MINUTES OF THE MEETING
OF
THE AUDIT COMMITTEE

February 24 2009

A meeting of the Audit Committee was held at the Authority's offices at the Clarence D. Rappleyea Building, 123 Main Street, White Plains, New York at approximately 10:07a.m.

The following Members of the Audit Committee were present:

Trustee D. Patrick Curley (Chairman)
Trustee Elise M. Cusack
Trustee Jonathan F. Foster

Also in attendance were:

Michael J. Townsend	*Acting Chairman*
Eugene L. Nicandri	*Trustee (via videoconference)*
Gil Quiniones	*Chief Operating Officer*
Joseph Del Sindaco	*Executive Vice President and Chief Financial Officer*
Donald Russak	*Senior Vice President – Corporate Planning and Finance*
Arnold Bellis	*Vice President – Controller*
Lesly Pardo	*Vice President – Internal Audit*
Anne Cahill	*Corporate Secretary*
Angela Graves	*Deputy Corporate Secretary*
Denise D'Ambrosio	*Principal Attorney I*
Thomas Concadoro	*Director – Accounting*
Dennis Eccleston	*Chief Information Officer*
Mary Jean Frank	*Associate Corporate Secretary*
Lorna Johnson	*Assistant Corporate Secretary*
David Milkosky	*Partner, Ernst & Young*
Randy Nelson	*Principal, Ernst & Young*
Louis Roberts	*Audit Senior Manager, Ernst & Young*

1. <u>Minutes of the Regular Meeting of July 10, 2008</u>

The minutes of the Committee's Regular Meeting of July 10, 2008 were adopted.

2. Year-End 2008 Financial Statements Summary

Mr. Thomas Concadoro presented the highlights of the Authority's 2008 financial statements. He pointed out the following:

- Management's Discussion and Analysis ("MD&A") mentioned:

  - Comparison of operating results for 2008 and 2007 noting items that resulted in an increase in net income from $235 million to $299 million (including higher market-based sales and higher production at Flynn.

  - Accomplishments such as the Governor's approval of the Alcoa contract extension and additional funding of the Other Post-Employment Benefits ("OPEB") obligation.

  - The State's $544 million request for significant voluntary contributions ($226 million) and asset transfers ($318 million) and the related Trustee actions in January and early February 2009.

  - Economic conditions resulting in downgrades of bond insurers. The Authority has been able to redeem $72 million of auction rate securities with tax-exempt commercial paper in this environment.

- Changes of significance in the Authority's balance sheets include:

  - Redemption of $72 million in auction-rate securities and $47 million of Series 1998 A Revenue Bonds.

  - Shift in risk management hedging positions from an asset of $53 million to an obligation of $123 million, primarily due to decreases in market prices.

  - $167 million decrease in decommissioning fund to $812 million. The decrease is significant but has no impact on the Authority's liability to Entergy (limited to the funds in the decommissioning fund).

  - Debt/equity ratio continued to decrease to 0.83 to 1 (the Authority's lowest total debt-to-equity ratio since it implemented proprietary accounting in 1982).

- Statement of revenues, expenses and changes in net assets:

  - Labels on income statement were changed to bring them more in line with Government Accounting Standards Board ("GASB") #34. Net Operating Revenue is renamed "Operating Income" and Net Revenues are renamed "Net Income and Change in Net Assets."

  - The $60 million payment to the State in April 2008 appears as a separate line item "Contributions to State" and is classified as a non-operating expense. Voluntary contributions made in prior years were related to the Power for Jobs ("PFJ") program. As a program cost, these contributions were classified as operating expenses.

- Statement of cash flows:

  - Net cash provided by operating activities increased by 37% to $448 million consistent with the increase in operating income.

- Footnotes:

  - Accounting Policies [Note B(8)]: GASB's "Accounting and Financial Reporting for Derivative Instruments" requires fair market reporting, effectiveness testing and expanded disclosures starting in 2010.

  - Long-term Debt [Note F]: Redemption of $72 million in auction-rate securities and $47 million of Series 1998 A Revenue Bonds.

  - Post-employment Benefits [Note I]: Updated to include the biannual actuarial evaluation as of January 1, 2008 and additional funding of $125 million to OPEB Trust Fund in 2008. Discloses potential increase in future contributions to New York State Retirement System due to decline in financial markets.

  - Nuclear Plant Divestiture and Related Matters [Note K]: Footnote includes disclosure that the proposed spinoff of Entergy's nuclear plants would not constitute a terminating event for the value-sharing agreements with Entergy.

- Commitments and contingencies:

  - PFJ [Note M(3)]: Latest developments in claim of two PFJ customers regarding implementation of PFJ rebate and restitution calculations (including the Authority receiving permission to appeal to the Court of Appeals in December 2008).

  - Street Lighting [Note M(4b)]: Settlement of New York City's claim for a refund for street-lighting service.

  - New York State Budget Matters and Other Issues [Note M(7)]: Updated to reflect the severe budget problems facing the State and the request for significant assistance in the amount of $544 million, including voluntary contributions ($226 million) and temporary asset transfers ($318 million). Note references Trustee actions in January and early February 2009, as well as the fact that a future voluntary contribution ($107 million) and a future temporary asset transfer ($103 million) will require Trustee reaffirmation prior to payment.

  - Regional Greenhouse Gas Initiative [Note M(10)]: Disclosure of initiative and that the potential cost going forward could be significant.

Mr. Joseph Del Sindaco said that the overwhelming majority of the $123 million in risk-management obligations listed as an Authority liability would be passed on to its customers. He also noted that the restricted funds in the nuclear decommissioning fund posed no risk to the Authority.

Responding to a question from Trustee Eugene Nicandri about the largest single annual increase in contributions the Authority had been required to make to the New York State and Local Employees Retirement System ("System"), Mr. Arnold Bellis said that his recollection was that the Authority had once had to contribute an additional $12-13 million to the System. Mr. Concadoro added that the Authority had also made no contributions to the System for a number of years. Mr. Del Sindaco said that the Authority's contribution has been affected by the fact that employees who have 10 or more years in the System are no longer required to contribute to the System themselves.

Responding to a question from Trustee Jonathan Foster regarding OPEB costs, Mr. Concadoro said that the Authority has an actuarial liability of more than $300 million, including prior service costs, which are being amortized over 20 years from the initial implementation of accrual accounting for OPEBs.

In response to a question from Chairman D. Patrick Curley, Ms. Denise D'Ambrosio said that the Court of Appeals had granted the Authority permission to appeal in the case involving PFJ rebate and restitution calculations.

123 Main Street
White Plains, New York 10601
914 681.6000

New York Power Authority

Memorandum

February 13, 2009

To: **Audit Committee Members:**
Chairman D. Patrick Curley
Trustee Elise M. Cusack
Trustee Jonathan F. Foster

From: **Thomas Concadoro** T Concadoro

Subject: **Year 2008 Annual Report – Financial Section**

Please find a draft copy of the 2008 Annual Report – Financial Section (Attachment 2) for your consideration. We are planning to review the report at the February 24, 2009 audit committee meeting and present it to the full board for its approval in March. If you have any comments, please forward them or call me on extension 3350 in the White Plains Office.

To facilitate the review, we have attached a presentation highlighting significant changes and items of particular importance (Attachment 1). Related sections of the annual report are also highlighted for your reference (Attachment 2).

Attachments

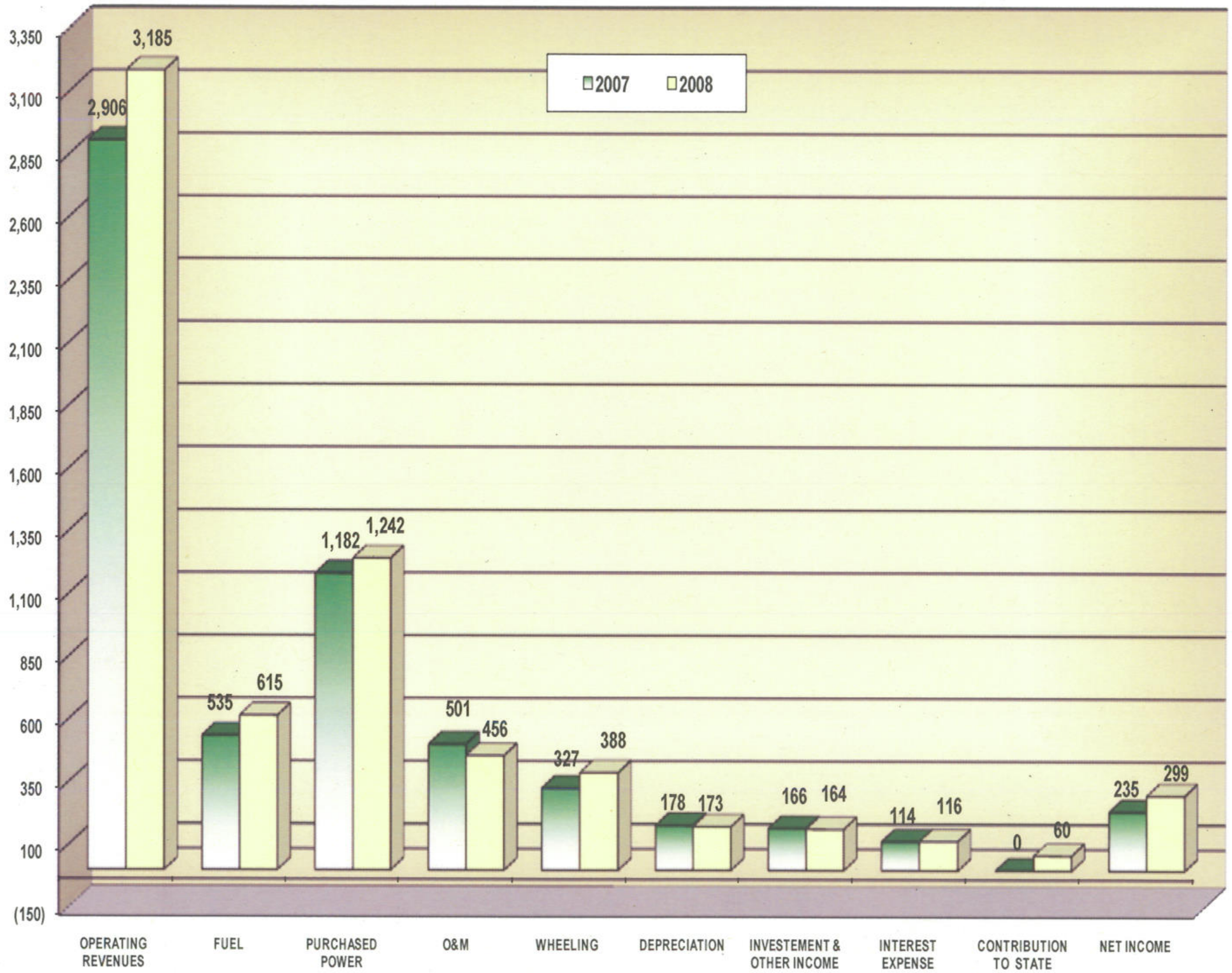
cc: **Richard M. Kessel**
Gil C. Quiniones
Joseph Del Sindaco
Terryl Brown Clemons
Edward A. Welz
Steven J. DeCarlo
Angelo Esposito
Paul F. Finnegan
William J. Nadeau
Joan Tursi
James H. Yates
Arnold M. Bellis
Arthur T. Cambouris
Anne B. Cahill
Donald Russak
Thomas A. Davis
Brian McElroy
Les Pardo
Stephen P. Shoenholz

Attachment 1

2008 Annual Report- Financial Section Highlights

Audit Committee
February 24, 2009

Summary Statement of Net Income
Years ended December 31, 2008 and 2007
($ in millions)



	BETTER (WORSE)
OPERATING REVENUES	
Reflects higher market based-sales, higher production at Flynn and pass-through of higher SENY delivery service charges.	279
FUEL	
Higher prices & fossil production at Flynn (49%) and Poletti plants (13%)	(80)
PURCHASED POWER	
Higher prices and volumes for power purchased primarily to supply the NYC Governmental	(60)
OPERATIONS & MAINTENANCE	
Lower voluntary contribution to N.Y. State related to Power for Jobs partially offset by higher expenses at the 500mw including compressor	45
WHEELING	
Primarily due to higher delivery service rates charged by Con Ed.	(61)
DEPRECIATION	5
INVESTMENT & OTHER INCOME	
Reflects higher unrealized gains in 2008 offset by lower interest and realized gains.	(2)
INTEREST EXPENSE	(2)
CONTRIBUTION TO STATE	
Payment to State unrelated to Power for Jobs	(60)
NET INCOME	**64**

Management's Discussion and Analysis (MD&A)

Highlights include:

- comparison of operating results for the years 2008 and 2007 noting items that resulted in an increase in net income from $235 to $299 million
- recent accomplishments including the Governor's approval of Alcoa extension and additional funding of the OPEB obligation
- the State's $544 million request for significant voluntary contributions ($226 million) and asset transfers ($318 million) and the related Trustee actions in January and early February 2009
- economic conditions resulting in downgrades of bond insurers. NYPA has been able to redeem $72 million of auction rate securities with tax-exempt commercial paper in this environment

Balance Sheet

Changes of significance include:

- the redemption of $72 million in auction rate securities and $47 million of Series 1998 A Revenue Bonds

- a shift in risk management hedging positions from an asset of $53 million to a obligation of $123 million primarily due to decreases in market prices

- a $167 million decrease in the decommissioning fund to $812 million. The decrease is significant but has no impact on the Authority's liability to Entergy (limited to the funds in the decommissioning fund.)

- debt/equity ratio continued to decrease to 0.83 to 1 (the Authority's lowest total debt to equity ratio since it implemented proprietary accounting in 1982)

Statement of Revenues, Expenses, and Changes in Net Assets

- Labeling of the income statement has changed to bring more in line with GASB #34. Net operating revenue is renamed as "Operating Income" and Net Revenues renamed as "Net Income & Change in Net Assets."

- April 2008 payment to the State ($60 million) appears as a separate line item "Contributions to State" and classified as a Non-operating expense. Voluntary contributions made in prior years were related to the Power for Jobs Program. As a program cost, these contributions were classified as operating expenses.

Statement of Cash Flows

- Net cash provided by operating activities increased by 37% to $448 million consistent with the increase in operating income.

Footnotes

- Accounting Policies (Note B (8)) – the GASB issued “Accounting and Financial Reporting for Derivative Instruments” establishing accounting and reporting requirements for derivative instruments. This pronouncement requires fair market reporting, effectiveness testing and expanded disclosures starting in the year 2010.

- Long-term Debt (Note F) – Redemption of $72 million in auction rate securities and $47 million of its Series 1998 A Revenue Bonds

- Post-Employment Benefits (Note I) – Updated to include the bi-annual actuarial evaluation as of 01/01/08 and the additional funding of $125 million to the OPEB Trust Fund in 2008. Discloses potential increase in future contributions to New York State Retirement System due to decline in financial markets.

- Nuclear Plant Divestiture and Related Matters (Note K) – Footnote includes disclosure that the proposed spinoff of Entergy’s nuclear plants would not constitute a terminating event for the value sharing agreements with Entergy

Commitments & Contingencies –

- Power for Jobs (Note M (3)) – Latest developments in claim of two PFJ customers regarding the implementation of Power for Jobs rebate and restitution calculations (including the Authority receiving permission to appeal to the Court of Appeals in December 2008).

- Street-lighting (Note M (4b.)) – Settlement of NYC's claim for a refund for street-lighting service

- New York State Budget Matters and Other Issues (Note M (7)) – Updated to reflect the severe budget problems facing the State and the request for significant assistance in the amount of $544 million including voluntary contributions ($226 million) and temporary asset transfers ($318 million). Note references Trustee actions in January and early February 2009. Also that future voluntary contribution ($107 million) and a future temporary asset transfer ($103 million) will require trustee reaffirmation prior to payment.

- Regional Greenhouse Gas Initiative (RGGI) (Note M (10)) – Disclosure of initiative and that the potential cost could be significant going forward.

FINANCIAL REPORT

Report of Management

Management is responsible for the preparation, integrity and objectivity of the financial statements of the Power Authority of the State of New York (the Authority), as well as all other information contained in the Annual Report. The financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America and, in some cases, reflect amounts based on the best estimates and judgments of management, giving due consideration to materiality. Financial information contained in the Annual Report is consistent with the financial statements.

The Authority maintains a system of internal controls to provide reasonable assurance that transactions are executed in accordance with management's authorization, that financial statements are prepared in accordance with accounting principles generally accepted in the United States and that the assets of the Authority are properly safeguarded. The system of internal controls is documented, evaluated and tested on a continuing basis. No internal control system can provide absolute assurance that errors and irregularities will not occur due to the inherent limitations of the effectiveness of internal controls; however, management strives to maintain a balance, recognizing that the cost of such system should not exceed the benefits derived.

The Authority maintains an internal auditing program to independently assess the effectiveness of internal controls and to report findings and recommend possible improvements to management. This program includes a comprehensive assessment of internal controls as well as testing of all key controls to ensure that the system is functioning as intended. In addition, the Authority's Inspector General is responsible for investigating allegations of wrongdoing; monitoring compliance with the Authority's rules and regulations; and initiating reviews and investigations into areas of special concern or vulnerability. Additionally, as part of its audit of the Authority's financial statements, Ernst & Young LLP, the Authority's independent auditors, considers internal controls over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for purpose of expressing an opinion on the effectiveness of the Authority's internal controls over financial reporting. Management has considered the recommendations of the internal auditors, the Office of the State Comptroller (OSC), and the independent auditors concerning the system of internal controls and has taken actions that it believed to be cost-effective in the circumstances to respond appropriately to these recommendations. Based on its structure and related processes, management believes that, as of December 31, 2008, the Authority's system of internal controls provides reasonable assurance as to the integrity and reliability of the financial statements, the protection of assets from unauthorized use or disposition and the prevention and detection of fraudulent financial reporting.

The members of the Authority's Board of Trustees, appointed by the Governor, by and with the advice and consent of the Senate, are not employees of the Authority. The Trustees' Audit Committee meets with the Authority's management, its Vice President of Internal Audit and its independent auditors periodically, throughout the year, to discuss internal controls and accounting matters, the Authority's financial statements, the scope and results of the audit by the independent auditors and the periodic audits by the OSC, and the audit programs of the Authority's internal auditing department. The independent auditors, the Vice President of Internal Audit, the Inspector General and the Vice President of Ethics & Employee Resources have direct access to the Audit Committee.

Joseph M. Del Sindaco
Executive Vice President & Chief Financial Officer

Report of Independent Auditors

ERNST & YOUNG LLP

To the Board of Trustees
Power Authority of the State of New York

We have audited the accompanying balance sheets and related statements of revenues, expenses, and change in net assets and of cash flows of the Power Authority of the State of New York (the "Authority") as of and for the years ended December 31, 2008 and 2007. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States and the standards for financial statement audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of December 31, 2008 and 2007, and the changes in its financial position and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 27, 2009 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and the Schedule of Funding Progress on pages 20 to 26 and page 50, respectively, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

5 Times Square
New York, NY 10036

February 27, 2009

MANAGEMENT’S DISCUSSION AND ANALYSIS

Operating Environment

The Authority’s mission is to provide clean, economical and reliable energy consistent with its commitment to safety, while promoting energy efficiency and innovation, for the benefit of its customers and all New Yorkers. To accomplish its mission, the Authority’s strategic goals are as follows:

- **Providing value to our customers and the people of New York State** by creating more value through low cost power and energy services;
- **Optimization and potential expansion of generation assets** by preparing the Authority to get the most out of its existing generation assets and to build the capacity to see that future energy needs of its customers and the people of New York State are met;
- **Optimization and upgrade of transmission assets** by preparing the Authority to get the most out of its existing transmission assets and upgrade where necessary to see that the future energy needs of its customers and the people of New York State are met;
- **Employee development and readiness** by providing for a skilled, motivated and diverse workforce prepared to meet the challenges it needs to confront in order to fulfill its mission;
- **Supporting New York State Energy Policy** by advancing Energy Policy goals as outlined by the Governor and/or the Legislature and approved by the Board of Trustees ;
- **Planning for the future** by providing the capability to plan for the long term and to ensure that approved plans are implemented.

The Authority's financial performance goal is to have the resources necessary to achieve its mission, to maximize opportunities to serve its customers better and to preserve its strong credit rating.

To maintain its position as a low cost provider of power in a changing environment, the Authority has undertaken and continues to carry out a multifaceted program, including: (a) the upgrade and relicensing of the Niagara and St. Lawrence-FDR projects; (b) long-term supplemental electricity supply agreements with its governmental customers located mainly within the City of New York (NYC Governmental Customers); (c) construction of a 500-megawatt (MW) combined-cycle electric generating plant at the Authority’s Poletti plant site (500-MW plant); (d) a significant reduction of outstanding debt; and (e) implementation of an energy and fuel risk management program. Major accomplishments during 2008 supporting this program include an agreement (approved by Governor Paterson in January 2009) with Alcoa for the continued supply of hydropower from the Authority’s St. Lawrence-FDR Power Project, additional funding of the Authority’s Other Postemployment Benefits (OPEB) obligation and initiating the development of a program to assess enterprise-wide risk across the Authority.

The Authority operates in a competitive and sometimes volatile market environment. Volatility in the energy market has unfavorably impacted the Authority in its role as a buyer and has resulted in higher costs of purchased power and fuel in its NYC Governmental Customer and other market areas. The NYC Governmental Customer market cost situation has been addressed and mitigated by both the “Energy Charge Adjustment with Hedging” (ECA) cost recovery provisions in the new long-term supplemental electricity supply agreements and generation from the 500-MW plant. It should be noted that higher energy prices have, in some cases, favorably impacted the Authority in its role as a seller (revenues) in the electricity market. In 2008, wholesale electricity prices peaked in the summer and declined towards year-end reflecting the weaknesses in the economy and in commodity prices. Wholesale electricity prices are forecasted to be lower in 2009, thereby resulting in lower costs of purchased power and fuel, but also unfavorably impacting the Authority in its role as a seller in the electricity market.

The Authority also operates in an environment where certain programs implemented by the State have been funded by voluntary contributions from the Authority, for example, the Power for Jobs program. The economic downturn has also caused severe budget problems for the State resulting in additional requests for voluntary contributions from the Authority. See Note L (7), “New York State Budget Matters and Other Issues.”

During 2008, volatile financial markets severely impacted the world economy. According to the National Bureau of Economic Research (NBER), a recession in the United States began in December 2007. Many economists believe that this recession will be long and deep. The environment has been described as the worst financial crisis since the 1930’s. Credit availability became scarce or non-existent even for the most creditworthy borrowers. In this environment, the Authority continued to exercise its financial flexibility. As an example, in early 2008, the periodic auctions in the $300 billion Auction Rate Securities (ARS) market began failing and the ARS market became illiquid. Investors were unable to readily sell their investments in ARS and if they were able to sell, it was at a significant discount. The Authority decided to refund its $72.1 million in ARS with tax-exempt commercial paper thereby rendering its holders of ARS whole in an illiquid market.

Summary Statement of Revenues, Expenses, and Changes in Net Assets
(*in Millions*)

	2008	2007	2006	2008 vs. 2007 Favorable/ (Unfavorable)	2007 vs. 2006 Favorable/ (Unfavorable)
Operating Revenues	**$3,185**	$2,906	$2,666	10%	9%
Operating Expenses					
Purchased power	**1,242**	1,182	1,067	(5%)	(11%)
Fuel	**615**	535	523	(15%)	(2%)
Operations & Maintenance	**456**	501	432	9%	(16%)
Wheeling	**388**	327	296	(19%)	(10%)
Depreciation	**173**	178	173	3%	(3%)
Total Operating Expenses	**2,874**	2,723	2,491	(6%)	(9%)
Operating Income	**311**	183	175	70%	5%
Nonoperating Revenues	**164**	166	72	(1%)	131%
Nonoperating Expenses	**176**	114	110	(54%)	(4%)
Nonoperating Income (Loss)	**(12)**	52	(38)	(123%)	237%
Net Income & Change in Net Assets	**299**	235	137	27%	72%
Net Assets – Beginning	**2,268**	2,033	1,896	12%	7%
Net Assets – Ending	**2,567**	$2,268	$2,033	13%	12%

The following summarizes the Authority's financial performance for the years 2008 and 2007:

The Authority had net income of $299 million in the year 2008, compared to $235 million in 2007. This $64 million increase in net income is attributable to higher operating revenues ($279 million) partially offset by higher operating expenses ($151 million) and lower nonoperating income ($64 million). Revenues were higher primarily due to increased production at the Flynn plant, higher delivery service revenues in serving the southeastern New York (SENY) Governmental Customers and higher market-based sales. The increase in delivery service revenues reflects the pass through to customers of a price increase instituted by our service provider. Market-based sales were higher mainly due to higher prices on power sold to the NYISO generated by the Authority's Poletti plant and the Small Clean Power Plants. Operating Expenses were higher primarily due to higher prices for purchased power, fuel and delivery service in serving the SENY Governmental Customers. Operations and maintenance expenses were lower primarily due to a lower voluntary contribution to New York State related to the Authority's Power for Jobs program. Pursuant to State budget legislation, the Authority made a voluntary payment of $60 million to the State unrelated to the Authority's Power for Jobs program. This payment has been reflected and classified as a Contribution to New York State in the nonoperating expenses section of the Authority's 2008 financial statements.

During 2008, total debt decreased by $169 million, or 7%, primarily due to scheduled maturities and early extinguishment of debt. Interest expense was $2 million higher than 2007 primarily due to the increase in interest expense related to relicensing cost obligations ($11 million) offset by reductions in interest costs related to a reduced level of long-term debt ($3 million) and short-term debt ($5 million) due to lower interest rates. During the period 1998 to 2008, the Authority reduced its total debt/equity ratio from 1.44 to 0.83. This is the first time that the Authority's total debt/equity ratio has gone below 1 and is also the Authority's lowest debt/equity ratio since it implemented proprietary accounting in 1982.

The Authority had net income of $235 million in the year 2007, compared to $137 million in 2006. This $98 million increase in net income is attributable to higher revenues ($240 million) and non-operating income ($87 million) partially offset by higher operating expenses ($232 million). The increase in revenues was primarily due to the recovery of higher energy costs incurred in serving the SENY Governmental Customers and higher market-based sales of power generated by the Authority's 500 MW plant and the Small Clean Power Plants. The increase in nonoperating income was primarily due to the recognition of an initial payment of $72 million from subsidiaries of Entergy Corporation resulting from negotiation of revised agreements regarding the sharing of revenues generated by the nuclear power plants previously owned by the Authority. Operating expenses were higher due to increased purchased power and fuel costs combined with a higher voluntary contribution to New York State associated with the Power for Jobs program.

Operating Revenues

Operating revenues of $3,185 million in 2008 were $279 million or 10% higher than the $2,906 million in 2007, primarily due to increased production at the Flynn plant, higher delivery service revenues in serving the SENY Governmental Customers and higher market-based sales. The increase in delivery service revenues reflects the pass through to customers of a price increase instituted by our service provider. Market-based sales were higher mainly due to higher prices on power sold to the NYISO generated by the Authority's Poletti plant and the Small Clean Power Plants.

Purchased Power and Fuel

Purchased power costs increased by 5% in 2008 to $1,242 million from $1,182 million in 2007, primarily due to the higher prices and increased volume related to purchased power for the SENY Governmental Customer market area. Fuel costs were $80 million (15%) higher during 2008, reflecting higher fossil-fuel production and higher fuel prices at the Flynn and Poletti plants and related higher sales to the NYISO.

Operations and Maintenance

O&M expenses decreased by 9% in 2008 to $456 million primarily due to lower accrued voluntary contributions to New York State relating to the Power for Jobs program. (See Note L (7), "New York State Budget Matters and Other Issues" for related information on voluntary contributions to the State.)

Nonoperating Revenues

For 2008, nonoperating revenues decreased by $2 million or 2% due to slightly lower average invested balances and lower rates of return resulting from the flight to quality and safety of federal government securities in the financial market. Nonoperating revenues for 2008 and 2007 include income recognition of $72 million for each year resulting from the negotiation of a revised revenue sharing agreement relating to revenues generated at the nuclear power plants sold to subsidiaries of Entergy Corporation in 2000. See Note K (1), "Nuclear Plant Divestiture," for additional information.

Nonoperating Expenses

For 2008, nonoperating expenses increased by $62 million or 54% primarily due to the Authority's $60 million voluntary contribution to New York State that was not related to the Power for Jobs program.

Cash Flows

During 2008, the Authority generated cash flows of $448 million from operations compared to $326 million in 2007. Cash flows from operating activities for 2008 were higher than 2007 primarily due to increased revenue from energy sales to the NYISO at higher average prices than the prior year and higher receipts from customers for the sale of power, partially offset by an increase in purchased power cost due to increases in price.

Net Generation

Net generation for 2008 was 27.2 million megawatt-hours (MWh) compared to the 26.3 million MWh generated in 2007. Net generation from the Niagara (13.6 million MWh) and St. Lawrence (7.0 million MWh) facilities were 4% and 5% higher, respectively, than 2007 (13.1 million MWh and 6.7 million MWh, respectively). During 2008, combined net generation of the fossil fuel plants was 6.7 million MWh, level with 2007 (6.8 million MWh), with increased output from the older Poletti and Flynn plants offsetting decreases at the newer 500-MW and the Small Clean Power Plants due to maintenance outages.

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 the electricity supplied to the Authority's customers from these projects. Flow conditions have improved such that hydroelectric generation levels have returned to near long-term average from 2004 through 2008.

New York State Budget Matters

The Authority is requested, from time to time, to make financial contributions or transfers of funds to the State. Any such contribution or transfer of funds must (i) be authorized by State legislation (generally budget legislation), and (ii) satisfy the requirements of the Bond Resolution. The Bond Resolution requirements to withdraw moneys "free and clear of the lien and pledge created by the [Bond] Resolution" are as follows: (1) must be for a "lawful corporate purpose as determined by the Authority," and (2) the Authority must determine "taking into account, among other considerations, anticipated future receipt of Revenues or other moneys constituting part of the Trust Estate, that the funds to be so withdrawn are not needed" for (a) payment of reasonable and necessary operating expenses, (b) an Operating Fund reserve for working capital, emergency repairs or replacements, major renewals, or for retirement from service, decommissioning or disposal of facilities, (c) payment of, or accumulation of a reserve for payment of, interest and principal on senior debt, or (d) payment of interest and principal on subordinate debt.

