sale income	83.3	86.9	(3.6)
Investment income	39.5	42.1	(2.6)
Mark to market - investments	(5.6)	(10.0)	4.4
Total Nonoperating Revenues	117.2	119.0	(1.8)
Nonoperating Expenses			
Contributions to New York State	85.0	85.0	-
Interest and other expenses	186.9	195.1	8.2
Total Nonoperating Expenses	271.9	280.1	8.2
Net Income	\$ 175.2	\$ 167.0	\$ 8.2

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

New York Power Authority Financial Reports

COMPARATIVE BALANCE SHEETS

December 31, 2012*

(\$ in millions)

Assets	December 31, 2012	November 30, 2012	December 31, 2011
Current Assets			
Cash	\$0.1	\$0.1	\$0.1
Investments in government securities	1,370.7	1,396.3	1,233.0
Interest receivable on investments	5.7	5.5	5.6
Accounts receivable - customers	246.2	230.3	188.1
Materials and supplies, at average cost:			
Plant and general	83.2	82.5	80.1
Fuel	19.4	22.2	23.0
Prepayments and other	199.0	177.8	263.5
Total Current Assets	1,924.3	1,914.7	1,793.4
Noncurrent Assets			
Restricted Funds			
Investment in decommissioning trust fund	1,186.7	1,183.0	1,089.8
Other	62.1	69.5	76.4
Total Restricted Funds	1,248.8	1,252.5	1,166.2
Capital Funds			
Investment in securities and cash	58.0	63.5	97.2
Total Capital Funds	58.0	63.5	97.2
Net Utility Plant			
Electric plant in service, less accumulated depreciation	3,331.4	3,335.0	3,414.5
Capital lease, less accumulated amortization	1,068.8	1,073.6	1,126.5
Construction work in progress	177.5	158.0	133.4
Net Utility Plant	4,577.7	4,566.6	4,674.4
Other Noncurrent Assets			
Receivable - NY State	318.0	318.0	318.0
Deferred charges, long-term receivables and other	690.8	682.9	614.4
Notes receivable - nuclear plant sale	124.3	121.6	143.0
Total other noncurrent assets	1,133.1	1,122.5	1,075.4
Total Assets	8,941.9	8,919.8	8,806.6
Liabilities and Net Assets			
Current Liabilities			
Accounts payable and accrued liabilities	872.8	877.2	905.9
Short-term debt	330.4	319.3	373.7
Total Current Liabilities	1,203.2	1,196.5	1,279.6
Noncurrent Liabilities			
Long-term Debt			
Revenue bonds	1,060.7	1,061.0	1,107.4
Adjustable rate tender notes	139.9	114.8	122.9
Commercial paper	235.5	241.2	204.2
Total Long-term Debt	1,436.1	1,417.0	1,434.5
Other Noncurrent Liabilities			
Nuclear plant decommissioning	1,186.7	1,183.0	1,089.8
Disposal of spent nuclear fuel	216.4	216.4	216.2
Capital lease obligation	1,236.4	1,237.0	1,241.3
Deferred revenues and other	192.4	194.0	249.7
Total Other Noncurrent Liabilities	2,831.9	2,830.4	2,797.0
Net Assets			
Total Net Assets	3,470.7	3,475.9	3,295.5
Total Liabilities and Net Assets	\$8,941.9	\$8,919.8	\$8,806.6

*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, 2012
(\$ in millions)**

Operating Fund	
Opening	\$1,204.6
Closing	1,349.7
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Increase/(Decrease)	145.1
 Cash Generated	
Net Operating Income	329.9
Adjustments to Reconcile to Cash Provided from Operations	
Depreciation & Amortization	226.2
Net Change in Receivables, Payables & Inventory	(194.4)
Other	(5.8)
 Net Cash Generated from Operations	 355.9
 (Uses)/Sources	
Utility Plant Additions	(115.0)
Debt Service	
Revenue Bonds Principal and Interest	(71.4)
Commercial Paper 2	(16.4)
Commercial Paper 3 & Extendible Municipal Commercial Paper 1	(32.1)
ART Notes	(8.3)
Issue 2012 Subordinated Notes	25.2
Investment Income	24.7
OPEB Funding	(22.0)
Entergy Payment (Value Sharing Agreement)	72.0
Entergy Payment (IP2 Purchase Agreement)	10.0
Entergy Payment (Additional Facilities Note)	20.0
NYSERDA MOU	(2.0)
Voluntary Contributions to NY State	(91.0)
Other	(4.5)
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Total (Uses)/Sources	(210.8)
 Net Increase in Operating Fund	 \$145.1