Legislation enacted into law, as part of the 2000-2001 State budget, as amended in subsequent years, authorizes the Authority "as deemed feasible and advisable by the Trustees," to make annual "voluntary contributions" into the State treasury in connection with the PFJ Program. Commencing in December 2002 through March 2008, the Authority made such voluntary contributions to the State in an aggregate amount of $424 million.

In recent years, annual extensions of the PFJ Program have been signed into law. The most recent in April 2008 (1) extends the PFJ Program, including the PFJ Rebate provisions, to June 30, 2009; (2) authorizes the Authority to make an additional voluntary contribution of $25 million for the State Fiscal Year 2008-2009 with the aggregate amount of such contributions increasing to $449 million; (3) authorizes certain customers that had elected to be served by PFJ contract extensions to elect to receive PFJ Rebates instead; and (4) requires the Authority to make payments to certain customers to reimburse them with regard to PFJ Program electric prices that are in excess of the electric prices of the applicable local electric utility.

In light of the severe budget problems facing the State at this time, the Governor has proposed additional budget legislation authorizing the Authority, as deemed "feasible and advisable by its trustees" to make voluntary contribution payments of approximately $119 million during the remainder of State Fiscal Year 2008-2009 and approximately $107 million during State Fiscal Year 2009-2010. Subsequent to year-end, the Authority's Trustees authorized additional voluntary contributions of $119 million that were paid in January 2009. With this $119 million payment, the Authority has made voluntary contributions to the State totaling $449 million in connection with the PFJ Program and $70 million unrelated to the PFJ Program along with the annual payment for 2008 and prepayments for 2009 and 2010 totaling $24 million to the New York State Office of Parks, Recreation and Historic Preservation ("OPRHP"). The financial statements for the year ended December 31, 2008 include an accrued liability and charge against net income related to the portion applicable to 2008 ($33 million). The costs related to 2009 ($78 million) which is composed of the $70 million contribution to State and $8 million OPRHP payment were recorded in January 2009 to be reported and classified as a Contribution to State and an operating expense, respectively, in the 2009 income statement. The $8 million OPRHP payment applicable to 2010 was recorded as a prepayment for 2010 made in January 2009.

In addition to the expected authorization for the voluntary contributions, the Authority has also been requested to provide temporary transfers to the State of certain funds currently in reserves. Pursuant to the terms of a proposed Memorandum of Understanding ("MOU") between the State, acting by and through the Director of Budget of the State, and the Authority, the Authority would agree to transfer approximately $215 million associated with its Spent Nuclear Fuel Reserves (Asset B) by the end of State Fiscal Year 2008-2009. The Spent Nuclear Fuel Reserves are funds that have been set aside for payment to the federal government sometime in the future when the federal government accepts the spent nuclear fuel for permanent storage. The MOU is expected to provide for the return of these funds to the Authority, subject to appropriation by the State Legislature and the other conditions described below, at the earlier of the Authority's payment obligation related to the transfer and disposal of the spent nuclear fuel or September 30, 2017. Further, the MOU is expected to authorize the Authority to transfer during State Fiscal Year 2009-2010 approximately $103 million of funds set aside for future construction projects (Asset A), which amounts would be returned to the Authority, subject to appropriation by the State Legislature and the other conditions described below, at the earlier of when required for operating, capital or debt service obligations of the Authority or September 30, 2014.

The obligation of the State to return all or a portion of an amount equal to the moneys transferred by the Authority to the State would be subject to annual appropriation by the State Legislature. Further, the MOU provides that as a condition to any such appropriation for the return of the monies earlier than September 30, 2017 for the Spent Nuclear Fuel Reserves and earlier than September 30, 2014 for the construction projects, the Authority must certify that the monies available to the Authority are not sufficient to satisfy the purposes for which the reserves, which are the source of the funds for the transfer, were established.

In February 2009, the Authority's trustees authorized the execution of the MOU relating to the temporary transfers of Asset B ($215 million) by March 27, 2009 and Asset A ($103 million) within 180 days of the enactment of the 2009-10 State Budget; and approved the payment of the voluntary contribution of $107 million by March 31, 2010. Actual payment of these funds is conditioned on passage of legislation that authorizes such payments as deemed feasible and advisable by the Authority's trustees. In addition, the temporary transfer of Asset A ($103 million) and the voluntary contribution of $107 million will require trustee reaffirmation prior to the actual dates of the transfer and contribution.

For financial reporting purposes, the Authority will classify the transfers of Asset A and Asset B ($318 million) as a long-term loan receivable. In lieu of interest payments, the State will waive certain future payments from the Authority to the State. Firstly, the Authority's obligation to pay the amounts to which the State is entitled under a governmental cost recovery process for the costs of central governmental services would be waived until September 30, 2017. These payments would have been approximately $5 million per year based on current estimates but the waiver would be limited to a maximum of $45 million in the aggregate during the period. Secondly, the obligation to make payments in support of the Niagara State park and for the upkeep of State lands adjacent to the Niagara or St. Lawrence power plants would be waived from April 1, 2011 to March 31, 2017. These payments would have been $8 million per year but the waiver would be limited to a maximum of $43 million for the period. The present value of the waivers exceeds the present value of the lost interest income. The voluntary contribution of $107 million will be reflected and classified as a Contribution to State in the 2010 income statement.

Governmental Customers in the New York City Metropolitan Area

In 2005, the Authority and its NYC Governmental Customers entered into long-term supplemental electricity supply agreements (Agreements). Under the Agreements, the NYC Governmental Customers 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 and, under certain limited conditions, on one year's 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. Beginning in 2005, the Authority implemented a new annual price setting process 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 the NYC Governmental Customers. Under the Agreements, such market-risk hedging options include a full cost pass-through arrangement relating to fuel, purchased power, and NYISO-related costs, including such an arrangement with some cost hedging.

Under the Agreements, the Authority will modify rates annually through a formal rate case where 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 are reconciled and all or a portion of the variance is either charged or credited to the NYC Governmental Customers.

In 2007, the NYC Governmental Customers selected an "Energy Charge Adjustment with Hedging" cost recovery mechanism under which all Variable Costs are passed on to them, and which, once elected, applies for two consecutive years. Thus, an ECA mechanism applied during calendar year 2008. The Authority incorporated the Trustee-approved Fixed Costs, the Variable Costs determined under the Agreement's rate-setting process and the ECA set forth in the Agreement, into new rates effective for 2008 billings. Since an ECA mechanism was in effect for 2008, Authority invoices included an addition or subtraction each month that reflected changes in the cost of energy as described in the Agreement. The parties have agreed to continue the ECA mechanism for 2009.

With the customers' guidance and approval, the Authority will continue to offer up to $100 million annually in financing for energy efficiency projects and initiatives at governmental customers' facilities, with the costs of such projects to be recovered from such customers.

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 (County), and by first quarter 2008, the remaining 103 Westchester Governmental Customers had executed the new agreement. Among other things, under the agreement, an energy charge adjustment mechanism will be applicable, and customers are allowed to partially terminate service from the Authority on at least two months notice prior to the start of the NYISO capability periods. Full termination is allowed on at least one year's notice, effective no sooner than January 1 following the one year notice.

Energy Cost Savings Benefits

Certain business customers served under the Authority's High Load Factor, Economic Development Power and Municipal Distribution Agency programs faced rate increases beginning November 1, 2005.

To remedy this situation, legislation was enacted into law in July 2005 (Chapter 313, 2005 Laws of New York) (the ''2005 Act'') which amended 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 energy cost savings benefits to be provided to certain Authority customers. Relating to the Energy Cost Savings Benefits ("ECS 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 for a limited period 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 ECS Benefits. The ECS Benefits are administered by New York State 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 scheduled to expire on December 31, 2006, additional laws in 2006, 2007 and 2008 (2006 law, 2007 law and 2008 law) extended the ECS Benefits program through June 30, 2009 which means that the benefits are currently scheduled to expire after June 30, 2010.

The 2006 law also provides that the Authority make available for allocation to customers the 70 MW of hydropower that had been utilized as a source of funding the ECS Benefits (ECS Funding Source). From the inception of the ECS Benefits program through December 31, 2007, the ECS Benefits program was paid for from the ECS Funding Source, as opposed to internal funds of the Authority. As a result of removal of the ECS Funding Source, the Authority paid from internal funds approximately $40 million in ECS Benefits for 2008.

Summary Balance Sheet
(*in Millions*)

	2008	2007	2006	2008 vs. 2007	2007 vs. 2006
Current Assets	**$1,475**	$1,370	$1,300	8%	5%
Capital Assets	**3,737**	3,773	3,427	(1%)	10%
Other Noncurrent Assets	**1,795**	1,865	1,672	(4%)	12%
Total Assets	**$7,007**	$7,008	$6,399	-	10%
Current Liabilities	**$ 895**	$830	$ 910	8%	(9%)
Long-term Liabilities	**3,545**	3,910	3,456	(9%)	13%
Total Liabilities	**4,440**	4,740	4,366	(6%)	9%
Net Assets	**2,567**	2,268	2,033	13%	12%
Total Liabilities and Net Assets	**$7,007**	$7,008	$6,399	-	10%

The following summarizes the Authority's balance sheet variances for the years 2008 and 2007:

In 2008, current assets increased by $105 million (8%) to $1,475 million primarily due to an increase in investment in securities ($101 million). Capital assets decreased by $36 million (1%) to $3,737 million primarily due to decreased activity in the capital assets area. Other noncurrent assets decreased by $70 million (4%) to $1,795 million primarily due to a decrease in the decommissioning fund ($167 million) and capital funds ($39 million) partially offset by an increase in other noncurrent assets ($143 million) of which $60 million relates to prepaid OPEB costs to be amortized against future earnings. The decrease in the decommissioning fund due to market value loss does not impact the Authority because its nuclear plant decommission obligation to Entergy is limited to the amount in the decommissioning fund as reflected in the decrease in long-term liabilities. Current liabilities increased by $65 million (8%) to $895 million primarily due to an increase in risk management obligations ($123 million) partially offset by reductions in accounts payable ($39 million) and current maturities of long-term debt ($24 million). Long-term liabilities decreased by $365 million (9%) to $3,545 million primarily due to decreases in long-term debt obligations ($149 million), nuclear plant decommissioning obligations ($167 million) and other long-term liabilities ($49 million). The changes in net assets for 2008 and 2007 are discussed on page 21, Summary Statement of Revenues, Expenses and Changes in Net Assets.

In 2007, current assets increased by $70 million (5%) to $1,370 million primarily due to an increase in investment in securities ($260 million) partially offset by decreases in cash and cash equivalents ($151 million), receivables ($30 million), and risk management assets ($9 million). Capital assets increased by $346 million (10%) to $3,773 million primarily due to the capitalization of the Niagara relicensing costs. Other noncurrent assets increased by $193 million (12%) to $1,865 million due to increases in capital funds ($157 million) and restricted funds ($84 million) partially offset by a decrease in other noncurrent assets ($48 million). Current liabilities decreased by $80 million (9%) to $830 million primarily due to decreases in accounts payable ($63 million) and current maturities of long-term debt ($13 million). Long-term liabilities increased by $454 million (13%) to $3,910 million primarily due to increases in deferred credits and other long-term liabilities ($312 million) and long-term debt ($141 million).

Capital Asset and Long-term Debt Activity

The Authority currently estimates that it will expend approximately $826 million for various capital improvements over the five-year period 2009-2013. The Authority anticipates that these expenditures will be funded using existing construction funds, internally-generated funds and additional borrowings. Such additional borrowings are expected to be accomplished through the issuance of additional commercial paper notes and/or the issuance of long-term fixed rate debt. Projected capital requirements during this period include:

Projects	(*in Millions*)
Niagara Relicensing Compliance/Implementation	$ 36
St. Lawrence-FDR Modernization Program	98
St. Lawrence-FDR Relicensing Compliance/Implementation	22
Blenheim-Gilboa Modernization Program	51
Transmission	113
Lewiston Pump Generating Plant Modernization Program	100
Other	406
Total	$826

In addition, the Authority's capital plan includes the provision of $800 million in financing for Energy Services and Technology Projects to be undertaken by the Authority's customers and other public entities in the State. It should also be noted that because of various issues related to transmission and generation in New York State, there is a potential for significant increases in the capital expenditures indicated in the table above.

On October 23, 2003, the Federal Energy Regulatory Commission (FERC) issued to the Authority a new 50-year license for the St. Lawrence-FDR project, effective November 1, 2003. The Authority estimates that the total cost associated with the relicensing of the St. Lawrence-FDR project for a period of 50 years will be approximately $210 million of which approximately $166 million has already been spent. The total cost could increase in the future as a result of additional requirements that may be imposed by FERC under the new license.

By order issued March 15, 2007, 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 the 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. In November 2007, these entities filed a petition for review of FERC's orders in the Court of Appeals for the District of Columbia Circuit. Briefing by the parties has been completed and oral argument before the Court was held in February 2009. The Authority is unable to predict the outcome of this matter but the Authority believes that FERC has available meritorious defenses and positions with respect thereto.

In addition to internally generated funds, the Authority issued additional debt obligations in October 2007 to fund, among other things, Niagara relicensing costs. The costs associated with the relicensing of the Niagara Project, including the debt issued therefor, were incorporated into the cost-based rates of the Project beginning in 2007.

More detailed information about the Authority's capital assets is presented in Notes B and E to the financial statements.

Capital Structure
(*in Millions*)

	2008	2007	2006
Long-term debt			
Senior			
Revenue bonds	**$1,196**	$1,283	$1,052
Adjustable rate tender notes	**138**	144	150
Subordinated			
Subordinate revenue bonds		72	75
Commercial paper	**417**	394	474
Total long-term debt	**$1,744**	$1,893	$1,752
Net assets	**2,564**	2,268	2,033
Total Capitalization	**$4,315**	$4,161	$3,785

During 2008, long-term debt, net of current maturities, decreased by $149 million, due to early extinguishments of debt ($122 million) which included the February ($47 million) and August 2008 ($72 million) redemptions, described below, and scheduled maturities ($102 million) offset by a $75 million increase in commercial paper classified as long-term debt. During 2007, long-term debt, net of current maturities, increased by $141 million, primarily due to debt issuance ($602 million) partially offset by its use to refinance debt ($370 million) and scheduled maturities ($116 million). Total Debt to Equity as of December 31, 2008, decreased to 0.83 to 1 from 1.01 to 1 as of December 31, 2007. The Total Debt to Equity ratio as of December 31, 2008 is the lowest ratio since the Authority implemented proprietary accounting in 1982.

On February 15, 2008, in addition to redeeming the Series 1998 A Revenue Bonds maturing on that date ($29 million), the Authority also redeemed all the outstanding Series 1998 A Revenue Bonds maturing after such date ($47 million).

In August 2008, the Authority early extinguished its outstanding Auction Rate Securities when it redeemed the $72 million of Subordinate Revenue Bonds, Series 3 and 4, then outstanding.

Debt Ratings

NYPA's Underlying Credit Ratings:	Moody's	Standard & Poor's	Fitch
Senior Debt:			
Long-term debt	Aa2	AA-	AA
Adjustable Rate Tender Notes	Aa2/VMIG1	AA-/A-1+	N/A
Subordinate Debt:			
Commercial Paper	P-1	A-1	F1+
Municipal Bond Insurance Support Ratings:			
Senior Debt:			
Series 2007 A, B & C Revenue Bonds due 2013 to 2047	Aa2*	AA	AA*
Series 2006 A Revenue Bonds due 2009 to 2020	Aa2*	AA-*	AA*
Series 2003 A Revenue Bonds due 2009 to 2033	Aa2*	AAA	AAA

The Authority has a $775 million line of credit with a syndicate of banks supporting the Commercial Paper Notes which line expires January 31, 2011. More detailed information about the Authority's debt is presented in Note F to the financial statements.

During 2008, many bond insurers lost their coveted triple-A ratings. The impact of the bond insurers' credit downgrades on the market value of the Authority's insured bonds was not discernible because of the Authority's underlying double-A ratings. The following summarizes credit rating agency actions against the insurers of certain Authority's bonds.

Firstly, during 2008, Moody's and S&P downgraded the Aaa/AAA ratings of MBIA Inc. (MBIA) to Baa1 and AA, respectively, and consequently downgraded $602.4 million of the Authority's 2007 A, B & C Revenue Bonds that are due November 15, 2013 to 2047 to reflect the insurer's new rating. MBIA is no longer rated by Fitch. Secondly, during 2008, Moody's and S&P downgraded the Aaa/AAA ratings of Financial Guaranty Insurance Co. (FGIC) to Caa1 and CCC, respectively, and consequently downgraded $144.3 million of the Authority's 2006 A Revenue Bonds that are due November 15, 2010 through 2020 to reflect the insurer's new rating. FGIC is no longer rated by Fitch. And thirdly, during 2008, Moody's downgraded the Aaa rating of Financial Security Assurance Inc. (FSA) to Aa3 and consequently downgraded $209.1 million of the Authority's 2003 A Revenue Bonds that are due November 15, 2009 to 2033 to reflect the insurer's new rating. The underlying ratings of the Authority's insured bonds are set forth in the table above. In cases where the insurer's rating is downgraded below the underlying rating or when the insurer is no longer rated, the bonds carry the Authority's underlying rating (*).

Risk Management

The objective of the Authority's risk management program is to manage the impact of interest rate, energy price and fuel cost changes on its earnings and cash flows. To achieve these objectives, the Authority's trustees have authorized the use of various interest rate, energy-price and fuel-price hedging instruments.

The Vice President and Chief Risk Officer - Energy Risk Assessment and Control reports to the Executive Vice President and Chief Financial Officer and 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.

Contacting the Authority

This financial report is designed to provide our customers and other interest parties with a general overview of the Authority's finances. If you have any questions about this report or need additional financial information, contact the New York Power Authority, 123 Main Street, White Plains, New York 10601-3107.

BALANCE SHEETS

December 31, 2008 and 2007 (*in Millions*)

Assets		2008	2007
Current Assets	Cash and cash equivalents		$ 6
	Investment in securities	**$ 955**	854
	Interest receivable on investments	**8**	20
	Accounts receivable	**188**	192
	Materials and supplies:		
	Plant and general	**84**	76
	Fuel (Notes H and L (11))	**39**	34
	Risk management assets (Note H)		53
	Miscellaneous receivables and other	**201**	135
	Total Current Assets	**1,475**	1,370
Noncurrent Assets			
Restricted Funds	Cash and cash equivalents	**21**	7
	Investment in securities (Notes D and K)	**892**	1,066
	Total restricted funds	**913**	1,073
Capital Funds	Cash and cash equivalents	**10**	48
	Investment in securities	**214**	215
	Total capital funds	**224**	263
Capital Assets	Capital assets not being depreciated	**306**	271
	Capital assets, net of accumulated depreciation	**3,431**	3,502
	Total capital assets	**3,737**	3,773
Other Noncurrent Assets	Unamortized debt expense	**18**	20
	Deferred charges, long-term receivables and other	**545**	402
	Notes receivable - nuclear plant sale (Note K)	**95**	107
	Total other noncurrent assets	**658**	529
	Total Noncurrent Assets	**5,532**	5,638
	Total Assets	**$7,007**	$7,008

Liabilities and Net Assets			
Current Liabilities	Accounts payable and accrued liabilities	**$ 397**	$ 436
	Short-term debt (Note G)	**273**	268
	Long-term debt due within one year	**102**	126
	Risk management obligations	**123**	
	Total current liabilities	**895**	830
Noncurrent Liabilities			
Long-term Debt	Long-term debt (Notes C and F):		
	Senior		
	Revenue bonds	**1,196**	1,283
	Adjustable rate tender notes	**138**	144
	Subordinated		
	Subordinate revenue bonds		72
	Commercial paper	**410**	394
	Total long-term debt	**1,744**	1,893
Other Noncurrent Liabilities	Liability to decommission divested nuclear facilities (Note K)	**812**	979
	Disposal of spent nuclear fuel (Note K)	**216**	211
	Deferred revenues and other	**773**	827
	Total other noncurrent liabilities	**1,801**	2,017
	Total Noncurrent Liabilities	**3,545**	3,910
	Total Liabilities	**4,440**	4,740
		1,685	1,701
Net Assets	Invested in capital assets, net of related debt		
	Restricted	**41**	27
	Unrestricted	**841**	540
	Total Net Assets	**2,567**	2,268
	Total Liabilities and Net Assets	**$7,007**	$7,008

The accompanying notes are an integral part of these financial statements.

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

Years ended December 31, 2008 and 2007 *(in Millions)*

		2008	2007
Operating Revenues	Power sales	**$2,643**	$2,430
	Transmission charges	**154**	149
	Wheeling charges	**388**	327
	Total Operating Revenues	**3,185**	2,906
Operating Expenses	Purchased power	**1,242**	1,182
	Operations	**357**	420
	Fuel oil and gas (Notes H and L (11))	**615**	535
	Maintenance	**99**	81
	Wheeling	**388**	327
	Depreciation	**173**	178
	Total Operating Expenses	**2,874**	2,723
	Operating Income	**311**	183
Nonoperating Revenues and Expenses			
Nonoperating Revenues	Investment income (Note D)	**80**	79
	Other income	**84**	87
	Total Nonoperating Revenues	**164**	166
Nonoperating Expenses	Contributions to New York State	**60**	
	Interest on long-term debt	**99**	103
	Interest - other	**26**	20
	Interest capitalized	**(5)**	(5)
	Amortization of debt premium	**(4)**	(4)
	Total Nonoperating Expenses	**176**	114
	Nonoperating Income (Loss)	**(12)**	52
	Net Income and Change in Net Assets	**299**	235
	Net Assets at January 1	**2,268**	2,033
	Net Assets at December 31	**$2,567**	$2,268

The accompanying notes are an integral part of these financial statements.

STATEMENTS OF CASH FLOWS

Years ended December 31, 2008 and 2007 (*in Millions*)

		2008	2007
Cash Flows From Operating Activities	Received from customers for the sale of power, transmission and wheeling	**$ 3,204**	$ 2,938
	Disbursements for:		
	Purchased power	**(1,239)**	(1,184)
	Operations and maintenance	**(516)**	(577)
	Fuel oil and gas	**(626)**	(531)
	Wheeling of power by other utilities	**(375)**	(320)
	Net Cash Provided by Operating Activities	**448**	326
Cash Flows From Capital and Related Financing Activities	Earnings received on Capital Fund investments	**8**	5
	Sale of commercial paper	**250**	33
	Issuance of bonds		602
	Repayment of notes	**(6)**	(6)
	Retirement of bonds	**(229)**	(117)
	Defeasance of Series 2002 A Bonds		(268)
	Repayment of commercial paper	**(185)**	(120)
	Gross additions to capital assets	**(142)**	(137)
	Interest paid, net	**(92)**	(87)
	Net Cash Used in Capital and Related Financing Activities	**(396)**	(95)
Cash Flows From Noncapital -Related Financing Activities	Energy conservation program payments received from participants	**92**	84
	Energy conservation program costs	**(86)**	(88)
	Sale of commercial paper	**133**	85
	Repayment of commercial paper	**(129)**	(89)
	Interest paid on commercial paper	**(7)**	(10)
	Other Postemployment Benefits (OPEB) funding	**(125)**	(100)
	Contributions to New York State	**(60)**	
	Entergy value sharing agreement	**72**	
	Entergy notes receivable	**30**	94
	Net Cash Used in Noncapital-Related Financing Activities	**(80)**	(24)
Cash Flows From Investing Activities	Earnings received on investments	**57**	48
	Purchase of investment securities	**(8,385)**	(13,887)
	Sale of investment securities	**8,325**	13,487
	Net Cash Used in Investing Activities	**(3)**	(352)
	Net decrease in cash	**(31)**	(145)
	Cash and cash equivalents, January 1	**61**	206
	Cash and Cash Equivalents, December 31	**$ 30**	$ 61

Reconciliation to Net Cash Provided by Operating Activities	Net Operating Revenues	**$ 311**	$ 183
	Adjustments to reconcile net income to net cash provided by operating activities:		
	Provision for depreciation	**173**	178
	Change in assets and liabilities:		
	Net (increase)/decrease in prepayments and other	**(126)**	15
	Net (increase)/decrease in receivables and inventory	**2**	18
	Net (decrease)/increase in accounts payable and accrued liabilities	**88**	(68)
	Net Cash Provided by Operating Activities	**$ 448**	$ 326

The accompanying notes are an integral part of these financial statements.

NOTES TO FINANCIAL STATEMENTS

Note A - General

The Power Authority of the State of New York (Authority) is a corporate municipal instrumentality and political subdivision of the State of New York (State) created in 1931 by Title 1 of Article 5 of the Public Authorities Law, Chapter 43 -A of the Consolidated Laws of the State, as amended (Power Authority Act or Act).

The Authority is authorized by the Power Authority Act to help provide a continuous and adequate supply of dependable electricity to the people of the State. The Authority generates, transmits and sells electricity principally at wholesale. The Authority's primary customers are municipal and rural cooperative electric systems, investor-owned utilities, high-load-factor industries and 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's Trustees are appointed by the Governor of the State, with the advice and consent of the State Senate. The Authority is a fiscally independent public corporation that does not receive State funds or tax revenues or credits. It generally finances construction of new projects through sales of bonds and notes to investors and pays related debt service with revenues from the generation and transmission of electricity. Accordingly, the financial condition of the Authority is not controlled by or dependent on the State or any political subdivision of the State. However, pursuant to the Clean Water/Clean Air Bond Act of 1996 (Bond Act), the Authority administers a Clean Air for Schools Projects program, for which $125 million in Bond Act monies have been allocated for effectuation of such program. Also, in accordance with legislation enacted in 2006, the Authority was appropriated $25 million to implement the Lower Manhattan Energy Independence Initiative involving certain clean energy and energy efficiency measures. Under the criteria set forth in Governmental Accounting Standards Board (GASB) Statement No. 14, "The Financial Reporting Entity," as amended by Governmental Accounting Standard (GAS) No. 39, "Determining Whether Certain Organizations Are Component Units," the Authority considers its relationship to the State to be that of a related organization.

Income of the Authority and properties acquired by it for its projects are exempt from taxation. However, the Authority is authorized by Chapter 908 of the Laws of 1972 to enter into agreements to make payments in lieu of taxes with respect to property acquired for any project where such payments are based solely on the value of the real property without regard to any improvement thereon by the Authority and where no bonds to pay any costs of such project were issued prior to January 1, 1972.

Note B - Accounting Policies

The Authority's accounting policies include the following:

(1) The Authority complies with all applicable pronouncements of the GASB. In accordance with GAS No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting," the Authority also has elected to comply with all authoritative pronouncements applicable to non-governmental entities (i.e., Financial Accounting Standards Board (FASB) statements) that do not conflict with GASB pronouncements. The Authority also applies Financial Accounting Standard (FAS) No. 71, "Accounting for the Effects of Certain Types of Regulation," as amended. This standard allows utilities to capitalize or defer certain costs or revenue based on management's ongoing assessment that it is probable these items will be recovered or reflected in the rates charged for electricity.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(2) Capital assets are stated at original cost and consist of amounts expended for labor, materials, services and indirect costs to license, construct, acquire, complete and place in operation the projects of the Authority. Interest on amounts borrowed to finance construction of the Authority's projects is charged to the project prior to completion. Borrowed funds for a specific construction project are deposited in a capital fund account. Earnings on fund investments are held in this fund to be used for construction. Earnings on unexpended funds are credited to the cost of the related project (construction work in progress) until completion of that project. Construction work in progress costs are reduced by revenues received for power produced (net of expenditures incurred in operating the projects) prior to the date of completion. The costs of current repairs are charged to operating expense, and renewals and betterments are capitalized. The cost of capital assets retired less salvage is charged to accumulated depreciation.

(3) With the exception of the Authority's Small Clean Power Plants (SCPPs), depreciation of capital assets is provided on a straight-line basis over the estimated useful lives of the various classes of capital assets. The Authority is providing for depreciation of the SCPPs using the double-declining balance method based on a conclusion that the revenue-earning power of those units is greater during the earlier years of the units' lives. The Authority installed these eleven 44-MW natural-gas-fueled electric generation units at various sites in New York City and in the service territory of the Long Island Power Authority (LIPA) during the Summer of 2001 to meet capacity deficiencies and to meet ongoing local reliability requirements in the New York City metropolitan area.

(4) Capital assets, net of accumulated depreciation, at December 31, 2008 and 2007, and the related depreciation provisions expressed as a percentage of average depreciable capital assets on an annual basis were:

(*in Millions*)			Average Depreciation Rate	
Type of Plant	**2008**	2007	**2008**	2007
Production:				
Steam		$ 13	**3.0%**	5.1%
Hydro	**$1,069**	1,057	**1.8%**	1.8%
Gas Turbine\ Combined Cycle	**865**	908	**3.5%**	3.7%
Transmission	**909**	941	**2.8%**	2.8%
General	**736**	729	**3.4%**	3.8%
	3,579	3,648	**2.8%**	3.1%
Construction work in progress	**158**	125		
Total capital assets	**$3,737**	$3,773		

(5) The Authority applies FAS No. 143, "Accounting for Asset Retirement Obligations", which requires an entity to record a liability at fair value to recognize legal obligations for asset retirements in the period incurred and to capitalize the cost by increasing the carrying amount of the related long-lived asset. The Authority determined that it had legal liabilities for the retirement of certain SCPPs in New York City and, accordingly, has recorded a liability for the retirement of this asset. In connection with these legal obligations, the Authority has also recognized a liability for the remediation of certain contaminated soils discovered during the construction process.

FAS No. 143 does not apply to asset retirement obligations involving pollution remediation obligations within the scope of GAS No. 49, "Accounting and Financial Reporting for Pollution Remediation Obligations." The Authority applies GAS No. 49 which, upon the occurrence of any one of five specified obligating events, requires an entity to estimate the components of expected pollution remediation outlays and determine whether outlays for those components should be accrued as a liability or, if appropriate, capitalized when goods and services are acquired. Obligations within the scope of GAS No. 49 were recorded prior to 2008. Therefore, restatement was not necessary. There were no such obligations recorded in 2008.

In addition to the FAS No. 143 asset retirement obligations, the Authority has other cost of removal obligations that are being collected from customers, and, under the provisions of FAS No. 71, "Accounting for the Effects of Certain Types of Regulation," at December 31, 2008 and 2007 were approximately $208 million and $199 million, respectively, in Other Noncurrent Liabilities on the Balance Sheets.

Asset retirement obligations (ARO) and regulatory amounts included in Other Noncurrent Liabilities are as follows:

(*in Millions*)	ARO Amounts	Regulatory Amounts
Balance – December 31, 2007	$19	$199
Depreciation expense	1	9
Balance – December 31, 2008	**$20**	**$208**

(6) The Authority applies GAS No. 42, "Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries", which states that asset impairments are generally recognized only when the service utility of an asset is reduced or physically impaired.

GAS No. 42 states that asset impairment is a significant, unexpected decline in the service utility of a capital asset. The service utility of a capital asset is the usable capacity that at acquisition was expected to be used to provide service, as distinguished from the level of utilization which is the portion of the usable capacity currently being used. Decreases in utilization and existence of or increases in surplus capacity that are not associated with a decline in service utility are not considered to be impairments.

(7) Cash includes cash and cash equivalents and short-term investments with maturities, when purchased, of three months or less. The Authority accounts for investments at their fair value. Fair value is determined using quoted market prices. Investment income includes changes in the fair value of these investments.

(8) The Authority uses financial derivative instruments to manage the impact of interest rate, energy price and fuel cost changes on its earnings and cash flows. The Authority has adopted FAS No. 133, "Accounting for Derivatives and Hedging Activities", as amended by FAS No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities," to the extent appropriate under Governmental Accounting Standards. These financial accounting standards establish accounting and reporting requirements for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. The standard requires that the Authority recognize the fair value of all derivative instruments as either an asset or liability on the Balance Sheet with the offsetting gains or losses recognized in earnings or deferred charges. In June 2008, the GASB issued GAS No. 53, "Accounting and Financial Reporting for Derivative Instruments" which establishes accounting and reporting requirements for derivative instruments and which is effective for the Authority's 2010 calendar year. The adoption of GAS No. 53 is not expected to have a significant impact on the Authority's financial results.

(9) Accounts receivable are classified as current assets and are reported net of an allowance for uncollectible amounts.

(10) Material and supplies are valued at the lower of average cost or market. These inventories are charged to expense during the period in which the material or supplies are used.

(11) At both December 31, 2008 and 2007, deferred charges include $124 million of energy services program costs. In addition, the deferred charges relating to the fair value of derivatives are included in this classification. See Note B (8) above and Note H for more detailed information. These deferred costs are being recovered from customers.

(12) Debt refinancing charges, representing the difference between the reacquisition price and the net carrying value of the debt refinanced, are amortized using the interest method over the life of the new debt or the old debt, whichever is shorter, in accordance with GAS No. 23, "Accounting and Financial Reporting for Refundings of Debt Reported by Proprietary Activities."

(13) The Authority accrues the cost of unused sick leave which is payable upon the retirement of its employees. The current year's cost is accounted for as a current operating expense in the Statement of Revenues, Expenses, and Changes in Net Assets and in other noncurrent liabilities on the Balance Sheet.

(14) Net Assets represent the difference between assets and liabilities and are classified into three categories:

a. Investment in Capital Assets, Net of Related Debt – This reflects the net assets of the Authority that are invested in capital assets, net of related debt and accounts such as related risk management assets and liabilities. This indicates that these assets are not accessible for other purposes.
b. Restricted Net Assets – This represents the net assets that are not accessible for general use because their use is subject to restrictions enforceable by third parties.
c. Unrestricted Net Assets – This represents the net assets that are available for general use.

Restricted and unrestricted resources are utilized, as applicable, by the Authority for their respective purposes.

(15) Revenues are recorded when service is provided. Customers' meters are read, and bills are rendered, monthly. Wheeling charges are for costs incurred for the transmission of power over transmission lines owned by other utilities. Sales and purchases of power between the Authority's facilities are eliminated from revenues and operating expenses. Energy costs are charged to expense as incurred. Sales to three NYC Governmental Customers and three investor-owned utilities operating in the State accounted for approximately 42 and 44 percent of the Authority's operating revenues in 2008 and 2007, respectively. The Authority distinguishes operating revenues and expenses from non-operating items in the preparation of its financial

statements. The principal operating revenues are generated from the sale, transmission, and wheeling of power. The Authority's operating expenses include fuel, maintenance, depreciation, purchased power costs, and other expenses related to the sale of power. All revenues and expenses not meeting this definition are reported as other income and expenses.

(16) Realized and unrealized gains and losses on investments are recognized as investment income in accordance with GAS No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools."

Note C - Bond Resolution

On February 24, 1998, the Authority adopted its "General Resolution Authorizing Revenue Obligations" (as amended and supplemented up to the present time, the "Bond Resolution"). The Bond Resolution covers all of the Authority's projects, which it defines as any project, facility, system, equipment or material related to or necessary or desirable in connection with the generation, production, transportation, transmission, distribution, 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 authorized by the Act or by other applicable State statutory provisions, provided, however, that the term "Project" shall not include any Separately Financed Project as that term is defined in the Bond Resolution. The Authority has covenanted with bondholders under the Bond Resolution that at all times the Authority shall 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 monies available therefor (including the anticipated receipt of proceeds of sale of Obligations, as defined in the Bond Resolution, issued under the Bond Resolution 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 under the Bond Resolution in anticipation of such receipt, but not including any anticipated or actual proceeds from the sale of any Project), to meet the financial requirements of the Bond Resolution. Revenues of the Authority (after deductions for operating expenses and reserves, including reserves for working capital, operating expenses or compliance purposes) are applied first to the payment of, or accumulation as a reserve for payment of, interest on and the principal or redemption price of Obligations issued under the Bond Resolution and the payment of Parity Debt issued under the Bond Resolution.

The Bond Resolution also provides for withdrawal for any lawful corporate purpose as determined by the Authority, including but not limited to the retirement of Obligations issued under the Bond Resolution, from amounts in the Operating Fund in excess of the operating expenses, debt service on Obligations and Parity Debt issued under the Bond Resolution, and subordinated debt service requirements. The Authority has periodically reacquired revenue bonds when available at favorable prices.

Note D - Cash and Investments

Investment of the Authority's funds is administered in accordance with the applicable provisions of the Bond Resolution and with the Authority's investment guidelines. These guidelines comply with the New York State Comptroller's investment guidelines for public authorities and were adopted pursuant to Section 2925 of the New York Public Authorities Law.

Credit Risk

The Authority's investments are restricted to (a) collateralized certificates of deposit, (b) direct obligations of or obligations guaranteed by the United States of America or the State of New York, (c) obligations issued or guaranteed by certain specified federal agencies and any agency controlled by or supervised by and acting as an instrumentality of the United States government, and (d) obligations of any state or any political subdivision thereof or any agency, instrumentality or local government unit of any such state or political subdivision which is rated in any of the three highest long-term rating categories, or the highest short-term rating category, by nationally recognized rating agencies. The Authority's investments in the debt securities of Federal National Mortgage Association (FNMA), Federal Home Loan Bank (FHLB), Federal Farm Credit Bank (FFCB) and Federal Home Loan Mortgage Corp. (FHLMC) were rated Aaa by Moody's Investors Services (Moody's) and AAA by Standard & Poor's (S&P) and Fitch Ratings (Fitch). All of the Authority's investments in U.S. Government/Agency debt instruments are issued or explicitly guaranteed by the U.S. Government.

The Authority does not engage in securities lending or reverse repurchase agreements.

Interest Rate Risk

Securities that are the subject of repurchase agreements must have a market value at least equal to the cost of the investment. The agreements are limited to a maximum fixed term of five business days and may not exceed the greater of 5% of the investment portfolio or $100 million. The Authority has no other policies limiting investment maturities.

Concentration of Credit Risk

There is no limit on the amount that the Authority may invest in any one issuer; however, investments in authorized certificates of deposit shall not exceed 25% of the Authority's invested funds. At December 31, 2008, $380 million (18 percent), $279 million (13 percent), and $274 million (13 percent) of the Authority's investments were in securities of Federal National Mortgage Association (FNMA or Fannie Mae), Federal Farm Credit Bank (FFCB) and Federal Home Loan Bank (FHLB), respectively.

Decommissioning Fund

The Decommissioning Trust Fund is managed by external investment portfolio managers. Under the Decommissioning Agreements (see Note K), the Authority will make no further contributions to the Decommissioning Funds. The Authority's decommissioning responsibility will not exceed the amounts in each of the Decommissioning Funds. Therefore, the Authority's obligation is not affected by various risks which include credit risk, interest rate risk, and concentration of credit risk. In addition, the Decommissioning Trust Fund is not required to be administered in accordance with the Authority's or New York State investment guidelines.

Other

All investments are held by designated custodians in the name of the Authority. At December 31, 2008 and 2007, the Authority had investments in repurchase agreements of $4.0 million and $6.0 million, respectively. The bank balances were $22.8 million and $8.7 million, respectively, of which $22.3 million and $7.8 million, respectively, were uninsured and collateralized by assets held by the bank in the name of the Authority.

A summary of unexpended funds for projects in progress included in the Capital Fund at December 31, 2008 and 2007, is in the Investment Summary.

Investment Summary
(in Millions)
Estimated Fair Value
December 31, 2008

	Total	Total Restricted Funds	Restricted Funds: Decommissioning Trust Fund	Restricted Funds: POCR & CAS Projects Funds* & Other	Restricted Funds: ART Note Debt Reserve	Capital Fund	Current Assets
Cash and equivalents	$ 31	$ 21		$21		$ 10	
U.S. Government /Agencies							
Treasury Bills	60	60		60			
Treasury Notes							
GNMA	43						$ 43
	103	60		60			43
Other debt securities							
FNMA	380					28	352
FHLMC	85	5			$ 5	19	61
FHLB	275	9			9	45	221
FFCB	278					75	203
All Other	124	6			6	47	71
	1,142	20			20	214	908
Repurchase Agreements	4						4
Portfolio Manager	812	812	$812				
Total Investments	2,061	892	812	60	20	214	955
	$2,092	$913	$812	$81	$20	$224	$955

Summary of Maturities Years							
0-1	$ 282	$ 81	$ 24	$81		$ 49	$152
1-5	747	20	72		$20	131	596
5-10	131		103			14	117
10+	120		380			30	90
Common Stock	812	812	233				
	$2,092	$913	$812	$81	$20	$224	$955

***** Petroleum Overcharge Restitution (POCR) Funds and Clean Air for Schools (CAS) Projects Funds - Legislation enacted into State law from 1995 to 2002 and 2007 authorized the Authority to utilize petroleum overcharge restitution (POCR) funds and other State funds (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 that 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 utilizing POCR funds and the Other State Funds to implement various energy services programs that have received all necessary approvals.

The disbursements of the POCR funds and the Other State Funds to the Authority, and the Authority's transfers to the State totaling $60.9 million to date, took place from 1996 to 2007. The POCR funds are included in restricted funds in the Balance Sheet. The funds are held in a separate escrow account until they are utilized.

The New York State Clean Water/Clean Air Bond Act of 1996 made available $125 million for Clean Air for Schools Projects (CAS Projects) for elementary, middle and secondary schools, with the Authority authorized to undertake implementation of the CAS Projects program. The CAS Projects are designed to improve air quality for schools and include, but are not limited to, projects that replace coal-fired furnaces and heating systems with furnaces and systems fueled with 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 currently scheduled to be completed in 2009. CAS Projects funds totaling $125 million to date were transferred to the Authority and held in an escrow account for the CAS Projects program. As of December 31, 2008, POCR and CAS Projects funds are $23 million and $11 million, respectively. The $47 million balance of these restricted funds is primarily related to the Lower Manhattan Energy Independence Initiative fund ($25 million) and the Fish & Wildlife Habitat Enhancement fund related to the Niagara relicensing costs ($17 million).

Estimated Fair Value
December 31, 2007

			Restricted Funds				
	Total	Total Restricted Funds	Decommissioning Trust Fund	POCR & CAS Projects Funds** & Other	ART Note Debt Reserve	Capital Fund	Current Assets
Cash and equivalents	$ 61	$ 7		$ 7		$ 48	$ 6
U.S. Government /Agencies							
Treasury Bills	66	66		66			
Treasury Notes	13					13	
GNMA	52						52
	131	66		66		13	52
Other debt securities							
FNMA	376	6			$ 6	20	350
FHLMC	133	14			14	6	113
FHLB	214					57	157
FFCB	178					68	110
All Other	119	1		1		51	67
	1,020	21		1	20	202	797
Repurchase Agreements	5						5
Portfolio Manager	979	979	$979				
Total Investments	2,135	1,066	979	67	20	215	854
	$2,196	$1,073	$979	$74	$20	$263	$860

Summary of Maturities
Years

0-1	$ 606	$ 106	$ 16	$74	$16	$ 87	$413
1-5	446	59	55		4	113	274
5-10	146	70	70			12	64
10+	651	491	491			51	109
Common Stock	347	347	347				
	$2,196	$1,073	$979	$74	$20	$263	$860

** As of December 31, 2007, POCR and CAS Projects funds are $27 million and $14 million, respectively. The $33 million balance of these restricted funds is primarily related to the Lower Manhattan Energy Independence In itiative fund ($26 million).

Note E – Changes in Capital Assets
(in Millions)

The changes in Capital Assets are as follows:

	2008	2007
Gross Capital Assets, beginning balance	**$6,089**	$5,586
Add: Acquisitions	**114**	530
Less: Dispositions (including retirements)	**32**	27
Gross Capital Assets, ending balance	**6,171**	6,089
Less: Accumulated depreciation	**2,592**	2,441
Add: Construction work in progress	**158**	125
Capital Assets - net, ending balance	**$3,737**	$3,773

Note F - Long-term Debt
(*in Millions*)

Components

Long-term debt at December 31, 2008 and 2007 consists of:

	2008	2007
Senior Debt:		
Revenue Bonds	**$1,196**	$1,283
Adjustable Rate Tender Notes	**138**	144
Subordinated Debt:		
Subordinate Revenue Bonds		72
Commercial Paper	**410**	394
	$1,744	$1,893

Senior Debt	2008 Amount	2007 Amount	Interest Rate	Maturity	Earliest Redemption Date Prior to Maturity
1. Revenue Bonds					
Series 1998 A Revenue Bonds		$ 76	4.7% to 5.0%	2/15/2009 to 2016	Redeemed on 2/15/2008
Series 2000 A Revenue Bonds					
Term Bonds	**$ 10**	10	5.25%	11/15/2030	11/15/2010
Term Bonds	**67**	67	5.25%	11/15/2040	11/15/2010
Series 2001 A Revenue Bonds					
Serial Bonds		42	4.00% to 5.00%	11/15/2008	Non-callable
Series 2002 A Revenue Bonds					
Serial Bonds	**168**	190	3.00% to 5.00%	11/15/2009 to 2022	11/15/2012
Series 2003 A Revenue Bonds					
Serial Bonds	**23**	27	3.97% to 4.83%	11/15/2009 to 2013	Any date
Term Bonds	**186**	186	5.230% to 5.749%	11/15/2018 to 2033	Any date
Series 2006 A Revenue Bonds					
Serial Bonds	**154**	164	3.375% to 5.0%	11/15/2009 to 2020	11/15/2015
Series 2007 A Revenue Bonds					
Term Bonds	**82**	82	4.5% to 5.0%	11/15/2047	11/15/2017
Series 2007 B Revenue Bonds					
Serial Bonds	**18**	18	5.253% to 5.603%	11/15/2013 to 2017	Any date
Term Bonds	**239**	239	5.905% to 5.985%	11/15/2037 & 2043	Any date
Series 2007 C Revenue Bonds					
Serial Bonds	**264**	264	4.0% to 5.0%	11/15/2014 to 2021	11/15/2017
	1,211	1,365			
Plus: Unamortized premium	**29**	34			
Less: Deferred refinancing costs	**7**	9			
	1,233	1,390			
Less: Due within one year	**37**	107			
	$1,196	$1,283			

Interest on Series 2003 A and 2007 B Revenue Bonds is not excluded from gross income for bondholders' Federal income tax purposes.

In prior years, the Authority defeased certain Revenue Bonds and General Purpose Bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the Authority's financial statements. At December 31, 2008 and 2007, $437 million and $515 million, respectively, of outstanding bonds were considered defeased.

In October 2007, the Authority issued its Series A, B and C Revenue Bonds (collectively called "2007 Bonds") listed in the table above. The 2007 Bonds total $602 million. The proceeds of the 2007 Bonds and other funds (totaling $633 million) were used to redeem $102 million of Commercial Paper Notes, finance a portion of the costs of relicensing and modernization of the Authority's St. Lawrence -FDR Project ($120 million) and of the relicensing of the Niagara Project ($118 million), to refund a portion of the Authority's Series 2002 A Revenue Bonds ($268 million) for a net present value savings of $10 million, and to pay the costs of issuance of the 2007 Bonds.

Certain 2007 A Bonds are subject to mandatory redemption by way of various sinking fund installments beginning on November 15, 2043 through November 15, 2047. Certain 2007 B term bonds are subject to mandatory redemption by way of various sinking fund installments beginning on November 15, 2018 through November 15, 2043. The 2007 Bonds are subject to optional redemption, in whole or in part, by the Authority.

On February 15, 2008, in addition to redeeming the Series 1998 A Revenue Bonds maturing on that date ($29 million), the Authority also redeemed all the outstanding Series 1998 A Revenue Bonds maturing after such date ($47 million).

Senior Debt	**2008 Amount**	2007 Amount	Interest Rate At 12/31/08	Maturity
2. Adjustable Rate Tender Notes (Notes)				
2016 Notes	**$ 69**	$ 75	1.6%	3/1/2016
2020 Notes	**75**	75	1.6%	3/1/2020
	144	150		
Less: Due within one year	**6**	6		
	$138	$144		

The Notes may be tendered to the Authority by the holders on any adjustment date. The rate adjustment dates are March 1 and September 1. The Authority has entered into a revolving credit agreement (Agreement) with The Bank of Nova Scotia to provide a supporting line of credit. Under the Agreement, which terminates on September 1, 2015, the Authority may borrow up to $144 million for the purpose of repaying, redeeming or purchasing the Notes. The Agreement provides for interest on outstanding borrowings (no ne outstanding at December 31, 2008 or 2007) at either (i) the Federal Funds Rate plus a percentage, or (ii) a rate based on the London Interbank Offered Rate (LIBOR) plus a percentage. The Authority expects that it will be able to renew or replace this Agreement as necessary. In accordance with the Adjustable Rate Tender Note Resolution, a Note Debt Service Reserve account has been established in the amount of $20 million. See Note H for the Authority's risk management program relating to interest rates.

Subordinated Debt	**2008 Amount**	2007 Amount	Interest Rate At 12/31/08	Maturity
3. Subordinate Revenue Bonds				
Series 3		$38	N/A	Redeemed
Series 4		37	N/A	in 2008
	-	75		
Less: Due within one year		3		
	-	$72		

Senior Revenue Bonds are subject to redemption prior to maturity in whole or in part as provided in the supplemental resolutions authorizing the issuance of each series of bonds, beginning for each series on the date indicated, at principal amount or at various redemption prices accordi ng to the date of redemption, together with accrued interest to the redemption date. Series 2003 A Revenue Bonds (2003 A Bonds) are subject to optional redemption on any date. The 2003 A Term Bonds are subject to sinking fund redemptions in specified amoun ts beginning four years prior to their respective maturities. In August 2008, the Authority redeemed the $72.1 million of Subordinate Revenue Bonds, Series 3 and 4.

As indicated in Note C, "Bond Resolution," the Authority has pledged future revenues to service the Obligations and Parity Debt (Senior Debt) issued under the Bond Resolution. Annual principal and interest payments on the Senior Debt are expected to require less than 35% of operating income plus depreciation. The total principal and inter est remaining to be paid on the Senior Debt is $2.4 billion. Principal and interest paid for 2008 and Operating Income plus depreciation were $236 million and $484 million, respectively.

At December 31, 2008 and 2007, the current market value of these bonds (both senior and subordinate revenue bonds) was approximately $ 1.21 billion and $1.50 billion, respectively. Market values were obtained from a third party that utilized a matrix -pricing model.

Subordinated Debt	Availability	**2008**	2007	Interest Rate At 12/31/08	Maturity
4. Commercial Paper (Long-term portion)					
EMCP (Series 1)	$ 100	**$ 85**	$ 90	1.13%	2009 to 2025
CP (Series 2)	450	**314**	243	1.69%	2009 to 2025
CP (Series 3)	350	**70**	71	1.85%	2009 to 2025
CP (Series 4)	220				
	$1,120	**469**	404		
Less: Due within one year		**59**	10		
		$410	$394		

Under the Extendible Municipal Commercial Paper (EMCP) Note Resolution, adopted December 17, 2002, and as subsequently amended and restated, the Authority may issue a series of notes, designated EMCP Notes, Series 1, maturing not more than 270 days from the date of issue, up to a maximum amount outstanding at any time of $100 million (EMCP Notes).

The proceeds of the Series 2, 3, and 4 Commercial Paper Notes (CP Notes) were used to refund General Purpose Bonds and for other corporate purposes. The proceeds of the EMCP Notes were used to refund Series 2 and 3 CP Notes. CP Notes and EMCP Notes have been used, and may in the future be used, for other corporate purposes. It is the Authority's intention to renew the Series 2 and 3 CP Notes and the EMCP Notes as they mature so that their ultimate maturity dates will range from 2009 to 2025, as indicated in the table above.

The Authority has a line of credit under a revolving credit agreement (th e 2008 RCA) to provide liquidity support for the Series 1 -3 CP Notes, with a syndicate of banks, providing $775 million for such CP Notes until January 31, 2011, which succeeded another revolving credit agreement (the 2004 RCA) in January 2008. No borrowings have been made under the 2008 RCA or the 2004 RCA. The Authority has the option to extend the maturity of the EMCP Notes and would exercise such right in the event there is a failed remarketing. This option serves as a substitute for a liquidity facili ty for the EMCP Notes.

CP Notes and EMCP Notes are subordinate to the Series 2000 A Revenue Bonds, the Series 2002 A Revenue Bonds, the Series 2003 A Revenue Bonds, the Series 2006 A Revenue Bonds, the Series 2007 A, B, and C Revenue Bonds and the Adjustable Rate Tender Notes.

Interest on the CP (Series 3) is taxable for Federal income tax purposes.

Long-term Debt
Maturities and Interest Expense
(*in Millions*)

Year	Principal	Interest	Total
2009	$ 102	$ 72	$ 174
2010	129	70	199
2011	121	66	187
2012	81	63	144
2013	97	61	158
2014-2018	449	255	704
2019-2023	334	171	505
2024-2028	110	128	238
2029-2033	131	97	228
2034-2038	85	64	149
2039-2043	106	35	141
2044-2047	79	10	89
	1,824	1,092	2,916
Plus : Unamortized bond premium	29		29
Less: Deferred refinancing cost	7		7
	$1,846	$1,092	$2,938

The interest rate used to calculate future interest expense on variable rate debt is the interest rate at December 31, 2008.

Terms by Which Interest Rates Change for Variable Rate Debt:

Adjustable Rate Tender Notes

In accordance with the Adjustable Rate Tender Note Resolution adopted April 30, 1985 , as amended up to the present time (Note Resolution), the Authority may designate a rate period of different duration, effective on any rate adjustme nt date. The Remarketing Agent appointed under the Note Resolution determines the rate for each rate period which, in the Agent's opinion, is the minimum rate necessary to remarket the Notes at par.

CP Notes and EMCP Notes (Long-term portion)

The Authority determines the rate for each rate period which is the minimum rate necessary to remarket the Notes at par in the Dealer's opinion. If the Authority exercises its option to extend the maturity of the EMCP Notes, the reset rate will be (1.35 X SIFMA) + E, where SIFMA is the Securities Industry and Financial Markets Association Municipal Swap Index, which is calculated weekly, and where "E" is a fixed percentage rate expressed in basis points (each basis point being 1/100 of one percent) that is determined based on the Authority's debt ratings. As of December 31, 2008, the reset rate would have been 2.39%.

Changes in Long-term Liabilities

(*in Millions*)

Changes in Long-term Debt	**2008**	2007	Changes in Other Long-term Liabilities	**2008**	2007
Long-term debt, beginning balance	**$1,893**	$1,752	Other long-term liabilities, beginning balance	**$2,017**	$1,704
Increases	**253**	800	Increases	**115**	380
Decreases	**(299)**	(533)	Decreases	**(331)**	(67)
	1,847	2,019			
Due within one year	**96**	126			
Long-term debt, ending balance	**$1,751**	$1,893	Other long-term liabilities, ending balance	**$1,801**	$2,017

Note G - Short-term Debt

CP Notes (short-term portion) outstanding was as follows:

	December 31, 2008		December 31, 2007	
(in Millions)	Availability	Outstanding	Availability	Outstanding
CP Notes (Series 1)	**$400**	**$273**	$400	$268

Under the Commercial Paper Note Resolution adopted June 28, 1994, as amended and restated on November 25, 1997, and as subsequently amended, the Authority may issue from time to time a separate series of notes maturing not more than 270 days from the date of issue, up to a maximum amount outstanding at any time of $400 million (Series 1 CP Notes). See Note F - Long-term Debt for Series 2, 3 and 4 CP Notes and the EMCP Notes. The proceeds of the Series 1 CP Notes have been and shall be used to finance the Authority's current and future energy services programs and f or other corporate purposes.

The changes in short-term debt are as follows:
(in Millions)

Year	Beginning Balance	Increases	Decreases	Ending Balance
2008	**$268**	**$133**	**$128**	**$273**
2007	$272	$ 85	$ 89	$268

CP Notes are subordinate to the Series 2000 A Revenue Bonds, the Series 2002 A Revenue Bonds, the Series 2003 A Revenue Bonds, the Series 2006 A Revenue Bonds, the Series 2007 A, B, and C Revenue Bonds and the Adjustable Rate Tender Notes.

Note H - Risk Management and Hedging Activities

In addition to insurance, which is described in item (4) herein, another aspect of the Authority's risk management program is to manage the impacts of interest rate, energy and fuel market fluctuations on its earnings, cash flows and market values of assets and liabilities. To achieve its objectives the Authority's trustees have authorized the use of various interest rate, energy, and fuel hedging instruments that are considered derivatives under FAS No. 133. These standards establish accounting and reporting requirements for derivative instruments and hedging activities (see Note B (8)). The fair values of all Authority derivative instruments, as defined by FAS No. 133, are reported in Assets or Liabilities on the Balance Sheet.

(1) Interest Rate Risk Management

(a) Series 1998 B Revenue Bonds

In 1998, the Authority entered into forward interest rate swaps to fix rates on long -term obligations expected to be issued to refinance $499.4 million of Series 1998 B Revenue Bonds required to be tendered in the years 2002 and 2001 (the 2002 SWAPS and 2001 SWAPS, respectively). Based upon the terms of these forward interest rate swaps, the Authority would pay interest calculated at fixed rates (4.7 percent to 5.1 percent) to the counterparties through February 15, 2015. In return, the counterparties would pay interest to the Authority based upon the SIFMA municipal swap index (SIFMA Index) on the established reset dates. In 2001, upon completion of the $231.2 mandatory redemption of the Series 1998 B Revenue Bonds, the Authority terminated the 2001 SWAPS at a cost of $12.7 million. Since the Authority anticipates the recovery of the swap termination cost from customers, the cost of the 2001 SWAPS was amortized as an adjustment to the hedged debt's interest cost over the shorter of the original Series 1998 B Revenue Bonds debt (hedged) period or the refinanced period.

On November 15, 2002 the Authority completed the remaining mandatory payment on the Series 1998 B Revenue Bonds from the proceeds of the issuance of Series 2 and Series 3 CP Notes. The 2002 SWAPS became active on November 15, 2002 and terminate on February 15, 2015. They are designated as a hedge on the interest cost of the Series 2 and Series 3 CP Notes that were issued to make the mandatory payments. During 2008 and 2007, net settlement payments on the 2002 SWAPS resulted in increases in interest costs of $7.1 million and $3.8 million, respectively. On December 31, 2008 and 2007, the fair values of the 2002 SWAPS were unrealized losses of $18.6 million and $16.1 million, respectively. Since the Authority anticipates the recovery from customers of any future settlement costs of the 2002 SWAPS, the unrealized losses have been deferred in Other Noncurrent Assets on the Balance Sheet.

(b) Adjustable Rate Tender Notes

In 2006 the Authority entered into a forward interest rate swap with the objective of limiting exposure to rising interest rates on the Authority's Adjustable Rate Tender Notes (ART Notes) for the period September 1, 2006 to September 1, 2016. Based upon the terms of the forward interest rate swap, the Authority pays interest calculated at a fixed rate of 3.7585 percent on the initial notional amount of $156 million. In return, the counterparty pays interest to the Authority based upon 67 percent of the six-month LIBOR established on the reset dates that coincide with the ART Notes interest rate reset dates. During 2008 and 2007, the net settlement payments on the ART Note swaps resulted in increases in interest cost of $2.0 million and $0.1 million, respectively. On December 31, 2008 and 2007, the fair values of the ART Note swap were unrealized losses of $16.4 million and $6.3 million, respectively. Since the Authority anticipates the recovery of these losses from customers these unrealized losses have been deferred in Other Noncurrent Assets on the Balance Sheet.

Relating to 1(a) and 1(b), if any of the underlying hedged debt was retired prior to maturity, the unamortized gain or loss of the related interest rate swaps would be included in the gain or loss on the extinguishment of the obligation.

(c) 2007 Series B Revenue Bonds

In 2006, the Authority entered into a forward interest rate swap to effectively fix rates on long -term obligations anticipated to be issued in October of 2007 for the relicensing and modernization costs of the St. Lawrence/FDR and Niagara Power Projects. The forward interest swap had an initial notional amount of $290 million to coincide with the then anticipated 2007 Series B Revenue Bond issuance and a commencement date of October 16, 2007 and ending date of November 15, 2037. The terms of the forward interest rate swap provided for early optional termination as well as for a mandatory termination on

October 16, 2007. On October 10, 2007, the Authority priced the 2007 B Revenue Bonds and terminated the forward interest rate swap and received a payment of $7.6 million from the counterparty. The termination calculation was based upon the Authority paying interest at a fixed rate of 5.19 23 percent to the counterparty and the counterparty paying interest to the Authority based upon the three month USD-LIBOR. The proceeds of the termination are being amortized against interest cost over the life of the 2007 Series B Revenue Bond debt.

(d) Series 1 CP Notes

In 2004, an interest rate cap was purchased with the objective of limiting exposure to rising interest rates relating to the Series 1 CP Notes. The interest rate for the Series 1 CP Notes was capped at 5.9 percent and was based upon the SIFMA Index for a notional a mount ($250 million) through July 1, 2007. Throughout the life of this interest cap interest rate market conditions did not exceed the contractual cap. On August 2, 2007 a continuation interest rate cap was purchased with the same objective commencing on A ugust 15, 2007. The interest rate cap for the Series 1 CP Notes is 5.9% and is based upon the SIFMA Index for a notional amount ($300 million) through August 15, 2010. During 2007 and 2008 interest rate market conditions did not exceed the contractual cap. On December 31, 2008 and 2007 the fair values of this interest rate cap were not significant.

(2) Energy Market Risk Management

(a) Customer Load Requirements

In 2001, the Authority entered into a long-term forward energy swap agreement to fix the cost of energy to meet certain long-term customer load requirements between 2004 and 2007. During 2007, net settlements on this forward energy swap resulted in Purchased Power cost decreases of $18.0 million. In 2003, the Authority entered into a long-term forward energy swap to fix the cost of energy to meet certain long-term customer load requirements between 2005 and 2008. During 2008 and 2007, net settlements on this forward energy swap resulted in Purchased Power cost decreases of $18.5 million and $13.2 million, respectively. On December 31, 2007, the fair value of this forward energy swap was an unrealized gain of $18.5 million. Since the Authority anticipated the pass-through of any benefits to customers, this unrealized gain was deferred in Other Noncurrent Liabilities on the Balance Sheet.

In 2005, the Authority entered into a long-term forward energy swap to fix the cost of energy to meet certain long-term customer load requirements between 2008 and 2010. On December 31, 2008 and 2007, the fair values of this forward energy swap were an unrealized loss of $7.1 million and an unrealized gain of $29.0 million, respectively. Since the Authority anticipates the pass-through of any benefits to customers of this forward energy swap, these unrealized gains and losses have been deferred in Other Noncurrent Liabilities and Other Noncurrent Assets, respectively, on the Balance Sheets.

In 2006, the Authority entered into long-term forward energy swaps and purchase agreements based upon a portion of the generatio n of the counterparty's wind-farm-power-generating facilities between 2008 and 2017. The fixed price ranges from $74 to $75 per megawatt and includes the purchase of the related environmental attributes. The intent of the swap s and purchase agreements is to assist specific governmental customers in acquiring such environmental attributes. During 2008, net settlements on the forward energy swaps resulted in a Purchase Power cost increase of $1.0 million. On December 31, 2008 and 2007, the fair values of these forward energy swaps were unrealized losses of $10.2 million and $3.5 million, respectively. Since the customers are contractually obligated to pay the Authority for any net settlement costs resulting from these forward energy swaps the unrealized losses have been deferred in Other Noncurrent Assets on the Balance Sheet.

In 2008 and 2007, the Authority entered into a number of short-term energy swaps to fix the price of purchases of energy in the New York Independent System Operator (NYISO) electric mark et to meet short-term forecasted load requirements for the Authority's Power for Jobs program. During 2008 and 2007, the net settlements of these short-term energy swaps resulted in Purchased Power cost increases of $2.7 million and $0.4 million, respectively. On December 31, 2008 and 2007, the fair values of these short-term energy swaps were unrealized losses of $0.3 million and $0.3 million, respectively. Since the Authority anticipates recovery of any net settlement costs from customers, the unrealized losses have been deferred in Other Noncurrent Assets on the Balance Sheets.

In 2008 and 2007, the Authority entered into a number of short-term energy swaps to either (a) fix the cost of energy purchases or (b) fix the margin between the prices of purcha ses and sales of energy in the NYISO electric market to the benefit of the Authority's NYC Governmental Customers. During 2008 and 2007, net settlements of these short-term energy purchases and sales swaps resulted in net increases in Purchased Power costs of $3.5 million and $22.3 million, respectively. On December 31, 2008 and 2007, the fair values of these short-term energy swaps were unrealized losses of $2.6 million and unrealized gains of $5.0 million, respectively. Since the Authority anticipates recovery of any net settlement costs from customers or the pass-through of any benefits to customers, these unrealized losses and gains have been deferred in Other Noncurrent Assets and Other Noncurrent Liabilities, respectively, on the Balance Sheets.

In 2008 and 2007, the Authority purchased a number of short-term energy swaps to fix the price of power to meet the forecasted load requirements of certain Energy Cost Savings Benefits program customers. During 2008, the net settlements of these short-term energy swaps resulted in Purchased Power cost increases of $6.0 million. On December 31, 2008 and 2007, the fair values of these short-term energy swaps resulted in additional Purchased Power cost increases of $8.3 million and $0.2 million, respectively.

In 2008, the Authority purchased a number of short-term energy swaps to meet the forecasted load requirements for certain Power for Jobs customers that ultimately opted to leave the program. During 2008, the net settlements of these short -term energy swaps resulted in Purchased Power cost increases of $2.1 million. On December 31, 2008, the fair value of these short-term energy swaps resulted in Purchased Power cost increases of $3.4 million.

(b) Generating Capacity

In 2007, the Authority entered into a number of fixed-to-floating energy swaps relating to a portion of the Small Clean Power Plants (SCPP) generation, with the objectives of hedging prices in a rising market and mitigating the effect of falling market prices on revenue during the summer peri od. In 2007, net settlements with counterparties on these fixed-to-floating energy swaps resulted in Operating Revenue increases of $1.0 million. There were no open positions relating to the SCPP on December 31, 2008 and 2007.

(3) Fuel Market Risk Management

In 2008 and 2007, the Authority purchased a number of natural gas swaps and NYMEX gas and oil futures contracts to limit its exposure to the floating market price of natural gas required for electrical generation at its Poletti facilities. During 2008 and 2007, net settlements and liquidation of these natural gas swaps and gas and oil NYMEX futures contracts resulted in fuel costs decreases of $6.3 million and fuel cost increases of $32.2 million, respectively.

On December 31, 2008 and 2007, the fair values of these natural gas swaps and NYMEX gas and oil futures contracts were unrealized losses of $49.7 million and $5.1 million, respectively. Since the Authority anticipates recovery of any net settlement and liquidation costs of these natural gas swaps and NYMEX gas and oil futures contracts from customers or the pass-through of any benefits to customers, these unrealized losses and gains have been deferred in Other Noncurrent Assets and Other Noncurrent Liabilities in the Balance Sheets.

In 2008 and 2007, the Authority entered into a number of natural gas basis swaps with the objective of limiting exposure to the floating market natural gas pipeline transportation costs to the New York City Gate. During 2008 and 2007, the net settlements of these natural gas basis swaps resulted in fuel cost increases of $1.4 million and $2.9 million, respectively. On December 31, 2008 and 2007, the fair values of these natural gas basis swaps were unrealized losses of $6.2 million and unrealized gains of $0.2 million, respectively. Since the Authority anticipates recovery of any net settlement costs from customers or the pass-through of any benefits to customers of these natural gas basis swaps, these unrealized losses and gains have been deferred in Other Noncurrent Assets and Other Noncurrent Liabilities on the Balance Sheets.

(4) Insurance

The Authority purchases insurance coverage for its operations, and in certain instances, is self-insured. Property insurance purchase protects the various real and personal property owned by the Authority and the property of others while in the care, custody and control of the Authority for which the Authority may be held liable. Liability insurance purchase protects the Authority from third-party liability related to its operations, including general liability, automobile, aircraft, marine and various bonds. The Authority self-insures a certain amount of its general liability coverage and the physical damage claims for its owned and leased vehicles. In addition, the Authority pursues subrogation claims against any entities that cause damage to its property.

Note I - Pension Plans, Other Postemployment Benefits, Deferred Compensation and Savings Plans

Pension Plans:

Substantially all employees of the Authority are members of the New York State and Local Employees Retirement System (System), which is a cost-sharing, multiple public employer defined benefit pension plan. Membership in and annual contributions to the System are required by the New York State Retirement and Social Security Law. The System offers plans and benefits related to years of service and final average salary, and, effective July 17, 1998, all benefits generally vest after five years of accredited service.

Members of the System with less than "10 years of service or 10 years of membership" contribute 3% of their gross salaries, and the Authority pays the balance of the annual contributions for these employees. The Authority pays the entire amount of the annual contributions for employees with at least 10 years of service. The Authority's contributions to the System are paid in December of each year on the basis of the Authority's estimated salaries for the System's fiscal year ending the following March 31. Contributions are made in accordance with funding requirements determined by the actuary of the System using the aggregate cost method.

Current law requires, among other things, a minimum annual contribution by employers to the System. The objective of the law is to reduce the volatility of annual employer contributions 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 $11.8 million, $12.3 million, and $12.7 million for the years ended March 31, 2009, 2008, and 2007, respectively (paid on or about December 15, 2008, 2007, and 2006). For detailed information concerning the System, reference is made to the State of New York Comprehensive Annual Financial Report of the Comptroller for the fiscal year ended March 31, 2008. In addition, the System issues a publicly available financial report that includes financial statements, expanded disclosures, and required supplementary information for the System. The report may be obtained by writing to the New York State and Local Retirement System, Office of the State Comptroller, 110 State Street, Albany, New York 12244-0001.

The Authority's net Pension obligation as of December 31, 2008, 2007, and 2006 are as follows:

(In Millions)	**2008**	2007	2006
Annual required contribution	**$ 12**	$ 12	$ 13
Contributions made to the System	**(12)**	(12)	(13)
Net pension obligation – end of year	**$ 0**	$ 0	$ 0

During 2008, the global decline in financial markets adversely impacted state pension fund balances including the System's. The average contribution rates for the fiscal years ended March 31, 2009 and 2010 are fixed at approximately 8 percent and 7 percent, respectively. If the System's fund balances do not recover, significant increases in the annual contributions to the System in subsequent years are expected. For the Authority, such increases would initially appear during calendar year 2010.

Other Postemployment Benefits (OPEB):

The Authority provides certain health care and life insurance benefits for eligible retired employees and their dependents under a single employer non-contributory (except for certain optional life insurance coverage) health care plan. Employees and/or their dependents become eligible for these benefits when the employee has 10 years of service and retires or dies while working at the Authority. Approximately 2,100 participants were eligible to receive these benefits at December 31, 2008. The Authority applies GAS No. 45, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions." Through 2006, OPEB provisions were financed on a pay-as-you-go basis and the plan was unfunded. 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. During 2007, the Authority partially funded its prior service OPEB obligation by contributing $100 million to the trust fund. In May and June 2008, the Authority made additional contributions totaling $125 million to the trust fund. As of the current date, the Authority has funded approximately sixty-five percent of its prior service OPEB obligation. The Authority's unfunded prior service OPEB obligation as of December 31, 2008 was reduced to $ 126 million from $233 million at December 31, 2007. The Authority will evaluate the performance of the trust fund before making decisions on additional actions.

The most current actuarial valuation date is January 1, 2008. Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events in the future. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The required schedule of funding progress presented, as required supplementary information, provides multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

(In Millions)	**2008**	2007	2006
Unfunded Actuarial Accrued Liability (UAAL):			
Beginning Balance	**$233**	$317	$322
Medicare adjustment			24
Discount rate change (6% to 7%)			(45)
Net actuarial adjustment	**4**		
Adjusted beginning balance	**237**	317	301
Normal costs	**6**	6	6
Interest accrual	**23**	22	21
Payments to retirees during year	**(15)**	(12)	(11)
Payments to Trust Fund*	**(125)**	(100)	
Ending Balance	**$126**	$233	$317
Covered payroll	**$144**	$136	$134
Ratio of UAAL to covered payroll	**88%**	171%	236%

* Total contributions to the Trust Fund through 12/31/08 are $225 million. The fair market value of the Trust Fund investments at 12/31/08 was $191 million.

In June 2006, GASB issued GASB Technical Bulletin No. 2006-1, "Accounting and Financial Reporting by Employers and OPEB Plans for Payments from the Federal Government Pursuant to the Retiree Drug Subsidy Provisions of Medicare Part D" (TB 2006-1). Under TB 2006-1, payments from the Federal Government are accounted for as other revenue and are not used to offset current or future OPEB expenditures. The present value of the Authority's prior service OPEB obligation, as of January 1, 2006, of $322 million, has been reduced by $21 million to $301 million. The $21 million reduction includes the impact of an increase in the discount rate from 6% to 7% to reflect a higher estimated investment return after the establishment of the trust, partially offset by an increase to reflect TB 2006-1. Additional changes result from a decrease in the assumed medical inflation rates and updated demographics and claims experience. As of January 1, 2008, the present value of the unfunded portion of the Authority's prior service OPEB obligation increased by $4 million to $237 million from $233 million. Certain prior year amounts have been adjusted and reclassified to conform with the current year's presentation. These adjustments and reclassifications had no effect on the financial statements.

The Authority's annual OPEB cost for the plan is calculated based on the annual required contribution (ARC), an amount actuarially determined in accordance with the parameters of GAS No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed twenty years. The 2008, 2007 and 2006 OPEB provisions of $32 million, $37 million and $35 million, respectively, include the amortization of the prior service obligation, a provision for active employees as of the beginning of the year, and an interest charge on the unfunded balance at year end. The Authority's net OPEB obligation or net deferred asset balance as of December 31, 2008, 2007, and 2006 are as follows:

(In Millions)	**2008**	2007	2006
Annual required contribution	**$ 32**	$ 37	$ 35
Contributions made (payment to retirees/trust fund)	**(140)**	(112)	(11)
Increase/(Decrease) in net OPEB obligation	**(108)**	(75)	24
Net OPEB obligation – beginning of year	**38**	113	89
Net OPEB obligation – end of year	**$ 0**	$ 38	$ 113
Net Deferred OPEB Charge – end of year**	**$ 70**	-	-

** Cumulative contributions made to the OPEB Trust Fund as of December 31, 2008, have exceeded the Authority's accrued OPEB liability and have resulted in a deferred OPEB asset balance of $70 million, in the Authority's Balance Sheet.

The Authority is not required to issue a publicly available financial report for the plan.

Deferred Compensation and Savings Plans:

The Authority offers union employees and salaried employees a deferred compensation plan created in accordance with Internal Revenue Code, Section 457. This plan permits participants to defer a portion of their salaries until future years. Amounts deferred under the plan are not available to employees or beneficiaries until termination, retirement, death or unforeseeable emergency.

The Authority also offers salaried employees a savings plan created in accordance with Internal Revenue Code, Section 401(k). This plan also permits participants to defer a portion of their salaries. The Authority matches contributions of employees, with a minimum of one year of service, up to limits specified in the plan. Such matching annual contributions for 2008 and 2007 totaled $2.4 million and $2.2 million respectively.

Independent trustees are responsible for the administration of the 457 and 401(k) plan assets under the direction of a committee of union representatives and non-union employees and a committee of non-union employees, respectively. Various investment options are offered to employees in each plan. Employees are responsible for making the investment decisions relating to their savings plans.

Note J - NYISO

Pursuant to FERC Order No. 888, the New York investor-owned electric utilities (the IOUs), a subsidiary of the Long Island Power Authority (doing business as "LIPA" hereafter referred to as "LIPA") and the Authority, and certain other entities, established two not-for-profit organizations, the New

York Independent System Operator (NYISO) and the New York State Reliability Council (Reliability Council). 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 the 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 Authority, the current IOUs and LIPA are members of both the NYISO and the Reliability Council.

The NYISO is responsible for scheduling the use of the bulk transmission system in the State, which normally includes all the Authority's transmission facilities, and for collecting ancillary services, losses and congestion fees from transmission customers. Each IOU 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 customer also pays a separate fee for the benefit of the Authority that is designed to assure that the Authority will recover its entire transmission revenue requirement.

The Authority dispatches power from its generating facilities in conjunction with the NYISO. The NYISO coordinates the reliable dispatch of power and operates a market for the sale of electricity and ancillary services within the State. The NYISO surveys the capacity of generating installations serving the State (installed capacity) and the load requirements of the electricity servers and provides an auction market for generators to sell installed capacity. The NYISO also administers day-ahead and hourly markets whereby generators bid to serve the announced requirements of the local suppliers of energy and ancillary services to retail customers. The Authority participates in these markets as both a buyer and a seller of electricity and ancillary services. 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 between regions of the State. The NYISO collects charges associated with the use of the transmission facilities and the sale of power and services bid through the markets that it operates. It 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.

Because of NYISO requirements, the Authority is required to bid into the NYISO day-ahead market (DAM) virtually all of the installed capacity output of its units. The NYISO then decides which Authority units will be dispatched, if any, and how much of such units' generation will be dispatched. The dispatch of a particular unit's generation depends upon the bid prices for the unit submitted by the Authority and whether the unit is needed by the NYISO to meet expected demand. If an Authority unit is dispatched by the NYISO, the Authority receives a fixed price (the Market Clearing Price), based on NYISO pricing methodology, for the energy dispatched above that needed to meet Authority contractual load (the Excess Energy). For the energy needed to meet Authority contractual load (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 continue to 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 that 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 hourly market and the Market Clearing price in the day-ahead market, and (2) in regard to the Contract Energy amount, the price of energy in the NYISO hourly market, which is offset by amounts received based on the Contract Price. This hourly market price is subject to more volatility than the day-ahead market price. The risk attendant with this outage situation is that, under certain circumstances, the Market Clearing Price in the day-ahead market and the Contract Price may be well below the price in the NYISO hourly market, with the Authority required 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 plant and its 500-MW plant (discussed in Note L (6)) because of their size, nature and location.

In addition to the risk associated with the Authority bidding into the day-ahead market, the Authority could incur substantial costs, in times of maximum energy usage, by purchasing replacement energy for its customers in the NYISO day-ahead market or through other supply arrangements to make up for lost energy due to an extended outage of its units or failure of its energy suppliers to meet their contractual obligations. As part of an ongoing risk mitigation program, the Authority investigates financial hedging techniques to cover, among other things, future maximum energy usage periods.

Note K - Nuclear Plant Divestiture and Related Matters

(1) Nuclear Plant Divestiture

On November 21, 2000 (Closing Date), the Authority sold its nuclear plants (Indian Point 3 [IP3] and James A. FitzPatrick [JAF]) to two subsidiaries of Entergy Corporation (collectively Entergy or 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. The present value of these payments recorded on the Closing Date, utilizing a discount rate of 7.5%, was $680 million.

As of December 31, 2008 and 2007, the present value of the notes receivable were:

(*in Millions*)	**2008**	2007
Notes receivable - nuclear plant sale	**$107**	$118
Less: Due within one year	**12**	11
	$ 95	$107

As a result of competitive bidding, the Authority agreed to purchase energy from Entergy's IP3 and IP2 nuclear power plants in the total amount of 500 MW during the period 2005 to 2008.

On September 6, 2001, a subsidiary of Entergy Corporation completed the purchase of Indian Point 1 and 2 (IP1 and IP2) nuclear power plants from Consolidated Edison Company of New York Inc. Under an agreement between the Authority and Entergy, which was entered into in connection with the sale of the Authority's nuclear plants to Entergy, the acquisition of the IP2 nuclear plant by a subsidiary of Entergy resulted in the Entergy subsidiary which now owns IP3 being obligated to pay the Authority $10 million per year for 10 years beginning September 6, 2003, subject to certain termination and payment reduction provisions upon the occurrence of certain events, including the sale of IP3 or IP2 to another entity and the permanent retirement of IP2 or IP3. The September 6, 2008 and 2007 payments were received and are included in Other Income.

As part of the Authority's sale of its nuclear projects to Entergy Subsidiaries in November 2000, the Authority entered into two Value Sharing Agreements (VSAs) with them. In essence, these contracts provide that the Entergy Subsidiaries will share a certain percentage of all revenues they receive from power sales in excess of specific projected power prices for a ten-year period (2005-2014). During 2006 and 2007, disputes arose concerning the calculation of the amounts due the Authority for 2005 and 2006, respectively. In October 2007, the parties reached an agreement resolving these disputes and amending the VSAs. In essence, these amended VSAs provide for the Entergy Subsidiaries to pay the Authority a set price ($6.59 per MWh for IP3 and $3.91 per MWh for JAF) 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. The Authority has received the maximum annual payments relat ed to calendar years 2007 and 2008. In all other material respects, the terms of the amended and original VSAs are substantially similar. The payments, related to the calendar years ending after December 31, 2008, are subject to continued ownership of the facilities by the Entergy Subsidiaries or its affiliates. Entergy has proposed a corporate restructuring involving, among other things, the spin -off of its nuclear business (including IP3 and JAF) to a new, publicly -traded company. While Entergy initially indicated that it was of the view that the spinoff would c ause the VSAs to be terminated, discussions between the Authority and Entergy produced an accord in August 2008 whereby the parties agreed that such spinoff would not constitute a terminating event for the VSAs . Relating to calendar year 2008, payments totaling $72 million have been accrued by the Authority and are reflected in Other Income in the Authority's Statements of Revenues, Expenses, and Changes in Net Assets.

(2) Nuclear Fuel Disposal

In accordance with the Nuclear Waste Policy Act of 1982, in J une 1983, the Authority entered into a contract with the U.S. Department of Energy (DOE) under which DOE, commencing not later than January 31, 1998, would accept and dispose of spent nuclear fuel. In conjunction with the sale of the nuclear plants, the Authority's contract with the DOE was assigned to Entergy. The Authority remains liable to Entergy for the pre -1983 spent fuel obligation. (See Note L (7), " New York State Budget Matters and Other Issues," relating to a temporary transfer of such funds to the State.) As of December 31, 2008, the liability to Entergy totaled $216 million. The Authority retained its pre-closing claim against DOE under the DOE standard contract for failure to accept spent fuel on a timely basis.

(3) Nuclear Plant Decommissioning

The Decommissioning Agreements with each of the Entergy Subsidiaries deal with the decommissioning funds (the Decommissioning Funds) currently maintained by the Authority under a master decommissioning trust agreement (the Trust Agreement). Under t he Decommissioning Agreements, the Authority will make no further contributions to the Decommissioning Funds.

The Authority will retain contractual decommissioning liability until license expiration, a change in the tax status of the fund, or any early dismantlement of the plant, at which time the Authority will have the option of terminating its decommissioning responsibility and transferring the plant's fund to the Entergy Subsidiary owning the plant. At that time, the Authority will be entitled to be pa id an amount equal to the excess of the amount in the Fund over the Inflation Adjusted Cost Amount, described below, if any. The Authority's decommissioning responsibility is limited to the lesser of the Inflation Adjusted Cost Amount or the amount of the plant's Fund.

The Inflation Adjusted Cost Amount for a plant means a fixed estimated decommissioning cost amount adjusted in accordance with the effect of increases and decreases in the U.S. Nuclear Regulatory Commission (NRC) minimum cost estimate amount s applicable to the plant.

Certain provisions of the Decommissioning Agreements provide that if the relevant Entergy Subsidiary purchases, or operates, with the right to decommission, another plant at the IP3 site, then the Inflation Adjusted Cost Amount would decrease by $50 million. In September 2001, a subsidiary of Entergy purchased the Indian Point 1 and Indian Point 2 plants adjacent to IP3.

If the license for IP3 or JAF is extended, an amount equal to $2.5 million per year, for a maximum of 20 year s, would be paid to the Authority by the relevant Entergy Subsidiary for each year of life extension during which the plant operates. In August 2006 and April 2007, the NRC received license renewal applications (for an additional 20 years) for JAF and IP 3, respectively. The current licenses for JAF and IP3 expire in 2014 and 2015, respectively.

Decommissioning Funds of $812 million and $979 million are included in Restricted Funds and Other Noncurrent Liabilities in the Balance Sheets at December 31, 2008 and 2007, respectively.

If the Authority is required to decommission IP3 or JAF pursuant to the relevant Decommissioning Agreement, an affiliate of the Entergy Subsidiaries, Entergy Nuclear, Inc. would be obligated to enter into a fixed price contract with the Authority to decommission the plant, the price being equal to the lower of the Inflation Adjusted Cost Amount or the plant's Fund amount.

Note L - Commitments and Contingencies

(1) Competition

The Authority's mission is to provide clean, economi cal and reliable energy consistent with its commitment to safety, while promoting energy efficiency and innovation, for the benefit of its customers and all New Yorkers. The Authority's financial performance goal is to have the resources necessary to achieve its mission, to maximize opportunities to serve its customers better and to preserve its strong credit rating.

To maintain its position as a low cost provider of power in a changing environment, the Authority has undertaken and continues to carry out a multifaceted program, including: (a) the upgrade and relicensing of the Niagara and St. Lawrence -FDR projects; (b) long-term supplemental electricity supply agreements with its governmental customers located mainly within the City of New York (NYC Gover nmental Customers); (c) construction of a 500-megawatt (MW) combined-cycle electric generating plant at the Authority's Poletti plant site (500 -MW plant); (d) a significant reduction of outstanding debt; and (e) implementation of an energy and fuel risk ma nagement program. Major accomplishments during 2008 supporting this program include an agreement (approved by Governor Paterson in January 2009) with Alcoa for the continued supply of hydropower from the Authority's St. Lawrence-FDR Power Project, additional funding of the Authority's Other Postemployment Benefits (OPEB) obligation and initiating the development of a program to assess enterprise-wide risk across the Authority.

The Authority operates in a competitive and sometimes volatile market environme nt. Volatility in the energy market has unfavorably impacted the Authority in its role as a buyer and has resulted in higher costs of purchased power and fuel in its NYC Governmental Customer and other market areas. The NYC Governmental Customer market c ost situation has been addressed and mitigated by both the "Energy Charge Adjustment with Hedging" (ECA) cost recovery provisions in the new long -term supplemental electricity supply agreements and generation from the 500 -MW plant. It should be noted that higher energy prices have, in some cases, favorably impacted the Authority in its role as a seller (revenues) in the electricity market. In 2008, wholesale electricity prices peaked in the summer and declined towards year -end reflecting the weaknesses in the economy and in commodity prices. Wholesale electricity prices are forecasted to be lower in 2009, thereby resulting in lower costs of purchased power and fuel, but also unfavorably impacting the Authority in its role as a seller in the electricity m arket.

The Authority also operates in an environment where certain programs implemented by the State have been funded by voluntary contributions from the Authority, for example, the Power for Jobs program. The economic downturn has also caused severe budget problems for the State resulting in additional requests for voluntary contributions from the Authority. See Note L (7), "New York State Budget Matters and Other Issues."

During 2008, volatile financial markets severely impacted the world economy. According to the National Bureau of Economic Research (NBER), a recession in the United States began in December 2007. Many economists believe that this recession will be long and deep. The environment has been described as the worst financial crisis since the 1930's. Credit availability became scarce or non-existent even for the most creditworthy borrowers. In this environment, the Authority continued to exercise its financial flexibility. As an example, in early 2008, the periodic auctions in the $300 billion Auction Rate Securities (ARS) market began failing and the ARS market became illiquid. Investors were unable to readily sell their investments in ARS and if they were able to sell, it was at a significant discount. The Authority decided to refund its $72.1 million in ARS with tax-exempt commercial paper thereby rendering its holders of ARS whole in an illiquid market.

The Authority's restructuring of its long-term debt through open-market purchases and refundings, begun prior to the adoption of the Bond Resolution, has resulted in, and is expected to continue to result in, cost savings and increased financial flexibility. Since December 31, 1998, the Authority has reduced its total debt by $0.3 billion, or 11%, resulting in the reduction of its total debt/equity ratio from 1.44 to 0.83, which is the Authority's lowest debt/equity ratio since it implemented proprietary accounting in 1982. During 2008, long-term debt, net of current maturities, decreased by $149 million, or 8%, primarily due to early extinguishments of debt ($122 million) and scheduled maturities (i.e., reclassifications to long-term debt due within one year of $102 million) offset by a $75 million increase in commercial paper classified a long-term debt. The Authority expects to continue debt retirements in the future to the extent funds are available and not needed for the Authority's expenses, reserves, or other purposes.

The Authority can give no assurance that even with these measures it will not lose customers in the future as a result of the restructuring of the State's electric utility industry and the emergence of new competitors or increased competition from existing participants. In addition, the Authority's ability to market its power and energy on a competitive basis is limited by provisions of the Act that restrict the marketing of Poletti and the 500-MW plant outputs, 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.

(2) Governmental Customers in the New York City Metropolitan Area

In 2005, the Authority and its eleven NYC Governmental Customers, including the Metropolitan Transportation Authority, The City of New York, the Port Authority of New York and New Jersey (Port Authority), the New York City Housing Authority, and the New York State Office of General Services, entered into long-term supplemental electricity supply agreements (Agreements). Under the Agreements, the NYC Governmental Customers 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 and, under certain limited conditions, on one year's 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. Beginning in 2005, the Authority implemented a new annual price setting process 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 the NYC Governmental Customers. Under the Agreements, such market-risk hedging options include a full cost pass-through arrangement relating to fuel, purchased power, and NYISO-related costs, including such an arrangement with some cost hedging.

Under the Agreements, the Authority will modify rates annually through a formal rate case where 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 are reconciled and all or a portion of the variance is either charged or credited to the NYC Governmental Customers.

In 2007, the NYC Governmental Customers selected an "Energy Charge Adjustment with Hedging" cost recovery mechanism under which all Variable Costs are passed on to them, and which, once elected, applies for two consecutive years. Thus, an ECA mechanism applied during calendar year 2008. The Authority incorporated the Trustee-approved Fixed Costs, the Variable Costs determined under the Agreement's rate-setting process and the ECA set forth in the Agreement, into new rates effective for 2008 billings. Since an ECA mechanism was in effect for 2008, Authority invoices included an addition or subtraction each month that reflected changes in the cost of energy as described in the Agreement. The parties have agreed to continue the ECA mechanism for 2009.

With the customers' guidance and approval, the Authority will continue to offer up to $100 million annually in financing for energy efficiency projects and initiatives at governmental customers' facilities, with the costs of such projects to be recovered from such customers.

The NYC Governmental Customers are committed to pay for any supply secured for them by the Authority which results from a collaborative effort. 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 (RFP) 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 under the Agreements.

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 49 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 will be borne by the 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 anticipation of the closure of the Authority's existing Poletti Project in January 2010, and in addition to the Hudson/FPLE supply agreements, the Authority, in November 2007, issued a non-binding request for proposals for up to 500 MW of In-City Unforced Capacity and Optional Energy to serve the needs of its NYC Governmental Customers as early as the summer of 2010. At its April 2008 meeting, the Authority's Trustees authorized negotiation of a long-term electricity supply contract with Astoria Generating LLC for the purchase of the output of a new 500-MW power plant to be constructed in Astoria, Queens, adjacent to its existing plant. Following approval of the NYC Governmental Customers, the Authority and Astoria Energy entered into a long-term supply contract in July 2008. The costs associated with the contract will be borne by these customers. It is anticipated that the new plant would enter into service by the summer of 2011.

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 (County), and by first quarter 2008, the remaining 103 Westchester Governmental Customers had executed the new agreement. Among other things, under the agreement, an energy charge adjustment mechanism will be applicable, and customers are allowed to partially terminate on at least two months notice prior to the start of the NYISO capability periods. Full termination is allowed on at least one year's notice, effective no sooner than January 1 following the one year notice.

(3) Power for Jobs

In 1997, 1998, 2000, and 2002, legislation was enacted into New York law which authorized the PFJ Program to make available low-cost electric power to businesses, small businesses, and not-for-profit organizations. Under the PFJ Program, the New York State Economic Development Power Allocation Board (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. Under 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 PFJ 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 alternative acquisition) power plus a charge for the transmission of such power.

In 2004, legislation was enacted into New York law which amended the PFJ Program in regard to contracts of certain PFJ Program customers. Under the amendment, certain customer 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 Rebates) from termination until 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. Annually from 2005 to 2008, provisions of the approved State budgets extended the PFJ Program, currently through June 30, 2009. As of December 31, 2008, 238 PFJ Program customers have opted to extend their contracts and 243 PFJ Program customers have opted to receive PFJ Rebates. The Authority approved PFJ Reimbursements payments of $54 million and $42 million for 2008 and 2007, respectively. (See Note L (7), "New York State Budget Matters and Other Issues" for related information on voluntary contributions to the State.)

Two Authority PFJ customers initiated an Article 78 proceeding challenging the Authority's implementation of Chapter 645 of the Laws of 2006, signed by the Governor on August 16, 2006. The Authority was served on February 8, 2007. The petition alleged three Authority misinterpretations of the new law: (a) the Authority limited the restitution benefits provided by the new law only to PFJ customers who chose to continue with the standard PFJ contracts; (b) the Authority refuses to pay those restitution benefits until late 2007; and (c) the Authority computes the rebates available to petitioners who now elect the PFJ Rebates option (in lieu of the standard contract) based on 2006 rates rather than 2003 and 2005 rates. The petition did not quantify the damages it sought but asked the court to order an inquest to determine the amount. 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 appealed this decision to the Appellate Division, Third Department, and by decision issued April 17, 2008, the court modified the lower court's decision and held that the Authority's determinations on the first and third issues discussed above were erroneous. Thereafter, the Authority moved the court for reargument concerning its ruling on the methodology for calculating PFJ Reimbursements for certain customers and, in the alternative, for permission to appeal to the Court of Appeals. That motion was denied and the Authority's subsequent motion to the Court of Appeals for leave to appeal was granted on December 16, 2008. Briefing by the parties is scheduled to be completed in April 2009. The Authority is unable to predict the outcome of this matter but the Authority believes it has meritorious defenses and positions with respect thereto.

(4) Legal and Related Matters

a. 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 Indians.

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 involved 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 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 a 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 would also require, 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 decision of appeals in two relevant New York land claim litigations (Cayuga and Oneida) to which the Authority is not a party.

The legislation was never enacted and once the Cayuga and Oneida 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 filed reply papers December 5, 2007, and plaintiffs filed surreply papers on January 11, 2008. A decision on the defendants' motions is pending.

The Authority had previously accrued an estimated liability based upon the provisions of the settlement described above. This liability is reflected in the Balance Sheet as of December 31, 2008.

The Authority is unable to predict the outcome of the matters described above, but believes that the Authority has meritorious defenses or positions with respect thereto. However, adverse decisions of a certain type in the matters discussed above could adversely affect Authority operations and revenues.

b. A customer of the Authority, the City of New York (City), recently reached a 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 took the position that the Authority, due to Con Edison's inaccurate register, overcharged the City in increased delivery and production charges. In August 2008, the Authority reached a negotiated settlement for approximately $4 million with the City and this matter is considered closed.

c. In addition to the matters described above, other 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), in contract, and for environmental, employment and other matters. All of such other actions or claims will, in the opinion of the Authority, be disposed of within the amounts of the Authority's insurance coverage, where applicable, or the amount which the Authority has available therefore and without any material adverse effect on the business of the Authority.

(5) Construction Contracts and Net Operating Leases

Estimated costs to be incurred on outstanding contracts in connection with the Authority's construction programs aggregated approximately $ 156 million at December 31, 2008.

Non-cancelable operating leases primarily include leases on real property (office and warehousing facilities and land) utilized in the Authority's operations. Commitments under non-cancelable operating leases are as follows:

(*in Millions*)	Total	2009	2010	2011	2012	2013
Gross Operating Leases	$4.6	$2.4	$1.5	$0.3	$0.2	$0.2
Less: Subleases/Assignments	2.0	1.5	0.5	-	-	-
Net Operating Leases	$2.6	$0.9	$1.0	$0.3	$0.2	$0.2

(6) Small, Clean Power Plants and 500-MW Plant

To meet capacity deficiencies and ongoing local requirements in the New York City metropolitan area, which could also adversely affect the statewide electric pool, the Authority placed in operation, in the Summer of 2001, the Small, Clean Power Plants (SCPPs), consisting of eleven natural-gas-fueled combustion-turbine electric units, each having a nameplate rating of 47 MW at six sites in New York City and one site in the service region of LIPA.

As a result of the settlement of litigation relating to certain of the SCPPs, the Authority has agreed under the settlement agreement to cease operations at one of the SCPP sites, which houses two units, as early as the commercial operation date of either the 500-MW plant (December 31, 2005) or another specified plant being constructed in the New York City area, if the Mayor of New York City directs such cessation. No such cessation has occurred.

To serve its New York City Governmental Customers and to comply with the NYISO in-City capacity requirement in the New York City area, the Authority has constructed a 500-MW combined-cycle natural-gas-and-distillate-fueled power plant at the Poletti site (the 500-MW plant) 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, and also includes a steam turbine, and an air-cooled condenser. At a cost of approximately $745 million, the Authority's 500-MW plant began commercial operation on December 31, 2005.

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.

In connection with the licensing of the 500-MW plant, the Authority has entered into an agreement which will require the closure of the Authority's existing Poletti Project in January 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.

(7) New York State Budget Matters and Other Issues

a. Section 1011

Section 1011 of the Power Authority Act (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 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 by the Authority. 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.

b. Budget / Power for Jobs

1) The Authority is requested, from time to time, to make financial contributions or transfers of funds to the State. Any such contribution or transfer of funds must (i) be authorized by State legislation (generally budget legislation), and (ii) satisfy the requirements of the Bond Resolution. The Bond Resolution requirements to withdraw moneys "free and clear of the lien and pledge created by the [Bond] Resolution" are as follows: (1) must be for a "lawful corporate purpose as determined by the Authority," and (2) the Authority must determine "taking into account, among other considerations, anticipated future receipt of Revenues or other moneys constituting part of the Trust Estate, that the funds to be so withdrawn are not needed" for (a) payment of reasonable and necessary operating expenses, (b) an Operating Fund reserve for working capital, emergency repairs or replacements, major renewals, or for retirement from service, decommissioning or disposal of facilities, (c) payment of, or accumulation of a reserve for payment of, interest and principal on senior debt, or (d) payment of interest and principal on subordinate debt.

Legislation enacted into law, as part of the 2000-2001 State budget, as amended in subsequent years, authorizes the Authority "as deemed feasible and advisable by the Trustees," to make annual "voluntary contributions" into the State treasury in connection with the PFJ Program. Commencing in December 2002 through March 2008, the Authority made such voluntary contributions to the State in an aggregate amount of $424 million.

In recent years, annual extensions of the PFJ Program have been signed into law. The most recent in April 2008 (1) extends the PFJ Program, including the PFJ Rebate provisions, to June 30, 2009; (2) authorizes the Authority to make an additional voluntary contribution of $25 million for the State Fiscal year 2008-2009 with the aggregate amount of such contributions increasing to $449 million; (3) authorizes certain customers that had elected to be served by PFJ contract extensions to elect to receive PFJ Rebates instead; and (4) requires the Authority to make payments to certain customers to reimburse them with regard to PFJ Program electric prices that are in excess of the electric prices of the applicable local electric utility.

In light of the severe budget problems facing the State at this time, the Governor has proposed additional budget legislation authorizing the Authority, as deemed "feasible and advisable by its trustees" to make voluntary contribution payments of approximately $119 million during the remainder of State Fiscal Year 2008-2009 and approximately $107 million during State Fiscal Year 2009-2010. Subsequent to year-end, the Authority's Trustees authorized additional voluntary contributions of $119 million that were paid in January 2009. With this $119 million payment, the Authority has made voluntary contributions to the State totaling $449 million in connection with the PFJ Program and $70 million unrelated to the PFJ Program along with the annual payment for 2008 and prepayments for 2009 and 2010 totaling $24 million to the New York State Office of Parks, Recreation and Historic Preservation ("OPRHP"). The financial statements for the year ended December 31, 2008 include an accrued liability and charge against net income related to the portion applicable to 2008 ($33 million). The costs related to 2009 ($78 million) which is composed of the $70 million contribution to State and $8 million OPRHP payment were recorded in January 2009 to be reported and classified as a Contribution to State and an operating expense, respectively, in the 2009 income statement. The $8 million OPRHP payment applicable to 2010 was recorded as a prepayment for 2010 made in January 2009.

In addition to the expected authorization for the voluntary contributions, the Authority has also been requested to provide temporary transfers to the State of certain funds currently in reserves. Pursuant to the terms of a proposed Memorandum of Understanding ("MOU") between the State, acting by and through the Director of Budget of the State, and the Authority, the Authority would agree to transfer approximately $215 million associated with its Spent Nuclear Fuel Reserves (Asset B) by the end of State Fiscal Year 2008-2009. The Spent Nuclear Fuel Reserves are funds that have been set aside for payment to the federal government sometime in the future when the federal government accepts the spent nuclear fuel for permanent storage. The MOU is expected to provide for the return of these funds to the Authority, subject to appropriation by the State Legislature and the other conditions described below, at the earlier of the Authority's payment obligation related to the transfer and disposal of the spent nuclear fuel or September 30, 2017. Further, the MOU is expected to authorize the Authority to transfer during State Fiscal Year 2009-2010 approximately $103 million of funds set aside for future construction projects (Asset A), which amounts would be returned to the Authority, subject to appropriation by the State Legislature and the other conditions described below, at the earlier of when required for operating, capital or debt service obligations of the Authority or September 30, 2014.

The obligation of the State to return all or a portion of an amount equal to the moneys transferred by the Authority to the State would be subject to annual appropriation by the State Legislature. Further, the MOU provides that as a condition to any such appropriation for the return of the monies earlier than September 30, 2017 for the Spent Nuclear Fuel Reserves and earlier than September 30, 2014 for the construction projects, the Authority must certify that the monies available to the Authority are not sufficient to satisfy the purposes for which the reserves, which are the source of the funds for the transfer, were established.

In February 2009, the Authority's trustees authorized the execution of the MOU relating to the temporary transfers of Asset B ($215 million) by March 27, 2009 and Asset A ($103 million) within 180 days of the enactment of the 2009-10 State Budget; and approved the payment of the voluntary contribution of $107 million by March 31, 2010. Actual payment of these funds is conditioned on passage of legislation that authorizes such payments as deemed feasible and advisable by the Authority's trustees. In addition, the temporary transfer of Asset A ($103 million) and the voluntary contribution of $107 million will require trustee reaffirmation prior to the actual dates of the transfer and contribution.

For financial reporting purposes, the Authority will classify the transfers of Asset A and Asset B ($318 million) as a long-term loan receivable. In lieu of interest payments, the State will waive certain future payments from the Authority to the State. Firstly, the Authority's obligation to pay the amounts to which the State is entitled under a governmental cost recovery process for the costs of central governmental services would be waived until September 30, 2017. These payments would have been approximately $5 million per year based on current estimates but the waiver would be limited to a maximum of $45 million in the aggregate during the period. Secondly, the obligation to make payments in support of the Niagara State park and for the upkeep of State lands adjacent to the Niagara or St. Lawrence power plants would be waived from April 1, 2011 to March 31, 2017. These payments would have been $8 million per year but the waiver would be limited to a maximum of $43 million for the period. The present value of the waivers exceeds the present value of the lost interest income. The voluntary contribution of $107 million will be reflected and classified as a Contribution to State in the 2010 income statement.

Unrelated to the preceding paragraphs, 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 to date.

2) Certain business customers served under the Authority's High Load Factor, Economic Development Power and Municipal Distribution Agency programs faced rate increases beginning November 1, 2005.

To remedy this situation, legislation was enacted into law in July 2005 (Chapter 313, 2005 Laws of New York) (the ''2005 Act'') which amended 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 energy cost savings benefits to be provided to certain Authority customers. Relating to the Energy Cost Savings Benefits ("ECS 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 for a limited period 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 ECS Benefits. The ECS Benefits are administered by New York State 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 scheduled to expire on December 31, 2006, additional laws in 2006, 2007 and 2008 (2006 law, 2007 law and 2008 law) extended the ECS Benefits program through June 30, 2009 which means that the benefits are currently scheduled to expire after June 30, 2010.

The 2006 law also provides that the Authority make available for allocation to customers the 70 MW of hydropower that had been utilized as a source of funding the ECS Benefits (ECS Funding Source). From the inception of the ECS Benefits program through December 31, 2007, the ECS Benefits program was paid for from the ECS Funding Source, as opposed to internal funds of the Authority. As a result of removal of the ECS Funding Source, the Authority paid from internal funds approximately $40 million in ECS Benefits for 2008.

c. Accountability Act and Other Issues

Legislation entitled "Public Authorities Accountability Act of 2005" (PAAA), which addresses public authority reform, was signed into law by the Governor in January 2006. The PAAA is effective for and applied to the Authority beginning with its 2006 calendar year.

The Authority's previous and current procedures include many of the practices and information submittals now required by the PAAA including adoption of a code of ethics; filing of an annual report; independent audits by a certified public accounting firm; oversight by an audit committee; and the posting of key information on a website available to the general public. Other PAAA provisions including additional reporting requirements, accelerated filing of budgetary information; report certification by management; and the expanded role of the Board of Trustees have been addressed by the Authority. The PAAA also established a State Inspector General's Office and a Public Authority Budget Office.

Effective March 29, 2006, the Office of the State Comptroller (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.

(8) Relicensing of St. Lawrence and Niagara

On October 23, 2003, FERC issued to the Authority a new 50-year license (New St. Lawrence License) for the St. Lawrence-FDR project, effective November 1, 2003. The Authority estimates that the total costs associated with the relicensing of the St. Lawrence -FDR project, compliance with license conditions, and compliance with settlement agreements, for a period of 50 years will be approximately $210 million, of which approximately $ 148 million has already been spent or will be spent in the near future. These total costs could increase in the future as a result of additional requirements that may be imposed by FERC under the New St. Lawrence License.

By order issued March 15, 2007, FERC issued the Authority a new 50 -year license (New Niagara 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 the 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. In November 2007, these entities filed a petition for review of FERC's orders in the Court of Appeals for the District of Columbia Circuit. Briefing by the parties has been completed and oral argument was held before the Court in February 2009. The Authority is unable to predict the outcome of this matter but the Authority believes that FERC has available meritorious defenses and positions with respect thereto.

In addition to internally generated funds, the Authority issued additional debt obligations in October 2007 to fund, among other things, Niagara relicensing costs. The costs associated with the relicensing of the Niagara Project, including the debt issued therefor, were incorporated into the cost -based rates of the Project beginning in 2007.

(9) Advanced Clean Coal Power Plant Initiative

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. On December 19, 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 bids) 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. However, on July 16, 2008, the Authority advised NRG that despite the best efforts of the parties, it did not appear that there would be a sufficient reduction in the price of the output of the proposed facility such that Authority staff could recommend to the Trustees the ultimate approval of a final purchased power agreement for the output of the facility. Accordingly, efforts to develop the project under the State's Advanced Clean Coal Power Plant Initiative came to an end.

(10) Regional Greenhouse Gas Initiative

The Regional Greenhouse Gas Initiative ("RGGI") is a cooperati ve effort by Northeastern and Mid-Atlantic states (including New York) to hold carbon dioxide emission levels steady from 2009 to 2014 and then reduce such levels by 2.5% annually in the years 2015 to 2018 for a total 10% reduction . Central to this initiative is the implementation of a multi-state cap-and-trade program with a market-based emissions trading system. The program will require electricity generators to hold carbon dioxide allowances in a compliance account in a quantity that matches their tot al 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. The Authority has participated in the two auctions conducted in September and December of 2008. T he costs of compliance to the Authority and other generators in the region could be significant. The Authority is monitoring the potential federal programs that are under discussion and debate for their potential impact on RGGI in the future.

(11) Natural Gas Contract

In 1990, the Authority entered into a long-term 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 Cont ract, 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 had 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 o f the Enron Contract was invalid and that the Authority owes Enron NAC a termination payment. In the letter, it was also 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 Contract was valid and by asserting that no termination payment was due 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 shou ld 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 let ter 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 time of the bankruptcy petitio n. 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 ref uted 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 m atter has yet been commenced. The Authority is unable to predict the outcome of the matter described above, but believes that the Authority has meritorious defenses or positions with respect thereto. The Authority is not involved in any transaction with E nron 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 NYISO -related services provided by the Authority.

New York Power Authority

Required Supplementary Information

REQUIRED SUPPLEMENTARY INFORMATION
Schedule of Funding Progress
For the Retiree Health Plan
(in Millions)

Actuarial Valuation **Date**	Actuarial Value of Assets **(a)***	Actuarial Accrued Liability (AAL) --- Projected Unit Credit Method **(b)**	Unfunded AAL (UAAL) **(b – a)**	Funded Ratio **(a / b)**	Covered Payroll **(c)**	UAAL as a Percentage of Covered Payroll **((b – a) / c)**
1/1/08	$100	$337	$237	30%	$136	174%
1/1/06	0	301	301	0%	130	232%
1/1/04	0	279	279	0%	116	240%
1/1/02	0	271	271	0%	107	254%

* During 2007, a trust for the Authority's OPEB obligations was funded with an initial amount of $ 100 million. This amount is reflected in the table above as of the 1/1/08 Actuarial Valuation Date. See Note I, "Pension Plans, Other Postemployment Benefits, Deferred Compensation and Savings Plans," for additional information.

Page Reserved for Trustees and Officers

3. Summary of 2008 Annual Audit of Financial Statements

Mr. David Milkosky of Ernst & Young LLP ("E&Y") said that E&Y had described its 2008 audit approach to the Audit Committee at an earlier meeting. He said that:

- E&Y will issue an unqualified opinion on the Authority's 2008 Financial Statements.
- E&Y found no irregularities to report to the Audit Committee.
- E&Y will issue reports on:
    - ♦ Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with Government Auditing Standards.
    - ♦ The Authority's investments in accordance with the State of New York Comptroller's Guidelines.
    - ♦ The Authority's Compliance with the State of New York Investment Guidelines.
- E&Y found no instances of material fraud in its audit and no differences in policy or adjustments.
- There were no significant accounting policy changes at the Authority during the 2008 fiscal year.
- There were no disagreements with management and no significant recorded or unrecorded audit adjustments noted.
- E&Y will obtain the standard letter of representation from Authority management.
- E&Y is not aware of any Authority consultations with other accountants.
- No significant audit issues were discussed with management.
- E&Y is not aware of any fraud or illegal acts that require communication.
- No material weaknesses in internal control were identified.
- The significant accounting policies of the Authority are described in Note B to the financial statements.
- The Authority did not apply any alternative account treatments within generally accepted accounting principles.

In response to a question from Chairman Curley, Mr. Milkosky said that E&Y cannot speak to the enforceability of the Memorandum of Understanding for the temporary transfer of restricted assets to the State of New York.

Mr. Louis Roberts of E&Y presented the following overview of the audit's findings and observations. The Authority:

- Recognizes revenue when services are delivered and uses an acceptable method for accruing revenues.
- Properly applies the guidance provided in Statement of Financial Accounting Standard ("SFAS") 71, *Regulatory Accounting.*

- Invests its funds in accordance with the applicable provisions of the Bond Resolution and the Authority's investment guidelines, which in turn comply with the New York State Comptroller's investment guidelines for public authorities.
- Appropriately uses a specialist firm to value its fuel inventory on hand at year's end.
- Uses a consistent, conservative method of estimating bad debts based on the aging of accounts receivable.
- States capital assets at original cost.
- Capitalizes interest on amounts borrowed to finance construction to the project prior to completion.
- Assesses impairment when any indicators of impairment are present, in accordance with applicable accounting standards.
- Applies the appropriate accounting guidance to account for and report on derivatives.
- Follows industry practice in establishing environmental reserves.
- Appropriately uses an actuary to estimate the liability related to other post-retirement benefits.
- Has a consistent and conservative methodology for estimating its self-insurance liability.
- Books depreciation expenses appropriately when a project is completed and the asset is placed into service.

Mr. Roberts said that the Authority will be subject to the requirements of Government Accounting Standards Board Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments* for the calendar year 2010.

New York Power Authority

2008 financial statement audit results

Ernst & Young
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February 24, 2009

The Audit Committee of the Board of Trustees
Power Authority of the State of New York

Dear Members of the Audit Committee,

We are pleased to present the results of our audit of the 2008 financial statements of the Power Authority of the State of New York (the "Authority") and the status of our final procedures.

The audit is designed to express an opinion on the 2008 financial statements as of December 31, 2008. In accordance with professional standards, we obtained a sufficient understanding of internal control to plan the audit and to determine the nature, timing and extent of tests to be performed. However, we were not engaged to and we did not perform an audit of internal control over financial reporting.

At Ernst & Young, we are continually evaluating the quality of our professionals' work in order to deliver audit services of the highest quality that will meet or exceed your expectations. We encourage you to use our Assessment of Service Quality (ASQ) process to provide your input on our performance. The ASQ process is a critical tool in enabling us to continually monitor and improve the quality of our services to the Authority.

This report is intended solely for the information and use of the Audit Committee, Board of Trustees and management, and is not intended to be and should not be used by anyone other than these specified parties.

We appreciate this opportunity to meet with you to discuss the contents of this report and answer any questions you may have about these or any other audit related matters.

Very truly yours,

Ernst & Young LLP

Agenda

- Our client service commitment to the New York Power Authority
- Deliverables
- Global audit methodology
  - Overview of the audit process
  - Using the work of the Internal Audit Department
  - Required communications
  - Findings and observations—financial statement accounts and disclosures
  - Fraud considerations and the risk of management override
- Looking ahead
  - Accounting and auditing developments
- Appendix A—Timing of required communications with audit committees
- Appendix B—Independence
- Appendix C—Audit committee trends and key topics

Our client service commitment to the New York Power Authority

Our service commitment	Ernst & Young is committed to delivering consistent high-quality client service to the Authority. Our service commitment is centered on our most critical objective of performing a high-quality audit of the Authority's financial statements. Additionally, we strive to provide "Quality In Everything We Do" and recognize that service quality extends well beyond execution of our audit methodology. It is driven by the quality of our team and the effectiveness and value of our communications with management and the audit committee. Our overall service commitment to the Authority is depicted above and is aligned with our Ernst & Young Assurance Service Delivery Approach.

Deliverables

	Audit deliverables	Status update
Opinions	▶ Express an opinion on the financial statements of the Authority	▶ Obtain a letter of representations from management ▶ Perform final review procedures by the independent review partner.
Internal control communications	▶ Issue a Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with *Government Auditing Standards* ▶ Issue a written communication to management and the audit committee describing significant deficiencies and material weaknesses identified during our audit, if required ▶ Issue a management letter that provides our recommendations regarding internal controls and opportunities for improvement or efficiency based on observations made during the course of our audit ▶ Issue a report on the Authority's investments in accordance with the State of New York Comptroller's Guidelines ▶ Issue a report on the Authority's Compliance with the State of New York Investment Guidelines	▶ Perform final review procedures by the independent review partner.

Global audit methodology
Overview of the audit process

Important matters for audit committee consideration

- Using the work of others
- Required communications
- Findings and observations
- Critical policies, estimates and areas of emphasis
- Fraud considerations and the risk of management override
- Summary of audit differences
- Looking ahead

Using the work of the Internal Audit Department

Project observations and status

- Areas where Ernst & Young utilized the work of the Internal Audit Department based on consideration of competence and objectivity:
  - Testing controls over purchasing/accounts payable
  - Testing controls over payroll
  - Testing of program change controls
- Ernst & Young works closely with internal audit throughout the process:
  - Review of audit programs
  - Review of selected working papers
  - Review of test results
- Retesting, on a sample basis, the work of internal audit as required by professional standards
- All testing is completed

Required communications

Area	Comments
Auditors' responsibilities under Generally Accepted Auditing Standards (GAAS) The financial statements are the responsibility of management. Our audit was designed in accordance with auditing standards generally accepted in the United States to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement. As part of our audit, we obtained an understanding of internal control sufficient to plan our audit and to determine the nature, timing and extent of testing performed. However, we were not engaged to and we did not perform an audit of internal control over financial reporting.	Upon completion of our remaining audit procedures, we currently expect to issue an unqualified opinion on the Authority's financial statements for the year ended December 31, 2008.
Our judgments about the quality of the Authority's accounting principles We discuss our judgments about the quality, not just the acceptability, of the accounting policies as applied in the Authority's financial reporting, including the consistency of the accounting policies and their application and the clarity and completeness of the financial statements and related disclosures.	The significant policies of the Authority are described in Note B to the financial statements. There were no significant accounting policy changes during the 2008 fiscal year.
Significant difficulties encountered in dealing with management when performing the audit We inform the Audit Committee or those charged with governance of any significant difficulties encountered in dealing with management related to the performance of the audit.	None.
Unrecorded audit differences We inform the Audit Committee or those charged with governance about unrecorded audit differences accumulated by us (i.e., adjustments either identified by us or brought to our attention by management) during the current audit and pertaining to the latest period presented that were determined by management to be immaterial, both individually and in the aggregate, to the financial statements as a whole.	None.

Required communications

Area	Comments
Disagreements with management We discuss with the Audit Committee or those charged with governance any disagreements with management, whether or not satisfactorily resolved, about matters that individually or in the aggregate could be significant to the entity's financial statements or the auditor's report.	There were no disagreements with management.
Significant audit adjustments We provide the Audit Committee or those charged with governance with information about adjustments arising from the audit (whether recorded or not) that could in our judgment, either individually or in the aggregate, have a significant effect on the Authority's financial statements.	There were no significant recorded or unrecorded audit adjustments noted.
Representations requested from management We inform the Audit Committee or those charged with governance of the representations we requested from management.	We obtained the standard letter of representation from management.
Consultation with other accountants When we are aware that management has consulted with other accountants about auditing or accounting matters, we discuss with the Audit Committee or those charged with governance our views about significant matters that were the subject of such consultation.	None of which we are aware.

Required communications

Area	Comments
Significant issues, if any, arising from the audit that were discussed, or the subject of correspondence, with management We inform the Audit Committee or those charged with governance of any significant issues arising from the audit that were discussed, or the subject of correspondence, with management. Significant issues encountered during the audit may include such matters as: • Business conditions affecting the entity, and business plans and strategies that may affect the risks of material misstatement • Discussions or correspondence in connection with the initial or recurring retention of the auditor including, among other matters, any discussions or correspondence regarding the application of accounting principles and auditing standards.	There were no significant audit issues discussed with management.
Independence In certain situations the auditor may determine it is appropriate to communicate with those charged with governance circumstances or relationships (e.g., financial interests, business or family relationships, or nonaudit services provided or expected to be provided) that in the auditor's professional judgment may reasonably be thought to bear on independence and that the auditor gave significant consideration to in reaching the conclusion that independence has not been impaired.	We are not aware of any relationships between Ernst & Young and the Authority that, in our professional judgment, may reasonably be thought to bear on our independence. Relating to our audit of the financial statements of the Authority as of December 31, 2008, and for the year then ended, we are independent certified public accountants with respect to the Authority within the meaning of the applicable published pronouncements of the Independence Standards Board; Rule 101 of the American Institute of Certified Public Accountants' Code of Professional Conduct, its interpretations and rulings; and Government Auditing Standards. Our policies relating to financial interests (e.g. stock ownership, loans, and other credit) generally are stricter than the requirements imposed by these regulatory and professional bodies. We have not performed any nonaudit services for the Authority in the 2008 fiscal year.

Required communications

Area	Comments
The adoption of, or a change in an accounting principle We determine that the Audit Committee or those charged with governance is/are informed about the initial selection of, and any changes in, significant accounting principles or their application when the accounting principle or its application, including alternative methods of applying the accounting principle, has a material effect on the financial statements.	The Authority did not adopt a change in its accounting principles during 2008.
Methods of accounting for significant unusual transactions and for controversial or emerging areas We determine that the Audit Committee or those charged with governance is/are informed about the methods used to account for significant unusual transactions and the effects of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.	We are not aware of any significant unusual transactions recorded by the Authority or of any significant accounting policies used by the Authority related to controversial or emerging areas for which there is a lack of authoritative guidance.
Sensitive accounting estimates The preparation of the financial statements requires the use of accounting estimates. Certain estimates are particularly sensitive due to their significance to the financial statements and the possibility that future events may differ significantly from management's current judgments. We determine that the Audit Committee or those charged with governance is/are informed about management's process for formulating particularly sensitive accounting estimates and about the basis for our conclusions regarding the reasonableness of those estimates.	Estimates and assumptions made by management in preparing the financial statements relate to evaluating the need for potential allowances for uncollectible accounts receivable, recording unbilled revenues, computing and amortizing regulatory assets and liabilities, assigning composite depreciation rates (useful lives), computing indirect costs allocable to capital projects, determining inventory reserves, and calculating compensated absences, other post-employment benefits and payroll related liabilities.

Required communications

Area	Comments
Fraud and illegal acts We communicate to the Audit Committee or those charged with governance fraud and illegal acts involving senior management and fraud and illegal acts (whether caused by senior management or other employees) that cause a material misstatement of the financial statements.	We are not aware of any matters that require communication. Refer to the “Fraud considerations” section for more information about our procedures related to the risks of material misstatement due to fraud.
Significant deficiencies and material weaknesses in internal control We communicate all significant deficiencies and material weaknesses in internal control that may have been identified during the course of our audit.	No material weaknesses were identified.
Critical accounting policies and practices We communicate all critical accounting policies and practices used by the Authority in preparing the financial statements and our assessment of the disclosure of such policies.	The significant accounting policies of the Authority are described in Note B to the financial statements.
All material alternative accounting treatments discussed with management We discuss with the Audit Committee all alternative accounting treatments within GAAP for policies and practices related to material items (including recognition, measurement, presentation and disclosure alternatives) that have been discussed with management during the current audit period including: • Ramifications of the use of such alternative disclosures and treatments, including the reasons why the alternative was selected and, if management did not select our preferred alternative, the reasons why it was not selected. • The treatment preferred by us.	The Authority did not apply any alternative accounting treatments within GAAP.

Findings and observations-Executive Summary
Financial statement accounts and disclosures

Area	Critical accounting policy	Ernst & Young comments on quality of accounting policy and application
Revenue		
Revenue recognition, including unbilled revenue and receivables	✓	► NYPA recognizes revenue when services are delivered. ► NYPA employs an acceptable estimation process to unbilled revenue and then compares to actual results.
Expenses		
Depreciation expense		► With the exception of the SCPPs, NYPA depreciates capital assets systematically using the straight-line method over the estimated useful life considering FERC guidelines or license period of the asset. ► NYPA is providing for depreciation of the SCPPs using the double-declining balance method based on a conclusion that the revenue-earning power of those units is greater during the earlier years of the units' lives.
Assets		
Regulatory assets	✓	► NYPA properly applies the guidance in SFAS 71, *Regulatory Accounting*.
Investments	✓	► NYPA's investment of funds is administered in accordance with the applicable provisions of the Bond Resolution and with the Authority's investment guidelines. These guidelines comply with the New York State Comptroller's investment guidelines for public authorities.
Fuel inventory		► NYPA appropriately utilizes a specialist firm to value the fuel inventory on hand at year-end.
Allowance for doubtful accounts	✓	► NYPA employs a consistent, conservative method of estimating bad debts based on the aging of accounts receivable.
Capital assets		► Capital assets are stated at original cost. Interest on amounts borrowed to finance construction is charged to the project prior to completion. NYPA assesses impairment when any indicators of impairment are present in accordance with applicable accounting standards.
Derivatives and hedging activities	✓	► NYPA applies the appropriate accounting guidance to account for and report on derivatives.
Liabilities		
Environmental reserves		► NYPA follows industry practice in establishing environmental reserves.
Regulatory liabilities	✓	► NYPA properly applies the guidance in SFAS 71, *Regulatory Accounting.*
Other postretirement benefits liabilities	✓	► NYPA appropriately utilizes an actuary to estimate the related liability.
Workers' compensation and self-insurance accruals	✓	► NYPA has a consistent and conservative methodology for estimating the self insurance liability.

Findings and observations
Financial statement accounts and disclosures

Area	GAAP basis	Ernst & Young comments on quality of accounting policy and application
Revenue recognition The principal operating revenues are generated from the sale, transmission, and wheeling of power. Revenues are recorded when service is provided. Customers' meters are read, and bills are rendered monthly. Wheeling charges are for costs incurred for the transmission of power over transmission lines owned by other utilities.	SAB 104, *Revenue Recognition* EITF Issue 99-19, *Reporting Revenue Gross as a Principal versus Net as an Agent*	Based on procedures historically performed, we believe the Authority's accounting is appropriate.
Depreciation expense Management estimates the useful lives and residual values of fixed assets based on expected service lives, industry unit accounting methods for mass property additions, cost of removal and current industry information.	ARB No. 43, *Restatement and Revision of Accounting Research Bulletins*	The estimation of useful lives and determination of residual values requires management judgments about future events. When assets are reviewed for impairment or other significant events, their remaining useful lives are also reviewed. Based on procedures historically performed, we believe the Authority's accounting is appropriate.
Regulatory assets/liabilities Regulatory accounting is used to appropriately defer certain costs and revenues to periods when the costs will be recovered or revenue will be earned.	SFAS 71, *Accounting for the Effects of Certain Types of Regulation*	Unlike traditional recognition of revenues and expenses, management estimates the likelihood of recovery through rates and defers those items expected to be recoverable in rates. Regulatory assets are established for costs that have been deferred for which future recovery through customer rates is considered probable. Regulatory liabilities are recorded when it is probable revenues will be reduced for amounts credited to customers through the ratemaking process. Judgment is required to determine the recoverability of items recorded as regulatory assets and liabilities. NYPA appropriately applies the provisions of the statement.
Investments All investments are recorded at fair value.	GASB No. 31, *Certain Investments and External Investment Pools* GASB No. 40, *Deposit and Investment Risk Disclosure*	The Authority's investments are recorded at fair value in accordance with GAAP. NYPA's investment of funds is administered in accordance with the applicable provisions of the Bond Resolution and with the Authority's investment guidelines. These guidelines comply with the New York State Comptroller's investment guidelines for public authorities.

Findings and observations
Financial statement accounts and disclosures

Area	GAAP basis	Ernst & Young comments on quality of accounting policy and application
Fuel inventory	ARB No. 43, *Restatement and Revision of Accounting Research Bulletins*	An outside specialist is engaged by NYPA to perform the fuel inventory observation and valuation. NYPA records the valuation of the fuel inventory based on the specialist's report, taking into consideration any cut-off issues.
Allowance for doubtful accounts An allowance for doubtful accounts is established based on the NYPA's best estimate of revenue dollars that will not be collected from its customers. This analysis is complex due to the inclusion of significant unbilled customer receivables.	SFAS No. 5, *Accounting for Contingencies*	For the majority of receivables, an allowance for doubtful accounts is based on an aging of those receivable balances. On certain other receivable balances where NYPA is aware of a specific customer's inability to pay, NYPA will record an allowance against amounts due to reduce the net receivable balance to the amount reasonably expected to be collected.
Capital assets, including intangible assets Capitalized costs include charges for utility plant, leasehold improvements, equipment and furniture and fixtures. In addition, internally generated computer software development cost is considered a capitalizable intangible asset. Asset impairments are generally recognized only when the service utility of an asset is reduced or physically impaired.	GASB No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and Insurance Recoveries*	The Authority's policy of capitalizing these charges are consistent with GAAP and has been applied consistently.
Derivative and hedging activities NYPA uses derivative contracts to manage its exposure to changes in fuel prices and interest rates. Certain fuel contracts qualify as future contracts and are accounted for under SFAS No. 80 and are recorded at fair value. Related gains/losses are deferred and recognized in the specific period in which the derivative is settled and included as a part of fuel for generation and purchased power costs in the Statement of Revenues, Expenses and Changes in Net Assets. Interest rate swaps are recorded at fair value on the Balance Sheet with the offsetting gains or losses recognized in earnings or deferred charges.	SFAS No. 80, *Accounting for Futures Contracts* GASB TB 2003-1, *Disclosure Requirements for Derivatives Not Reported at Fair Value on the Statement of Net Assets* SFAS No. 71, *Accounting for the Effects of Certain Types of Regulation*	Fuel contract derivative instruments are carried at fair value. Fair value is determined by reference to market quotes. The appropriate financial statement disclosures are made with respect to the interest rate swaps.

Findings and observations
Financial statement accounts and disclosures

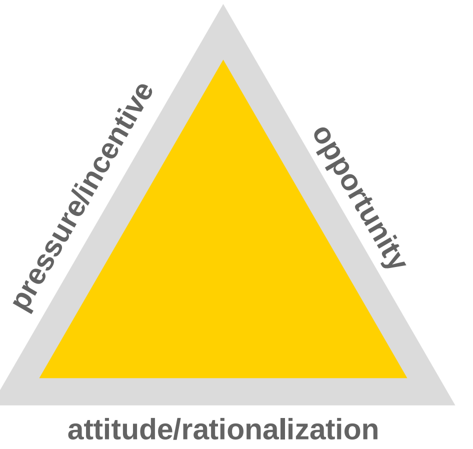
Area	GAAP basis	Ernst & Young comments on quality of accounting policy and application
Asset retirement obligations The Authority determined that it had legal liabilities for the retirement of certain SCPPs in New York City and, accordingly, has recorded a liability for these assets. In connection with these legal obligations, the Authority has also recognized a liability for the remediation of certain contaminated soils discovered during the construction process.	SFAS No. 143, *Accounting for Asset Retirement Obligations*	This statement requires the Authority to record a liability at fair value to recognize legal obligations for asset retirements in the period incurred and to capitalize the cost by increasing the carrying amount of the related long-lived asset. The Authority's policy of capitalizing these obligations is consistent with GAAP and has been applied consistently.
Environmental reserves The Authority records accruals for estimates of costs for future and ongoing remediation, litigation and administrative costs when these costs are deemed probable to occur to remediate environmental sites. The Authority also expects to receive recovery through insurance proceeds and other responsible parties and monitors the recovery of these costs in accordance with the appropriate accounting guidance.	GASB No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*	Significant changes in assumptions, such as remediation techniques, nature and extent of contamination, legal and regulatory requirements and resulting claims against third parties for reimbursement of remediation costs, could materially affect the current estimate of remediation costs. The Authority's policy of recording these accruals is consistent with GAAP and has been applied consistently.
Other postretirement benefits liabilities The Authority has healthcare plans that provide benefits to substantially all retirees and their eligible dependents. The Authority's benefit obligations recognizable under these standards are significantly impacted by certain assumptions, among which are the discount rate, life expectancies and the assumed health care cost trend rate assumption. Management performed a review of all of the assumptions used by the actuary to ensure such assumptions reflect the best estimate of the plan's future experience reflective of the Authority's specific employee base as well as peer comparisons.	GASB No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*	The assumptions are highly sensitive, as a one percent change in any of those used could have a significant impact on the reported obligation. Our actuarial group has reviewed the calculation in the prior year and found the assumptions and methodology to be consistent with industry standards.
Workers' compensation and self-insurance accruals	SFAS No. 5, *Accounting for Contingencies*	An estimate is actuarially determined based on historical, projected claims, and a short-term discount rate. NYPA maintains loss reserves based on estimates provided by actuaries.

Fraud considerations and the risk of management override

We are responsible for planning and performing the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether caused by error or by fraud (SAS No. 99, *Consideration of Fraud in a Financial Statement Audit*).

Our audit procedures will encompass the requirements of SAS 99: brainstorming, gathering information to facilitate the identification of and response to fraud risks and performing mandatory procedures to address the risk of management override (including examining journal entries, reviewing accounting estimates and evaluating the business rationale of significant unusual transactions).

- We evaluate the risk of management override using the fraud triangle and consider the actions management has taken to respond to those risks.
- We consider, among other things:
  - Code of conduct/ethics
  - Effective and independent oversight by audit committee
  - Process for dealing with whistle-blower allegations
  - Adequacy of internal audit oversight of activity
  - Entity's risk assessment processes
- Role and oversight responsibilities of the audit committee:
  - Management's assessment of the risks of fraud
  - Programs and controls to mitigate the risk of fraud
  - Process for monitoring multiple locations for fraud
  - Management communication to employees on its views on business practices and ethical behavior



Occupational Fraud and Abuse, by Joseph T. Wells, CPA, CFR (Obsidian Publishing Co, 1997);
Fraud Examination, by W. Steve Albrecht (Thomson South-Western Publishing, 2003)

Looking ahead

Accounting and auditing developments

Accounting and auditing developments	Summary	Effect on the Authority
GASB Statement No. 53 *Accounting and Financial Reporting for Derivative Instruments*	► A key provision in this Statement is that derivative instruments covered in its scope, with the exception of synthetic guaranteed investment contracts (SGICs) that are fully benefit-responsive, are reported at fair value. For many derivative instruments, historical prices are zero because their terms are developed so that the instruments may be entered into without a payment being received or made. The changes in fair value of derivative instruments that are used for investment purposes or that are reported as investment derivative instruments because of ineffectiveness are reported within the investment revenue classification. Alternatively, the changes in fair value of derivative instruments that are classified as hedging derivative instruments are reported in the statement of net assets as deferrals. ► Derivative instruments associated with hedgeable items that are determined to be effective in reducing exposures to identified financial risks are considered hedging derivative instruments. Effectiveness is determined by considering whether the changes in cash flows or fair values of the potential hedging derivative instrument substantially offset the changes in cash flows or fair values of the hedgeable item. In these instances, hedge accounting should be applied. Under hedge accounting, the changes in fair values of the hedging derivative instrument are reported as either deferred inflows or deferred outflows in a government's statement of net assets. ► The guidance in this Statement improves financial reporting by requiring governments to measure derivative instruments at fair value in their economic resources measurement focus financial statements. These improvements should allow users of those financial statements to more fully understand a government's resources available to provide services. The application of interperiod equity means that changes in fair value are recognized in the reporting period to which they relate. The changes in fair value of hedging derivative instruments do not affect investment revenue but are reported as deferrals. On the other hand, the changes in fair value of investment derivative instruments (which include ineffective hedging derivative instruments) are reported as part of investment revenue in the current reporting period. The disclosures provide a summary of the government's derivative instrument activity and the information necessary to assess the government's objectives for derivative instruments, their significant terms, and the risks associated with the derivative instruments.	► The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2009.

Appendix A

Timing of required communications with audit committees

Timing of required communications

	Communicate when event occurs	Communicate on a timely basis, at least annually
Communications required on all audits		
Our responsibility under GAAS (or under PCAOB standards), including other information in documents containing audited financial statements		X
Our judgments about the quality of the Company's accounting principles		X
Significant difficulties encountered in dealing with management when performing the audit	X	
Unrecorded audit differences		X
Disagreements with management	X	
Significant audit adjustments		X
Representations requested from management		X
Consultations with other accountants	X	
Significant issues discussed, or subject to correspondence, with management	X	
Communication of independence matters		X
The adoption of, or a change in, an accounting principle	X	
Methods of accounting for significant unusual transactions and for controversial or emerging areas	X	
Sensitive accounting estimates		X
Fraud and illegal acts	X	
Significant deficiencies and material weaknesses in internal control		X

Appendix B
Independence

Ernst & Young's focus on independence

Independence is fundamental to EY, our audit clients, and the public interest. Our approach to maintaining independence includes implementing policies, processes and systems with both "prevent" and "detect" type controls to provide reasonable assurance that a breach of independence will not occur and, in the event one does, will not go undetected nor unremediated. We proactively reexamine, monitor and test our policies, processes and systems so that they are current, thorough and effective. We reinforce our policies, processes and systems through continuous independence training of our professionals. We continually reinforce to all our people that compliance with our independence policies is essential, and that non-compliance has consequences.

Independence Organization

- Global network of independence leaders in every country where we operate
- Independence specialists support the global network
- Clear accountability - centralized independence functions report to Global Managing Partner - Quality and Risk Management (Q&RM) and Americas Vice Chair - Q&RM

Independence Processes and Systems

- Monitoring of compliance with our firm's independence requirements relating to matters such as investment holdings, lending relationships and family employment relationships, which are periodically confirmed by our professionals
- Monitoring business relationships between EY and our audit clients and their officers, directors, and substantial shareholders
- Maintaining and periodic updating of audit client subsidiary and affiliate information
- Detailed programs and procedures to assert independence in connection with client acceptance
- Consultation processes and documented conclusions

Independence Policies

- EY Global independence policies based on International Federation of Accountants (IFAC) and SEC rules
- Issued a comprehensive independence manual with rules all in one place
- A Code of Conduct that highlights the importance of maintaining our objectivity and independence and with which our personnel are required to confirm their compliance annually

Independence Training and Compliance

- Mandatory, continuous independence training for all professionals globally
- Independence content is included in many other core learning and industry related programs
- Conducting ongoing compliance audits of partners and other professionals regarding personal independence
- Global Independence Compliance Team focused on scope of services and business relationships

Appendix C

Audit committee trends and key topics

Ernst & Young
Quality In Everything We Do

Audit committee trends and key topics

Ernst & Young develops resources on a variety of topics that are of interest to Audit Committee members and management. These topics have been covered in articles that have appeared in our *BoardMatters Quarterly* (BMQ) newsletter, Thought Center Webcasts and publications. Ernst & Young also works with Tapestry Networks to orchestrate private dialogues, including the Audit Committee Leadership Network (ACLN) and area-based Audit Committee Networks (ACN). The ACLN is a group of audit committee chairs from some of America's leading companies. For reference purposes, we have provided highlights of the articles and topics that appeared in 2008.

Topic area	Topic/resource
Accounting and auditing	• Consolidation accounting (Thought Center Webcast-October) • New M&A accounting rules coming soon: how will FASB Statement 141(R) affect you? (Thought Center Webcast-September) • The Ernst & Young 2008 mid-year accounting update (Thought Center Webcast-July) • Adopting a new accounting pronouncement: Lessons learned from the adoption of recent accounting standards (BMQ-July) • Preparing for the transformation in the US financial reporting system (BMQ-July) • Deriving maximum value from the audit and external auditor (Tapestry Networks CACN VantagePoint-March) • The continued emergence of fair value: are you prepared? (BMQ-January)
Audit committees	• The CEO and the audit committee (Tapestry Networks Viewpoints-July) • Dealing with uncertainty: The importance of audit committees (BMQ-July) • Measuring audit committee effectiveness (BMQ-July) • Board-shareholder communication (Tapestry Networks Viewpoints-July) • The role of the board and the audit committee in transactions (Tapestry Networks VantagePoint) — North Central ACN VantagePoint-May — Pacific Southwest ACN VantagePoint-March • Enhancing audit committee effectiveness (Tapestry Networks Midwest ACN VantagePoint-January) • An audit committee member's perspective on financial reporting and year-end (BMQ-January)
Business	• [Industry to customize] Industry 360: The Ernst & Young Source for Global Industry Insights, Volume IV • Cleantech matters; Climate change opportunity and risk (October) • Cleantech matters; Financing, partnership, policy and growth: insights for the Cleantech Symposium (January) • Climate change: a hotter topic for audit committee members (Tapestry Networks Insights-August) • Deciphering corporate governance ratings (BMQ-October) • The investors' perspective: a discussion with CalSTRS (Tapestry Networks ViewPoints-March) • The general counsel's perspective (Tapestry Networks Insights-February) • Commentary on "the governance of sustainability" (Tapestry Networks ViewPoints-January)

Audit committee trends and key topics

Topic area	Topic/resource
Challenging situations	• Successful partner rotation: One audit committee chair's recommendations (BMQ-October) • Changing times: future presidential policy (BMQ-October) • An accelerated pace of change: what to expect from the presidential candidates (Tapestry Networks Insights-October) • Navigating challenging situations: Action, overreaction and after-reaction review (BMQ-July) • Managing through the credit and liquidity crunch (Thought Center Webcast-June) • Keeping pace in time of rapid change (Tapestry Networks Mid-Atlantic ACN VantagePoint-May)
Fraud	• Findings from the Ernst & Young 10th global fraud survey (Thought Center Webcast-May)
IFRS	• Share-based payments in an IFRS world: Outlining similarities and differences in accounting standards (Thought Center Webcast-October) • Is your company ready for IFRS: what US audit committee members need to know (Thought Center Webcast-September) • IFRS for audit committees and boards of directors: Important questions for your consideration (September) • The forward-thinking guide to IFRS revenue recognition (Thought Center Webcast-August) • Financial statements in an IFRS world – are they really comparable? (Thought Center Webcast-July) • Is IFRS in the near future for US companies? (BMQ-April) • IFRS: what it means to issuers (BMQ-April) • IFRS conversion: lessons learned from BP (BMQ-April) • US GAAP vs. IFRS - practical examples (BMQ-April) • Forward View: Advice on IFRS from European audit committee chairs (BMQ-January)
Private equity	• Navigating the credit crunch: how private equity investors continue to create value (Thought Center Webcast-September) • Private equity and the changing transactions landscape (Thought Center Webcast-April)
Regulatory	• Discussion with Treasury Secretary Hank Paulson (Tapestry Networks-ViewPoints-January) • Working with the SEC (Tapestry Networks-ViewPoints-January)
Risk management	• What high growth companies need to know about risk: enterprise risk part 1 of 3 (Thought Center Webcast-June) • The litigation risk and the audit committee (Tapestry Networks VantagePoint) — Pacific Northwest ACN VantagePoint-June — Southeast ACN VantagePoint-June • Risk management: In search of a practical approach (Tapestry Networks Midwest ACN VantagePoint-May) • A balanced approach to risk and performance: The future of risk management and internal control (Thought Center Webcast-January)

Audit Committee Trends and Key Topics

Topic Area	Topic/Resource
Strategic growth	• Blueprint for growth: building a world-class board (Thought Center Webcast-September) • Business response to climate change: Corporate transformation, funding and public policy (Thought Center Webcast-August) • Blueprint for growth: Operational effectiveness (Thought Center Webcast-July)
Tax	• Domestic tax issues: A quarterly webcast series on technical developments (Thought Center Webcast-October) • Tax executive quarterly update-tax reform: What it means for your company and what you should do now (Thought Center Webcast-September) • What high growth companies need to know about risk: Tax risk part 3 of 3 (Thought Center Webcast September) • What high growth companies need to know about risk: Tax risk part 2 of 3 (Thought Center Webcast July) • Tax executive quarterly update: Why tax departments need to pay attention to IFRS now (Thought Center Webcast-June)
XBRL	• SEC requires the use of XBRL (December) • XBRL: financial reporting for the future? (BMQ-January)

Ernst & Young LLP

Assurance | Tax | Transactions | Advisory

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Ernst & Young is a global leader in assurance, tax, transaction and advisory services. Worldwide, our 135,000 people are united by our shared values and an unwavering commitment to quality. We make a difference by helping our people, our clients and our wider communities achieve their potential.

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About Ernst & Young's Assurance Services
Strong independent assurance provides a timely and constructive challenge to management, a robust and clear perspective to audit committees and critical information for investors and other stakeholders. The quality of our audit starts with our 60,000 assurance professionals, who have the experience of auditing many of the world's leading companies. We provide a consistent worldwide audit by assembling the right multidisciplinary team to address the most complex issues, using a proven global methodology and deploying the latest, high-quality auditing tools. And we work to give you the benefit of our broad sector experience, our deep subject matter knowledge and the latest insights from our work worldwide. It's how Ernst & Young makes a difference.

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4. <u>Motion to Conduct an Executive Session</u>

"***Mr. Chairman, I move that the Authority conduct an executive session pursuant to Section 105 of the Public Officers Law of the State of New York to discuss matters leading to the appointment, employment, promotion, discipline, suspension, dismissal or removal of a particular person or corporation."*** Upon motion made and seconded, an Executive Session was held.

5. Motion to Resume Meeting in Open Session

"Mr. Chairman, I move to resume the meeting in Open Session." Upon motion made and seconded, the meeting resumed in open session.

6. 2008 Internal Audit Activity Report

Mr. Lesly Pardo presented an overview of Internal Audit's ("IA") activity for 2008. He said that as of December 31, 40 audits (out of 42 in the 2008 Audit Plan) had been completed, including 19 financial, 10 information technology and 11 operational. Two audits (Records Management and Market and Pricing Analysis) were in progress as of December 31. One audit (Information Technology Legal and Regulatory Compliance) was rescheduled to 2009 and is currently in process. Two audits were added to the 2008 plan (White Plains Office Data Center and E&Y Information Technology Audit Support) and two were postponed (Energy Service Programs – Financial Audit and EMS). Mr. Pardo said that 36 audit reports containing 73 recommendations had been issued and that 2 reports were under review as of December 31. All of the recommendations in the audit reports had been accepted by management. By December 31, 50 recommendations had been implemented and are being actively tracked, with 23 scheduled to be implemented in 2009. To ensure that issues raised in the audits are properly addressed, implementation of critical recommendations is being verified by observation and testing rather than reliance on verbal confirmation. Mr. Pardo also said that IA had received full cooperation and support from management and that IA staff were given full and unrestricted access to all documents, records and personnel necessary to perform their work.

In response to a question from Trustee Foster, Mr. Pardo said that the Internal Audit department has 10 people on staff.

AUDIT COMMITTEE

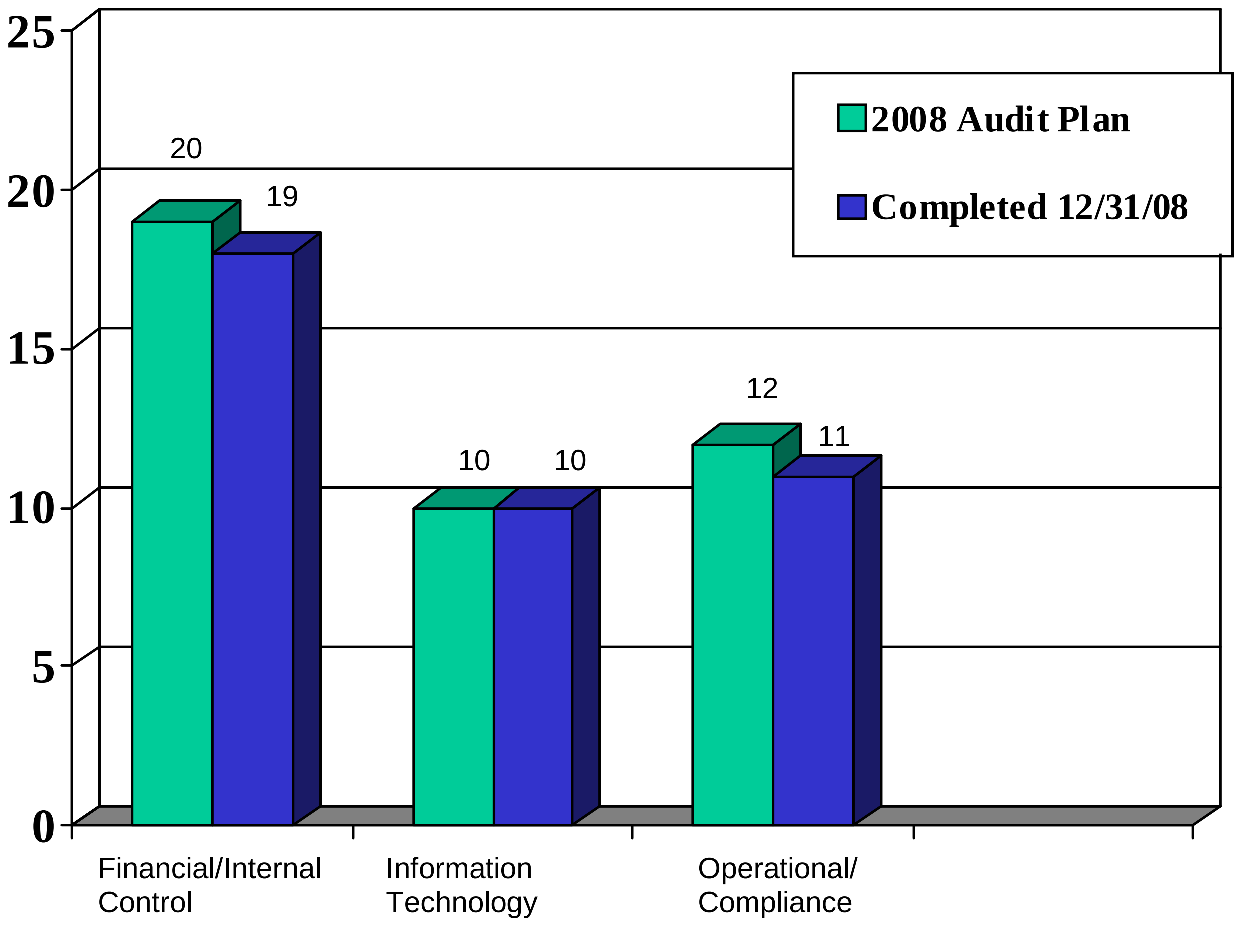
INTERNAL AUDIT ACTIVITY REPORT
2008

2008 INTERNAL AUDIT PLAN
ACTIVITY REPORT
12/31/08

Summary

- Completed 40 audits including 19 financial, 10 information technology and 11 operational.
- Two (2) audits in progress as of 12/31/08.
- Approximately 95% of the audits in the Audit Plan have been completed.
- Issued 36 audit reports. Two (2) reports under review as of 12/31/08.
- Seventy-three (73) recommendations were made to improve internal controls/operational efficiency.
- All recommendations have been accepted by management. As of 12/31/08, 50 recommendations have been implemented and 23 are scheduled to be implemented in 2009. Accepted recommendations are being actively tracked and critical recommendations implemented are being verified.
- We are receiving management's full cooperation and support.

2008 INTERNAL AUDIT PLAN
AUDIT PLAN STATUS
12/31/08



2008 INTERNAL AUDIT PLAN
ACTIVITY REPORT
12/31/08

Completed Audits	**Report Date**
Financial/Internal Control Audits	
US Auctions, LLC (Contract)	3/28/08
Headquarters Credit Card Procurement	3/31/08
Lewis Tree Service, Inc. (Contract)	3/31/08
Information Technology Expenditures	4/30/08
St. Lawrence Finance/Purchasing/Warehousing	5/30/08
Axon Solutions, Inc. (Contract)	5/30/08
Generation Resource Management	5/30/08
NYISO Generation Settlements	7/23/08
Headquarters Travel & Living	7/31/08
Power for Jobs Revenues	8/23/08
Headquarters Payroll	9/15/08
Hydro Revenues	10/30/08
Henry Brothers Electronics, Inc. (Contract)	10/31/08
SAP Billing System	11/26/08
NYISO Ancillary Service Charges	12/29/08
Niagara Relicensing Expenditures	12/31/08
Poletti/500 MW/Flynn Finance/Purchasing & Warehousing	Reviewing
Facility Management	Reviewing
Assistance to Ernst & Young 2008 Audit	N/A

2008 INTERNAL AUDIT PLAN
ACTIVITY REPORT
12/31/08

Completed Audits (Continued)	**Report Date**
Information Technology Audits	
Pre-Implementation SAP-Billing/CIS	3/18/08
Telecommunications	3/31/08
Virus Protection and Response	6/13/08
Niagara LAN	6/20/08
Information Security – SAP	8/18/08
SAP – Fixed Assets	9/30/08
Clark Energy Center LAN	9/30/08
IT Hot Site	11/28/08
WPO Data Center	12/31/08
E&Y IT Audit Support	N/A
Operational/Compliance Audits	
Immigration & Naturalization Recordkeeping	2/27/08
ProCard Fleet	3/28/08
Fleet Procurement	4/30/08
Transmission Line Maintenance	6/25/08
Energy Efficiency Programs	7/10/08
Niagara Operations & Maintenance	7/31/08
FERC SOC Compliance	7/31/08
PAAA Compliance	8/06/08
Tri-Lakes Reliability Project	10/13/08
St. Lawrence Operations & Maintenance	10/15/08
Electric Reliability Compliance Program	12/05/08

2008 INTERNAL AUDIT PLAN
ACTIVITY REPORT
12/31/08

Audits In-Progress

Records Management
Market & Pricing Analysis

Audit Rescheduled to 2009

IT Legal & Regulatory Compliance

Audit Plan Changes

Added:
WPO Data Center
E&Y IT Audit Support

Postponed:
(1) Energy Services Programs – Financial Audit
(2) EMS

Other
Economic Development Programs Job Commitment Audits
Internal Control Documentation Project – Continuing
Oversight Continuous Control Monitoring System

(1) Audit was combined with the operational audit of the Energy Efficiency Programs which was completed in the third quarter.
(2) The EMS audit was postponed to first quarter 2009 to allow staff to implement new NERC reliability standards.

2008 INTERNAL AUDIT PLAN
SUMMARY OF 2008 RECOMMENDATIONS
12/31/08

Audit Title	Business Unit/Department	No. of Audit Recommendations Made	No. of Audit Recommendations Implemented	No. of Recommendations Scheduled for Implementation in 2009
U.S. Auctions, LLC	Enterprise Shared Services	2	2	-
Headquarters ProCard	Enterprise Shared Services	7	7	-
Lewis Tree Service, Inc.	Power Supply	1	1	-
IT Expenditures	Business Services	4	3	1
St. Lawrence - Finance, Purchasing & Warehouse	Power Supply/Business Services	3	2	1
Telecommunications	Enterprise Shared Services	1	1	-
Niagara LAN	Power Supply/Enterprise Shared Svcs.	2	2	-
Virus Protection and Response	Enterprise Shared Services	1	1	-
Immigration & Naturalization Records	Corporate Services & Administration/Various	3	2	1
Fleet ProCard	Enterprise Shared Services	5	5	-
Generation Resource Management	Business Services	5	4	1
Transmission Line Maintenance	Power Supply	6	5	1
Energy Efficiency Programs	Energy Marketing & Business Development	4	3	1
Headquarters Travel & Living Expenses	Business Services	1	1	-
Niagara Operations & Maintenance Functions	Power Supply	1	1	-
FERC Compliance – Standards of Conduct	Law Department/Corporate Services & Admin.	4	0	4
Public Authorities Accountability Act-Compliance	Various	1	0	1
Information Security - SAP	Enterprise Shared Services	2	2	-
Power for Jobs Revenues	Energy Marketing & Business Development/ Business Services	3	2	1
Headquarters Payroll	Business Services/Corporate Services & Admin.	3	3	-
SAP – Fixed Assets	Enterprise Shared Services	1	1	-
St. Lawrence Operations & Maintenance	Power Supply	2	1	1
Static Var Compensators &Tri-Lakes Reliability	Power Supply	2	0	2
Hydro Revenues	Business Services/Power Supply	2	1	1
SAP Billing System	Business Services	4	0	4
IT Hot Site Plan	Enterprise Shared Services	1	0	1
Electric Reliability Compliance Program	Power Supply/Various	2	0	2
TOTAL		**73**	**50**	**23**

2008 INTERNAL AUDIT PLAN
ACTIVITY REPORT
12/31/08

*REPORT RECAP**

FINANCIAL/INTERNAL CONTROL AUDITS

An audit of **Hydro Revenues** resulted in recommendations dealing with billings to expansion and replacement customers and billing data for full requirement municipal customers.

An audit of the **SAP Billing System** covering customer master data, input controls, processing controls, output controls and user access controls found overall controls to be adequate and effective. Recommendations related to supervisory review of billing statements, reconciliation of customer billing quantities and review of accounts with significant variances were made.

An audit of **NYISO Ancillary Service Charges** which encompassed both ancillary service settlements with the NYISO and billing of NYISO ancillary charges to NYPA customers found controls to be adequate and effective.

An audit of **Niagara Relicensing Expenditures** revealed that controls over the compliance and implementation phase expenditures are adequate and effective.

An audit of **Poletti, Flynn and 500 MW Finance, Purchasing and Warehousing** which covered budgetary controls, payroll, purchasing, inventory, procurement credit cards, accounts payable, travel and living expenses, property records and SAP access included a number of recommendations dealing with ways to improve controls over purchasing, inventory and property records.

An audit of **Facility Management** covering budgetary controls, rental income, department expenditures, management of outside service contracts, credit card purchases and overtime payments resulted in recommendations to improve controls over the management of outside service contracts.

*Includes audit reports issued since last Activity Report 10/31/08.

2008 INTERNAL AUDIT PLAN
ACTIVITY REPORT
<u>12/31/08</u>

<u>REPORT RECAP*</u>
(CONTINUED)

<u>FINANCIAL/INTERNAL CONTROL AUDITS</u> (CONTINUED)

There were no issues raised with respect to a contract audit of **Henry Brothers Electronics, Inc.** The audit covered expenditures for the upgrade of the existing security system at the Poletti and 500 MW site.

<u>INFORMATION SYSTEMS AUDITS</u>

A general controls review of the **White Plains Office Data Center** covering physical security, environmental controls and fire detection and suppression found that overall controls provide adequate protection for the Data Center and the servers, routers and switches.

An audit of the **IT Disaster Recovery Plan and the Hot Site** resulted in a recommendation to coordinate efforts with the Business Continuity Plan in setting recovery priorities for the Hot Site.

<u>OPERATIONAL/COMPLIANCE AUDITS</u>

An audit of NYPA's Electric Reliability Compliance Program resulted in recommendations dealing with update of the Reliability Standards and Compliance Process Manual and documentation supporting NYPA's functional registration.

*Includes audit reports issued since last Activity Report 10/31/08.

7. <u>2009 Internal Audit Plan</u>

In presenting the 2008 Audit Plan, Mr. Pardo said that IA had identified 141 auditable entities in the Authority's audit universe. A risk assessment was then conducted for each of these entities based on financial, operational, strategic, public perception and confidence dispersion (the time between audits) risk factors. The audits identified were then ranked on their risk level, as well as requests by management and staff input. High-risk auditable entities such as Fuels Operations, New York Independent System Operator ("NYISO") Settlements, Customer Revenues, Generation Resource Management and some Information Technology functions are audited on a one- or two-year cycle. Facility Finance and Administration functions are audited on a two-year cycle. Other major financial systems/functions such as Intrusion Prevention, SAP Applications, Accounts Payable, Payroll, Investments and Purchasing are audited every two to three years. Auditable entities with high perception or visibility risk, such as Travel and Living Expenses and Energy Services Programs, are audited at least every two years. Low-risk auditable entities are audited every four to five years.

Mr. Pardo said that the 2009 Audit Plan envisions 43 audits (18 financial, 10 information technology and 15 operational) and that 12 of the audits will be conducted at the operating facilities. Audits for NYISO Energy Settlements, Fuels Operations, Energy Services Programs, Enterprise Risk Management and various NERC-CIP compliance issues are scheduled. Other notable audits include Accounts Payable, Capital Planning, Physical Security Programs, Environmental Compliance, Business Continuity Plan, Headquarters Procurement and Energy Management System (IT audit). Work on Economic Development Job Commitment audits will continue, along with the usual support to E&Y, Ethics Office and Office of the Inspector General activities.

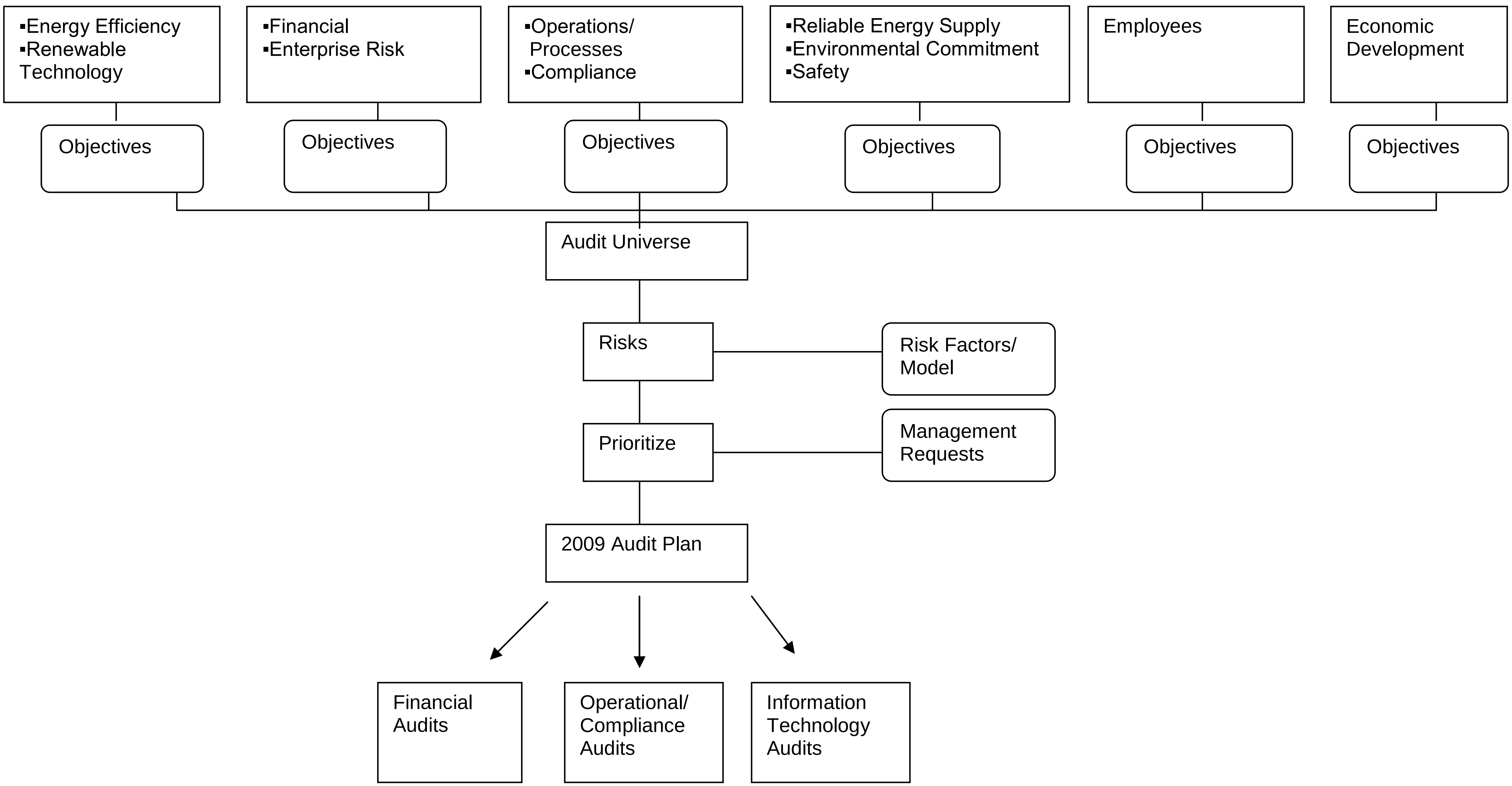
Trustee Foster suggested that more focus be placed on audits dealing with capital markets, hedging, derivatives and interest-rate management in the 2009 audit plan, given what's happening in the world. He asked Mr. Pardo to come back to the Audit Committee at their next meeting to update them on how such issues would be addressed.

AUDIT COMMITTEE

2009 INTERNAL AUDIT PLAN

2009 AUDIT PLAN
PLANNING PROCESS

STRATEGIC RESULT AREAS



INTERNAL AUDIT
2009 AUDIT PLAN – BASIS FOR SELECTION

- NYPA's Strategic Plan, business activities and related control systems are examined to determine auditable entities (Audit Universe).

- A risk assessment is performed on all auditable entities based upon five risk factors (Perception, Financial, Strategic, Operations/Compliance, Time Since Previous Audit).

- Each auditable entity is assigned a numerical value ranging from a low risk value of 1 to a high risk value of 5 for each risk factor.

- Each auditable entity is assigned a total score. Audits are prioritized based upon total score.

- Audit universe and ranking are reviewed with Business Units.

- Audits are selected based upon ranking and other judgmental and cyclical factors.

- **SEE EXHIBIT A FOR AUDIT UNIVERSE, RISK ASSESSMENT AND FIVE YEAR PLAN.**

Risk Factors

- **Perception** – The risk that NYPA decisions and actions will create a negative public image, generate negative publicity, complaints and/or harmful legislative sanctions.
- **Financial** – The amount of value at risk within the program, process or system measured in terms of either real dollars (assets, revenue, net revenue) budgeted resource or intangible value (information).
- **Strategic** – Any Strategic Plan Program, process or system that has great strategic value or special management focus.
- **Operations/Compliance** – The risk that business unit strategic business plan goals will be negatively impacted by failure to follow management policies, comply with applicable laws and regulations, develop adequate control systems and/or inefficient/ineffective day-to-day operations.
- **Time Since Previous Audit** – Inherent risk arising through passage of time between audits measured by number of years since the last audit was performed. Areas never audited (within the context of the risk matrix receive the highest score).

Rating Scale – Low Risk 1 2 3 4 5 High Risk

INTERNAL AUDIT
2009 AUDIT PLAN – BASIS FOR SELECTION
(CONTINUED)

- High Risk Auditable Entities such as Fuels Operations, NYISO Settlements, Customer Revenues, Generation Resource Management and some Information Technology audits are audited on a one or two year cycle.
- Facility Finance & Administration functions are audited on a two year cycle basis.
- Other Major Financial Systems/functions such as Intrusion Prevention, SAP Applications, Accounts Payable, Payroll, Investments and Purchasing are audited every two to three years.
- Auditable Entities with high perception or visibility risk such as Travel & Living Expenses and Energy Services Programs are audited at least every two years.
- Low Risk Auditable Entities are audited every four to five years.

2009 AUDIT PLAN

HIGHLIGHTS

- Forty-three (43) audits are scheduled including 18 financial, 10 information technology and 15 operational covering all Business Units.

- Twelve (12) financial, operational and/or information technology audits will be conducted at the operating facilities.

- Audits of NYISO Energy Settlements, Fuels Operations, Energy Services Programs, Enterprise Risk Management and various NERC-CIP compliance are scheduled.

- Other notable audits include Accounts Payable, Capital Planning, Physical Security Programs, Environmental Compliance, Business Continuity Plan, Headquarters Procurement and Energy Management System (IT audit).

- Work on Economic Development Job Commitment audits will continue along with the usual support to Ernst & Young, Ethics and Inspector General activities.

2009 AUDIT PLAN

Financial/Internal Control Audits	**Business Unit**
Fuels Operations	Business Services
Long-Term Debt/Interest Risk Management	Business Services
SAP Monthly Closings – Financial Reports	Business Services
SENY Revenue – New York City	Business Services
Revenues – EDP/High Load/MDA	Business Services
Accounts Payable	Business Services
Niagara Finance, Purchasing & Warehouse	Business Services/Enterprise Shared Services
Clark Finance, Purchasing & Warehousing	Business Services/Enterprise Shared Services
Power for Jobs Extended Benefits	Energy Marketing & Business Development
Energy Services Programs	Energy Marketing & Business Development
Purchased Power/Hedging Transactions	Energy Marketing & Business Development
Headquarters Procurement	Enterprise Shared Services
Poletti/500 MW Inventory	Enterprise Shared Services
Law Department Expenditures	Law Department
NYISO – Energy Settlements (Load Serving Transactions)	Power Supply/Business Services
Contract Audits (3)	

Information Technology Audits	**Business Unit**
Business Continuity Plan	Enterprise Shared Services
NYPA Network Security	Enterprise Shared Services
IT Compliance – Legal/Regulatory Risks	Enterprise Shared Services
NERC – CIP Technical Niagara	Enterprise Shared Services/Power Supply
NERC – CIP Technical St. Lawrence	Enterprise Shared Services/Power Supply
NERC – CIP Technical CEC	Enterprise Shared Services/Power Supply
NERC – CIP Technical B-G	Enterprise Shared Services/Power Supply
NERC – CIP Poletti/500MW/Flynn	Enterprise Shared Services/Power Supply
Change Control – SAP	Enterprise Shared Services/Power Supply
Energy Management System	Power Supply

2009 AUDIT PLAN (CONTINUED)

Operational/Compliance Audits	Business Unit
Enterprise Risk Management	Business Services
Capital Planning/Budgets	Business Services
Customer Power Contracts	Energy Marketing & Business Development
Ethics and Employee Awareness Program	Corporate Services & Administration
Real Estate Management	Enterprise Shared Services
Human Capital & Development	Corporate Services & Administration
Physical Security Programs	Inspector General
Poletti/500 MW Operations & Maintenance	Power Supply
B-G LEM	Power Supply
B-G Operations & Maintenance	Power Supply
MRM Program – Maximo	Power Supply
St. Lawrence LEM Project	Power Supply
Power System Operations	Power Supply
Environmental Compliance	Power Supply
Health & Safety Program	Power Supply

2009 AUDIT PLAN
FINANCIAL AUDITS
SCOPE

Fuels Operations

Determine whether internal controls over Fuel Purchasing and Hedging Transactions are adequate, effective and ensured compliance with established policies, procedures and guidelines. We will review the following areas:

- Procurement of Fuel Oil and Natural Gas
- Fuel Hedging Transactions
- Inventory Control
- Fuel Consumption
- Supplier and Transportation Payment Processing
- Recording of Fuel and Hedging Transactions in DRS and SAP

Long-Term Debt/Interest Risk Management

Review controls, procedures and processes over the following activities:

- Debt Portfolio Management System
- Compliance with Bond Covenants
- Interest Rate Swaps
- Interest Expenses
- Reconciliation Procedures
- Reporting Procedures

SAP Monthly Closings – Financial Reports

Review controls, procedures and processes over the following activities:

- SAP Month-End Processing
- Preparation of Monthly Financial Reports
- Processing of Journal Entries
- Cutoff Procedures
- Access Controls

2009 AUDIT PLAN
FINANCIAL AUDITS (CONTINUED)
SCOPE

SENY Revenue – New York City

Review controls, procedures and processes over the following activities:

- Processing of Meter Reading Data
- Customer Consumption Review Procedures
- Customer Billing
- Billing Adjustment Procedures

Revenues – EDP/High Load/MDA

Review controls, procedures and processes over the following activities:

- Customer Billing
- Customer Consumption Review Procedures
- Processing of Changes to Customer Accounts
- Recording of Transactions in SAP

Power for Jobs Extended Benefits

Review controls, procedures and processes over the following activities:

- Customer Application Procedure
- PFJ Customer Database
- Rebate Calculations
- Rebate Disbursements

2009 AUDIT PLAN
FINANCIAL AUDITS (CONTINUED)
SCOPE

Accounts Payable

Review control, procedures and processes over the following activities:

- Processing of Purchase Order Related Invoices
- Processing of Non-Purchase Order Related Invoices
- One-Time Vendor Account
- Payment Processing
- Access Controls Over SAP

Niagara and Clark Finance, Purchasing & Warehouse

These audits will cover the following activities at the facility:

- Budgetary Controls
- Imprest Fund
- Purchasing
- Inventory/Warehousing
- Accounts Payable
- Payroll
- Procurement Credit Cards
- Travel and Living Expenses
- Property Records
- Access Controls over SAP

2009 AUDIT PLAN
FINANCIAL AUDITS (CONTINUED)
SCOPE

Energy Services Program

For selected projects, review controls and procedures over the following areas:

- Project Selection and Facility Audits
- Construction Authorization and SCA Acceptance
- Procurement of Material and Installation Labor
- Accounting for Project Costs and Funding
- Program Recovery and Overhead Costs
- Project Analysis and Closeout

Purchased Power/Hedging Transactions

Review controls, procedures and processes over the following activities:

- Purchased Power
- Processing and Review of Purchased Power Invoices
- Purchased Power Hedging Transactions
- Recording of Transactions in SAP

Headquarters Procurement

Determine the extent of compliance with required policies, procedures and assess the adequacy and effectiveness of controls. We will review the following processes:

- Purchase Requisition Processing
- Bid Solicitation/Evaluation
- Contract Awards
- Change Order Procedures
- Releases Against Outline Agreements
- Vendor File Maintenance

2009 AUDIT PLAN
FINANCIAL AUDITS (CONTINUED)
SCOPE

Poletti/500 MW Inventory

Review controls, procedures and processes over the following:

- Inventory Receipts
- Inventory Issuance
- Cycle Count Procedures
- Inventory Adjustments/Transfers
- Inventory Recording Procedures
- Recording of Inventory Transactions in SAP

Law Department Expenditures

Review controls, procedures and processes over the following activities:

- Budget Monitoring Procedures
- Consulting and Outside Services
- Selected Department Expenditures
- Travel and Living Expenses
- Credit Card Procurement
- Reporting of Payroll Information/Overtime

NYISO – Energy Settlements (Load Serving Transactions)

Review controls, procedures and processes over the following activities:

- Energy Scheduling
- Energy Settlements
- NYISO Monthly Settlement Data and Reconciliation
- NYISO Rebills
- Recording of LSE Energy Settlements in SAP

2009 AUDIT PLAN
FINANCIAL AUDITS (CONTINUED)
SCOPE

Contract Audits

The purpose of these audits is to determine that vendor charges are supported and in agreement with the terms of the contract and the contract is awarded following established Authority policies and procedures.

2009 AUDIT PLAN
INFORMATION TECHNOLOGY AUDITS
SCOPE

Business Continuity Plan
Evaluate the Business Continuity Plan (BCP) to determine if it is adequate to ensure the recovery of critical operations in the WPO. Review the training and testing plans and results.

NYPA Network Security
Test and evaluate the NYPA Network to determine if it is adequately protected from unauthorized access, use, disclosure or modifications, damage or loss using best security practices.

IT Compliance – Legal/Regulatory Risks
Evaluate the IT process that ensures compliance with legal and regulatory requirements and the risks and cost of non-compliance.

NERC-CIP Technical – Niagara, St. Lawrence, Clark Energy Center, B-G
Test and evaluate the procedures, controls and documentation implemented to meet the requirements of NERC-CIP.

NERC-CIP – Poletti, Flynn, 500 MW
Review the documentation for the analysis of critical assets and the decisions made on classifying critical and non-critical assets and cyber assets.

Change Control – SAP
Review, test and evaluate the controls and control procedures over the changes to SAP and their testing and approval by users prior to their placement in Production.

EMS
Test and evaluate the Energy Management System (EMS) application controls, documentation and procedures. Also review and test the interfaces with NYISO and NYPA Network to determine if EMS is adequately protected from unauthorized access, use, disclosure or modification, damage or loss using best security practices. The NERC-CIP procedures, controls and documentation will be reviewed and tested.

2009 AUDIT PLAN
OPERATIONAL/PROGRAM AUDITS
SCOPE

Enterprise Risk Management
Review of the enterprise risk management infrastructure and ongoing risk assessment and monitoring activities. Although it is recognized that enterprise risk is not directly responsible for managing business risks, they should have an appropriate infrastructure and methods/mechanisms to monitor NYPA's risk assessment and mitigation activities.

Capital Planning/Budgeting
Processes associated with information gathering and preparation of capital plans. Processes associated with the ongoing monitoring of actual performance to plan and communication of performance to management (all levels) and the trustees.

Customer Power Contracts
Processes associated with the negotiation, interpretation and management of power sales contracts, delivery arrangements and other contractual documents between the Authority and most of its wholesale customer groups. The area is responsible for managing the day-to-day relationships with these customers and works closely with other groups in NYPA, such as Law, Scheduling & Settlement and Billing. They provide technical expertise and contract interpretation for these parties and others to protect and represent the interests of our customers and NYPA, as needed. Compliance focus will include training/awareness of personnel in terms of what information can/should be shared consider the various anti-market manipulation and anti-trust rules/regulations.

Ethics and Employee Awareness Programs
Processes associated with establishing and continuously reinforcing consistent ethical practices/policies/cultural norms. Evaluate NYPA personnel overall adherence to various state ethics reporting requirements. Topics will include:

- ethics hotline - existence and monitoring
- codes of conduct - union and non-union employees
- executive orders not covered elsewhere in the audit universe
- sexual harassment policies and programs
- non-retaliation policies and programs
- IG investigation/follow-up process for complaints

2008 AUDIT PLAN
OPERATIONAL/PROGRAM AUDITS (CONTINUED)
SCOPE

Real Estate Management
Processes associated with managing NYPA's real estate assets and protecting the assets from liens or other encumbrances. Tracking of all real estate assets and maintenance of assets as well as assisting NYPA in determining the best use/alternatives for unimproved real property.

Human Capital & Development
Processes associated with the following:

- Employee Retention & Succession Planning - design of programs and monitoring of performance to program objectives including the ongoing monitoring of succession as a risk to the organization, programs designed to identify key positions and skills/knowledge requirements for NYPA, to identify individuals with the potential/capacity to fill key positions and/or other means to fill key positions should turnover occur.
- Employee Training & Development - identification of needs and the maintenance of training/development programs including regulatory compliance.

Physical Security Programs
Review of physical security programs including inspections/monitoring activities, guard services, capital improvement program, etc. impacting all NYPA locations (generation, transmission including substations, headquarters, etc.).

500MW/Poletti Operations & Maintenance
Review processes associated with plant operations including interface with ECC, plant performance management, maintenance resource management program, safety, security, environmental compliance, plant financial performance, outage management (planned & forced), reliability, reporting, warehouse/inventory management, etc. Ensure compliance with laws/regulations and internal policies related to the disposal of personal property including PAAA, Executive Orders, etc.

2008 AUDIT PLAN
OPERATIONAL/PROGRAM AUDITS (CONTINUED)
SCOPE

B-G LEM Project
Processes associated with the design and implementation of an efficient and effective improvement program for the units undergoing modernization during the audit period. Determine whether lessons learned during previous unit overhauls for each audited facility were completed on time and on budget. Finally, determine whether the overhaul contracts were negotiated pursuant to NYPA's Expenditure Authorization Procedures and payments were made pursuant to policy.

B-G Operations & Maintenance
Review processes associated with plant operations including interface with ECC, plant performance management, maintenance resource management program, spillway gate operations/testing, plant and dam safety, security, environmental compliance and downstream hazard potentials analysis, existence and testing of emergency action plans, plant financial performance, outage management (planned & forced), reliability, reporting, warehouse/inventory management, etc. Ensure compliance with laws/regulations and internal policies related to the disposal of personal property including PAAA, Executive Orders, etc.

MRM Program – Maximo
Review of the adequacy and effectiveness of the overall maintenance program for Power Supply assets. Review the effectiveness of the MAXIMO system, consistency in utilization of the system, and reporting of MRM program results.

St. Lawrence LEM Project
Processes associated with the design and implementation of an efficient and effective improvement program for the units undergoing modernization during the audit period. Determine whether lessons learned during previous unit overhauls for each audited facility were completed on time and on budget. Finally, determine whether the overhaul contracts were negotiated pursuant to NYPA's Expenditure Authorization Procedures and payments were made pursuant to policy.

Power System Operations
Processes associated with ECC operations and operations planning for transmission systems including the ECC's control room operations, their interaction with NYPA generation and transmission asset managers, monitoring of performance and associated risks, interacting with the NYISO, etc.

2008 AUDIT PLAN
OPERATIONAL/PROGRAM AUDITS (CONTINUED)
SCOPE

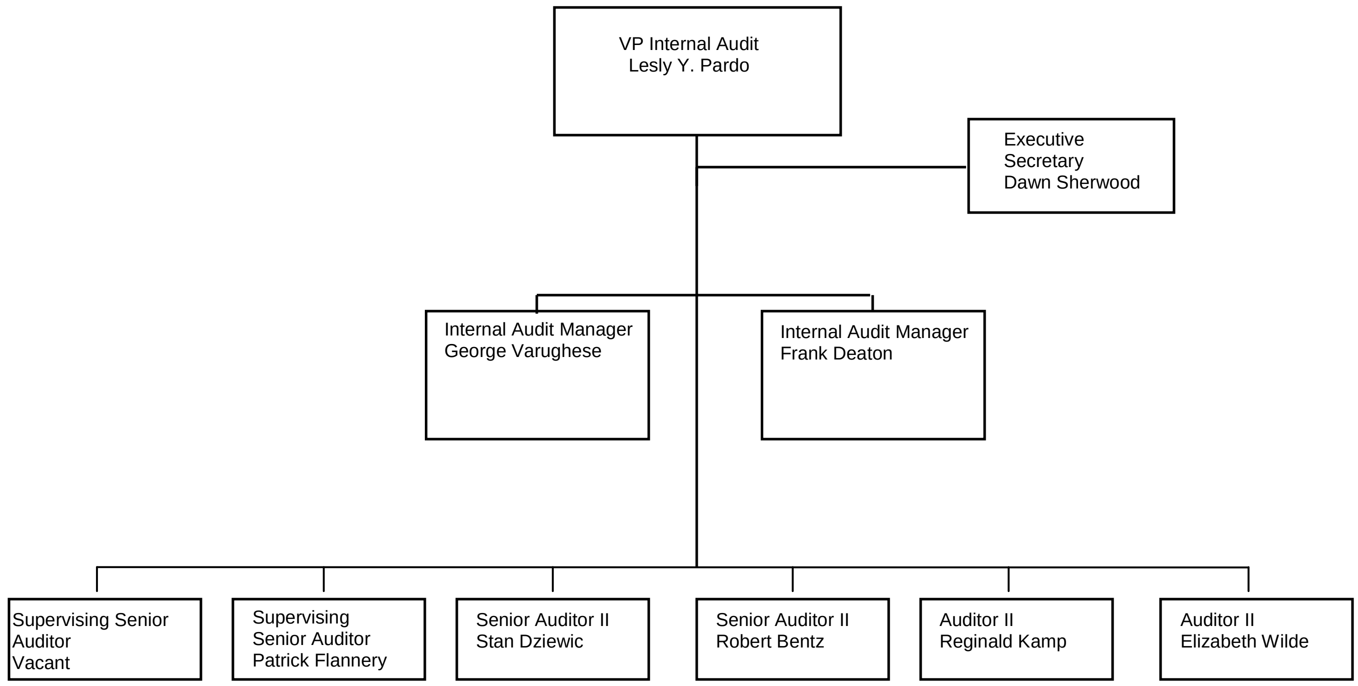
Environmental Compliance

Review of the adequacy and effectiveness of the environmental audit function including universe development, completion of audit plan, reporting of audit results, tracking of the resolution of audit issues and management of third party audit firms performing audits. Processes associated with the identification and management of environmental compliance risks including new and emerging regulations, adherence to existing regulations, reporting of actual performance, monitoring of site environmental activities, identification of best practices in terms of equipment and compliance practices, etc. Financial controls will be evaluated including any contracts for environmental services issued and other related purchase orders.

Health & Safety Program

Processes associated with the identification and management of health and safety risks including new and emerging risks/regulations, adherence to existing safety procedures and regulations, reporting of actual performance, monitoring of site health and safety activities, identification of best practices in terms of health and safety compliance practices, etc.

NEW YORK POWER AUTHORITY
INTERNAL AUDIT



Internal Audit Staff
Educational Background and Experience

Lesly Pardo
Vice President – Internal Audit
Education: MBA – St. John's University
BBA – Baruch College
Certifications: Certified Public Accountant, Certified Internal Auditor, Certified Information Systems Auditor, Certified Management Accountant
Experience: over 29 years of experience including 5 years in Public Accounting and 24 years in Internal Auditing

Frank Deaton
Manager – Operational Audit
Education: BS Accounting – SUNY Albany
Certifications: Certified Bank Auditor, Certified Internal Auditor Candidate
Experience: Over 20 years of experience primarily in the financial services industry. 13 years of Internal Auditing experience – joined NYPA in April 2007

George Varughese
Manager – Internal Audit
Education: BS Accounting – CUNY, NY
MS Information Systems Auditing – New York University Wagner School
Certifications: Certified Public Accountant
Experience: Over 27 years of diversified accounting/auditing experience

Patrick Flannery
Supervising Senior Auditor
Education: BS Accounting – Fordham University
Certifications: Certified Information Systems Auditor, Certified Computing Professional
Experience: Over 23 years of experience in Internal Audit – 11 years NYPA Internal Audit – 1 year consulting.

Robert Bentz
Sr. Auditor II
Education: BS - Accounting – St. Vincent College
Post-Baccalaureate Certificate, Computer Information Systems – Robert Morris University
Certifications: Certified Public Accountant (Pennsylvania), Certified Information Systems Auditor
Experience: over 26 years experience in Internal Audit - 8 years NYPA Internal Audit

Internal Audit Staff
Educational Background and Experience
(Continued)

Stan Dziewic
Sr. Auditor II
Education: BA – Accounting – William Paterson College
BA – Psychology – University of Nevada – Las Vegas
Certifications: None
Experience: Over 12 years of experience in Internal Audit - 7 years NYPA Internal Audit. 10 years Fuel Buyer

Elizabeth Wilde
Auditor II
Education: Master's Degree – Information Systems – Pace University
Bachelor's – Accounting – Mercy College
Certifications: None
Experience: Over 8 years Internal Audit experience (NYPA); 8 years Accounting Manager; 4 years Sr. Accountant

Reginald Kamp
Auditor
Education: BS Accounting – Fordham University
MPBA Finance – Southeastern University (Washington DC)
Certifications: Certified Public Accountant (Maryland)
Experience: Over 24 years Internal Audit experience - 8 years NYPA Internal Audit

NEW YORK POWER AUTHORITY
INTERNAL AUDIT
2009 RISK ASSESSMENT

	AUDIT ENTITY	BUSINESS UNIT	(1) RISK FACTORS PERCEPTION	FINANCIAL	STRATEGIC	OPERATIONS COMPLIANCE	TIME SINCE PREVIOUS AUDIT	TOTAL SCORE	2009	2010	2011	2012	2013
1	ENERGY SERVICES PROGRAMS	ENERGY MARKETING & BUSINESS DEVELOPMENT	5	5	5	5	2	22	337	315	315	0	315
2	BUSINESS CONTINUITY PLAN (BCP)	ENTERPRISE SHARED SERVICES	4	4	4	5	5	22	263	0	263	0	263
3	500 MW/POLETTI OPS & MAINT.	POWER SUPPLY	3	4	5	5	5	22	263	0	0	263	0
4	EMS SYSTEM	POWER SUPPLY	3	4	4	5	5	21	263	0	263	0	263
5	FUEL OPERATIONS/HEDGING TRANSACTIONS	BUSINESS SERVICES	4	5	5	5	2	21	337	0	315	0	315
6	LONG-TERM DEBT/INTEREST RISK MGMT.	BUSINESS SERVICES	3	5	4	4	5	21	285	0	0	0	262
7	SAP MONTHLY CLOSINGS-FINANCIAL REPORTS	BUSINESS SERVICES	4	5	3	4	5	21	285	0	0	0	262
8	GENERATION RESOURCE MANAGEMENT	BUSINESS SERVICES	5	5	5	5	1	21	0	315	0	315	0
9	INVESTMENTS/INVESTMENT INCOME	BUSINESS SERVICES	5	5	4	5	2	21	0	300	0	0	300
10	NERC - CIP TECHNICAL - NIA	ENTERPRISE SHARED SERVICES/POWER SUPPLY	4	4	4	4	5	21	263	0	263	0	263
11	NERC - CIP TECHNICAL - STL	ENTERPRISE SHARED SERVICES/POWER SUPPLY	4	4	4	4	5	21	263	0	263	0	263
12	NERC - CIP TECHNICAL - CEC	ENTERPRISE SHARED SERVICES/POWER SUPPLY	4	4	4	4	5	21	263	0	263	0	263
13	NERC - CIP TECHNICAL - BG	ENTERPRISE SHARED SERVICES/POWER SUPPLY	4	4	4	4	5	21	263	0	263	0	263
14	NERC - CIP - POL/FLN/500MW	ENTERPRISE SHARED SERVICES/POWER SUPPLY	4	4	4	4	5	21	150	0	150	0	150
15	B-G LEM PROJECT	POWER SUPPLY	3	5	5	5	3	21	263	0	263	0	0
16	ENTERPRISE RISK MANAGEMENT	BUSINESS SERVICES	4	4	4	4	5	21	225	0	0	225	0
17	B-G OPS & MAINT.	POWER SUPPLY	3	4	5	5	4	21	263	0	0	263	0
18	MRM PROGRAM - MAXIMO	POWER SUPPLY	4	4	4	4	5	21	225	0	0	225	0
19	CUSTOMER POWER CONTRACTS	ENERGY MARKETING & BUSINESS DEVELOPMENT	5	3	3	5	5	21	188	0	0	0	188
20	CAPITAL PLANNING/BUDGETING	BUSINESS SERVICES	3	5	4	4	5	21	225	0	0	0	225
21	NYISO - ENERGY SETTLEMENTS (LSE)	POWER SUPPLY	3	5	5	5	2	20	337	0	300	0	300
22	PURCHASING - HEADQUARTERS	ENTERPRISE SHARED SERVICES	5	5	4	4	2	20	337	0	0	337	0
23	NYPA NETWORK SECURITY	ENTERPRISE SHARED SERVICES	4	4	4	4	4	20	263	0	263	0	263
24	IT COMPLIANCE-LEGAL/REGULATORY RISKS	ENTERPRISE SHARED SERVICES	4	4	4	4	4	20	263	0	263	0	263
25	ST. LAWRENCE LEM PROJECT	POWER SUPPLY	3	5	5	5	2	20	225	0	0	225	0
26	PHYSICAL SECURITY PROGRAMS	INSPECTOR GENERAL	3	2	5	5	5	20	225	0	0	263	0
27	COMPLIANCE AND CORPORATE GOVERNANCE	LAW DEPARTMENT	4	2	5	5	4	20	0	188	0	0	188
28	POWER SYSTEM OPERATIONS	POWER SUPPLY	3	3	4	5	5	20	263	0	0	0	225
29	ENVIRONMENTAL COMPLIANCE	POWER SUPPLY	5	3	5	5	2	20	263	0	0	263	0
30	ETHICS AND EMPLOYEE AWARENESS PROGRAM	CORPORATE SERVICES & ADMINISTRATION	4	2	4	5	5	20	188	0	0	188	0
31	HUMAN CAPITAL & DEVELOPMENT	CORPORATE SERVICES & ADMINISTRATION	3	3	5	5	4	20	188	0	188	0	188
32	ENGINEERING SUPPORT SERVICES	POWER SUPPLY	3	4	4	4	5	20	0	188	0	0	188
33	NYISO - ENERGY SETTLEMENTS (GENERATORS)	POWER SUPPLY	4	5	5	4	1	19	0	300	0	300	0
34	PURCH. POWER CONTRACTS/HEDGING TRANS.	ENERGY MARKETING & BUSINESS DEVELOPMENT	3	3	4	4	5	19	300	0	0	300	0
35	SENY LONG-TERM AGREEMENT	BUSINESS SERVICES	4	5	4	4	2	19	0	262	0	0	262
36	ECONOMIC DEVELOP PROGRAMS- REBATES	ENERGY MARKETING & BUSINESS DEVELOPMENT	5	3	5	3	3	19	285	0	0	0	262
37	NETWORK PENETRATION	ENTERPRISE SHARED SERVICES	4	4	4	4	3	19	0	150	0	150	0
38	CHANGE CONTROL (SAP)	ENTERPRISE SHARED SERVICES	4	5	4	3	3	19	263	0	0	263	0
39	FLYNN IT	ENTERPRISE SHARED SERVICES/POWER SUPPLY	4	4	4	4	3	19	0	0	75	0	0
40	NERC-CIP POLICIES/PROCEDURES	ENTERPRISE SHARED SERVICES/POWER SUPPLY	4	3	4	4	4	19	0	263	0	263	225
41	ENERGY RISK ASSESSMENT & CONTROL	BUSINESS SERVICES	4	4	3	5	3	19	0	263	0	0	263
42	HEALTH AND SAFETY PROGRAM	POWER SUPPLY	4	3	5	3	4	19	263	0	0	0	225
43	ELECTRIC RELIABILITY COMPLIANCE PROGRAM	POWER SUPPLY	5	4	4	5	1	19	0	188	0	188	0
44	FERC SOC COMPLIANCE	LAW DEPARTMENT	5	4	4	5	1	19	0	150	0	150	0
45	MEDIA, COMMUNITY AND GOV. RELATIONS	PUBLIC & GOV. AFFAIRS/CORPORATE COMMUNICATIONS	5	2	4	3	5	19	0	0	150	0	0
46	TRANSMISSION LINE MAINTENANCE	POWER SUPPLY	4	4	5	5	1	19	0	0	225	0	0
47	IN-CITY OPS & MAINT.	POWER SUPPLY	3	4	5	5	2	19	0	0	263	0	0
48	REAL ESTATE MANAGEMENT	ENTERPRISE SHARED SERVICES	4	3	3	4	5	19	225	0	0	225	0
49	RENEWABLE ENERGY	ENERGY MARKETING & BUSINESS DEVELOPMENT	4	3	4	3	5	19	0	188	0	0	188
50	SENY REVENUE - MTA	BUSINESS SERVICES	3	3	3	4	5	18		225	0	0	225
51	SENY REVENUE - NEW YORK CITY	BUSINESS SERVICES	3	3	3	4	5	18	262	0	0	262	0
52	REVENUE - EDP/HIGH LOAD MFG/MDA	BUSINESS SERVICES	3	3	3	4	5	18	262	0	0	0	225
53	SAP - GENERAL LEDGER	BUSINESS SERVICES	3	5	4	4	2	18	0	0	315	0	0
54	IT HOT SITE	ENTERPRISE SHARED SERVICES/POWER SUPPLY	4	5	4	4	1	18	0	263	0	263	0
55	ENERGY CONTROL CENTER	ENTERPRISE SHARED SERVICES/POWER SUPPLY	4	4	4	4	2	18	0	0	75	0	75
56	CHARLES POLETTI IT	ENTERPRISE SHARED SERVICES/POWER SUPPLY	3	4	4	4	3	18	0	150	0	0	150
57	INFOSEC ASSESSMENT - WINDOWS	ENTERPRISE SHARED SERVICES	3	4	4	4	3	18	0	0	188	0	0
58	PENETRATION TESTING EMS/SCADA	POWER SUPPLY	3	3	4	4	4	18	0	263	0	263	0

NEW YORK POWER AUTHORITY
INTERNAL AUDIT
2009 RISK ASSESSMENT

			(1) RISK FACTORS										
	AUDIT ENTITY	BUSINESS UNIT	PERCEPTION	FINANCIAL	STRATEGIC	OPERATIONS COMPLIANCE	TIME SINCE PREVIOUS AUDIT	TOTAL SCORE	2009	2010	2011	2012	2013
59	INTRUSION PREVENTION MONITORING	ENTERPRISE SHARED SERVICES	4	3	3	4	4	18	0	203	0	203	0
60	LICENSING COMPLIANCE	POWER SUPPLY	4	3	3	3	5	18	0	225	0	0	225
61	PERFORMANCE MANAGEMENT	BUSINESS SERVICES	3	2	5	3	5	18	0	188	0	0	0
62	SOUND CABLE OPS & MAINT.	POWER SUPPLY	3	4	3	3	5	18	0	0	188	0	0
63	NIAGARA OPS & MAINT.	POWER SUPPLY	3	4	5	5	1	18	0	0	263	0	0
64	MARKET & PRICING ANALYSIS	ENERGY MARKETING & BUSINESS DEVELOPMENT	5	3	4	5	1	18	0	0	0	225	0
65	FLYNN OPS & MAINT.	POWER SUPPLY	3	4	4	5	2	18	0	0	0	225	0
66	ENERGY EFFICIENCY OPERATIONS	ENERGY MARKETING & BUSINESS DEVELOPMENT	5	2	5	5	1	18	0	0	225	0	225
67	POWER RESOURCE PLANNING	ENERGY MARKETING & BUSINESS DEVELOPMENT	2	4	5	5	2	18	0	0	225	0	0
68	ST. LAWRENCE OPS & MAINT.	POWER SUPPLY	3	4	5	5	1	18	0	0	0	263	0
69	PEAK LOAD MANAGEMENT	ENERGY MARKETING & BUSINESS DEVELOPMENT	4	2	4	3	5	18	0	263	0	0	188
70	SAP BILLING SYSTEM	BUSINESS SERVICES	2	5	5	4	1	17	0	0	0	337	0
71	NIAGARA FINANCE/PURCHASING/WHSING	BUSINESS SERVICES/ENTERPRISE SHARED SERVICES	3	4	4	4	2	17	315	0	315	0	315
72	NIAGARA RELICENSING EXPENDITURES	POWER SUPPLY	5	3	4	3	2	17	0	0	262	0	0
73	ST. LAWRENCE RELICENSING EXPENDITURES	POWER SUPPLY	4	3	4	3	3	17	0	0	0	262	0
74	SENY REVENUE - OTHER	BUSINESS SERVICES	3	4	3	3	4	17	0	315	0	0	315
75	SAP - MATERIAL MANAGEMENT	BUSINESS SERVICES	3	4	3	4	3	17	0	0	315	0	0
76	NYISO ICAP	ENERGY MARKETING & BUSINESS DEVELOPMENT	3	3	4	4	3	17	0	262	0	0	262
77	DATABASE ADMINISTRATION	ENTERPRISE SHARED SERVICES	3	4	4	4	2	17	0	150	0	0	150
78	BLENHEIM-GILBOA	ENTERPRISE SHARED SERVICES/POWER SUPPLY	3	3	5	3	3	17	0	105	0	105	0
79	ST. LAWRENCE IT	ENTERPRISE SHARED SERVICES/POWER SUPPLY	3	4	4	4	2	17	0	0	150	0	0
80	SUBSTATION AND SWITCHYARDS OPS & MAINT.	POWER SUPPLY	3	2	3	4	5	17	0	0	263	0	0
81	TRAVEL DESK	ENTERPRISE SHARED SERVICES	3	3	3	3	5	17	0	150	0	188	0
82	SUPPLIER DIVERSITY PROGRAM	CORPORATE SERVICES & ADMINISTRATION	4	1	3	4	5	17	0	0	150	0	0
83	RECORDS MANAGEMENT	ENTERPRISE SHARED SERVICES	4	2	5	5	1	17	0	0	225	0	0
84	SYSTEM PLANNING/RELIABILITY	POWER SUPPLY	3	3	3	3	5	17	0	0	150	0	225
85	CUSTOMER LOAD FORECASTING	ENERGY MARKETING & BUSINESS DEVELOPMENT	4	2	4	5	2	17	0	0	225	0	0
86	EMPLOYEE BENEFITS-MED/DENTAL/401K	ENTERPRISE SHARED SERVICES	3	3	3	3	4	16	0	315	0	0	0
87	NYISO - TRANSMISSION SETTLEMENTS	POWER SUPPLY	3	4	4	3	2	16	0	315	0	315	0
88	POLETTI/500 MW/FLYNN FINANCE/PUR./WHSING	BUSINESS SERVICES/ENTERPRISE SHARED SERVICES	3	4	4	4	1	16	262	315	0	315	285
89	BLENHEIM-GILBOA FINANCE/PURCHASING/WSE	BUSINESS SERVICES/ENTERPRISE SHARED SERVICES	3	2	4	4	3	16	0	285	0	0	285
90	CLARK FINANCE/PURCHASING/WHSING	BUSINESS SERVICES/ENTERPRISE SHARED SERVICES	3	3	4	4	2	16	315	0	285	0	285
91	ACCOUNTS PAYABLE	BUSINESS SERVICES	2	5	3	3	3	16	337	0	0	300	0
92	REVENUE - FLYNN/SOUND CABLE/BG	BUSINESS SERVICES	2	3	3	3	5	16	0	0	225	0	0
93	WPO DATA CENTER	ENTERPRISE SHARED SERVICES/POWER SUPPLY	3	4	4	4	1	16	0	105	0	105	0
94	NIAGARA IT	ENTERPRISE SHARED SERVICES/POWER SUPPLY	4	3	4	4	1	16	0	0	105	0	105
95	TELECOMMUNICATIONS	ENTERPRISE SHARED SERVICES	3	4	4	4	1	16	0	0	225	0	225
96	INFORMATION SECURITY - SAP	ENTERPRISE SHARED SERVICES	3	4	4	4	1	16	0	0	225	0	225
97	VIRUS PROTECTION AND RESPONSE	ENTERPRISE SHARED SERVICES	3	4	4	4	1	16	0	0	263	0	263
98	INFOSEC ASSESSMENT - AIX (EMS)	POWER SUPPLY	3	3	4	3	3	16	0	0	0	0	0
99	INTERNET/INTRANET SECURITY	ENTERPRISE SHARED SERVICES	3	3	4	3	3	16	0	0	188	0	0
100	APPLICATION DEVELOPMENT	ENTERPRISE SHARED SERVICES	3	3	4	3	3	16	0	0	263	0	0
101	FLIGHT OPERATIONS	ENTERPRISE SHARED SERVICES	5	2	1	3	5	16	0	188	0	0	0
102	SMALL HYDRO OPS & MAINT.	POWER SUPPLY	3	2	3	3	5	16	0	225	0	0	0
103	OPERATING FORECAST DEVELOPMENT	BUSINESS SERVICES	2	2	4	3	5	16	0	225	0	0	225
104	BUDGETING - O&M	BUSINESS SERVICES	2	2	4	3	5	16	0	225	0	0	225
105	REVENUE - POWER FOR JOBS	BUSINESS SERVICES	4	3	4	3	1	15	0	0	300	0	0
106	REVENUES - NIAGARA/ST. LAWRENCE	BUSINESS SERVICES	3	4	4	3	1	15	0	337	0	337	0
107	PAYROLL - HEADQUARTERS	BUSINESS SERVICES	3	5	3	3	1	15	0	0	262	0	0
108	ST. LAWRENCE FINANCE/PURCHASING/WHSING	BUSINESS SERVICES/ENTERPRISE SHARED SERVICES	3	3	4	4	1	15	0	300	0	300	0
109	NYISO - ANCILLARY SERVICES REVENUES	POWER SUPPLY	3	3	3	3	3	15	0	262	0	0	262
110	SAP - CONTROLLING	BUSINESS SERVICES	3	3	3	3	3	15	0	0	0	300	0
111	CEC IT	ENTERPRISE SHARED SERVICES/POWER SUPPLY	3	3	4	4	1	15	0	75	0	0	75
112	CHANGE CONTROL	ENTERPRISE SHARED SERVICES	3	3	3	3	3	15	0	225	0	225	0
113	ALBANY LAN	ENTERPRISE SHARED SERVICES	3	3	3	3	3	15	0	50	0	0	0
114	FLEET MANAGEMENT PROGRAM	ENTERPRISE SHARED SERVICES	4	3	3	4	1	15	0	263	0	0	263
115	STATIC VAR COMPENSATORS & TRI-LAKES RELIABILITY PROJECT	POWER SUPPLY	4	3	4	3	1	15	0	0	0	225	0
116	PRIVACY LAW COMPLIANCE	CORPORATE SERVICES & ADMINISTRATION	3	2	3	5	2	15	0	0	225	0	0

NEW YORK POWER AUTHORITY

INTERNAL AUDIT

2009 RISK ASSESSMENT

			(1) RISK FACTORS										
	AUDIT ENTITY	**BUSINESS UNIT**	**PERCEPTION**	**FINANCIAL**	**STRATEGIC**	**OPERATIONS COMPLIANCE**	**TIME SINCE PREVIOUS AUDIT**	**TOTAL SCORE**	**2009**	**2010**	**2011**	**2012**	**2013**
117	NYISO - ANCILLARY SERVICES EXPENSES	POWER SUPPLY	3	4	3	3	1	**14**	0	262	0	262	0
118	CASH MANAGEMENT, WIRE TRANSFERS	BUSINESS SERVICES	3	2	2	2	5	**14**	0	262	0	0	262
119	ST. LAWRENCE(HR,OPER., MAINT.,SUPP)EXP.	POWER SUPPLY	2	3	2	2	5	**14**	0	0	0	262	0
120	PUBLIC & GOVT. AFFAIRS EXPENDITURES	PUBLIC & GOVERNMENTAL AFFAIRS	4	2	3	3	2	**14**	0	0	262	0	0
121	TRANSMISSION CUSTOMER REVENUES	POWER SUPPLY	2	2	2	2	5	**13**	0	0	0	0	262
122	CLARK(HR,OPERATIONS,SUPPORT)EXP.	POWER SUPPLY	2	2	2	2	5	**13**	0	0	0	262	0
123	NIAGARA(HR,OPER., MAINT.,SUPPORT)EXP.	POWER SUPPLY	2	4	2	2	3	**13**	0	0	262	0	0
124	HUMAN RESOURCES EXPENDITURES	ENTERPRISE SHARED SERVICES	2	2	2	2	5	**13**	0	262	0	0	0
125	LAW DEPARTMENT EXPENDITURES	LAW DEPARTMENT	2	2	2	2	5	**13**	300	0	0	0	262
126	MARKETING & DEVELOPMENT EXPENDITURES	ENERGY MARKETING & BUSINESS DEVELOPMENT	2	2	2	2	5	**13**	0	0	0	262	0
127	TRANSMISSION EXPENDITURES	POWER SUPPLY	2	2	2	2	5	**13**	0	0	0	0	262
128	CUSTOMER & GENERATOR METERING	POWER SUPPLY	3	3	3	3	1	**13**	0	0	0	262	0
129	PAAA COMPLIANCE	LAW DEPARTMENT	3	2	3	4	1	**13**	0	0	263	0	0
130	INFORMATION TECHNOLOGY EXPENDITURES	ENTERPRISE SHARED SERVICES	1	4	3	3	1	**12**	0	0	262	0	0
131	INSURANCE-PROPERTY/LIABILITY	BUSINESS SERVICES	1	2	2	2	5	**12**	0	262	0	0	0
132	POLETTI(HR, OPER.,MAINT.,SUPPORT)EXP.	POWER SUPPLY	2	4	2	2	2	**12**	0	0	262	0	0
133	FACILITY MANAGEMENT	ENTERPRISE SHARED SERVICES	2	3	3	3	1	**12**	0	0	0	262	0
134	CONSTRUCTION COST ESTIMATING	POWER SUPPLY	1	2	3	3	3	**12**	0	0	225	0	0
135	EXECUTIVE ORDERS COMPLIANCE	LAW DEPARTMENT	3	2	3	2	2	**12**	0	0	188	0	0
136	SAP-FIXED ASSETS/DEPRECIATION/AMORTIZAT.	BUSINESS SERVICES	1	4	2	3	1	**11**	0	0	262	0	0
137	TRAVEL AND LIVING EXPENSES - SAP	BUSINESS SERVICES	5	1	2	2	1	**11**	0	262	0	262	0
138	HEADQUARTERS CREDIT CARD PROCUREMENT	ENTERPRISE SHARED SERVICES	4	2	2	2	1	**11**	0	262	0	0	262
139	CORPORATE SUPPORT SERVICES	ENTERPRISE SHARED SERVICES	2	3	1	2	3	**11**	0	0	0	262	0
140	BG (HR, OPER., MAINT.,SUPPORT) EXP.	POWER SUPPLY	2	2	2	2	2	**10**	0	0	0	0	262
141	INTEGRATED AUDITS	VARIOUS	2	2	2	2	1	**9**	38	15	15	15	15
									10599	**11125**	**12445**	**11531.5**	**13521**

(1) Risk Factors

Perception – The risk that NYPA decisions and actions will create a negative public image, generate negative publicity, complaints and/or harmful legislative sanctions.

Financial – The amount of value at risk within the program, process or system measured in terms of either real dollars (assets, revenue, net revenue) budgeted resource or intangible value (information).

Strategic – Any Strategic Plan Program, process or system that has great strategic value or special management focus.

Operations/Compliance – The risk that business unit strategic business plan goals will be negatively impacted by failure to follow management policies, comply with applicable laws and regulations, develop adequate control systems and/or inefficient/ineffective day-to-day operations.

Time Since Previous Audit – Inherent risk arising through passage of time between audits measured by number of years since the last audit was performed. Areas never audited (within the context of the risk matrix receive the highest score).

8. Performance of Agreed-Upon Procedures by Ernst & Young LLP Regarding the Grant Agreement Between NYPA and Seaway Private Equity Corp.

Ms. Anne Cahill presented the highlights of staff's recommendations to the Committee, as follows:

- In 2005, the Authority entered into an agreement to fund a local aquarium development project in St. Lawrence County. Following the aquarium sponsors' failure to raise the necessary additional matching funds, the Authority agreed to use $10 million of the previously pledged funds toward investments in St. Lawrence County for businesses developing new technology or environmental projects that would directly or indirectly promote job development.

- To effectuate the foregoing, the Trustees adopted a resolution on September 20, 2005, authorizing the Authority to negotiate and execute an agreement(s) and other documents with a local development corporation ("LDC") to provide up to $10 million of funding. Subsequently, on March 8, 2006, the Authority entered into a Grant Agreement with Seaway Private Equity Corporation ("SPEC"), an LDC, which contained a form capital commitment agreement for SPEC to use in its investments. Four months later, an Amended and Restated Grant Agreement was executed between the Authority and SPEC that included an amended and restated form of capital commitment agreement. These amended and restated agreements clarified the earlier agreement by allowing SPEC greater flexibility in its funding of business development firms and project criteria. Specifically, the intent of the amendments was to clarify the definition of Qualified Business Development Firm ("QBDF") and allow SPEC to invest in multiple QBDFs upon Authority approval and to invest in entities that are not new technology firms or projects upon a two-thirds vote of its entire Board.

- To date, SPEC has executed capital commitment agreements with two QBDFs: Golden Technology Management ("Golden") and North Bay Technology Management ("North Bay"). Under the terms of those capital commitment agreements, the QBDF must have its headquarters and principal operations in St. Lawrence County, make early-stage investments in new technology companies and actively participate in managing the companies in which it invests.

- Of the Authority's $10 million allocation for this 12-year Grant Agreement, through February 10, 2009, SPEC has funded six qualified investments totaling $3,674,566 of the $9.75 million available for such investments, and has expended $190,073 of the remaining $250,000 for administrative and legal fees.

- Under the Amended and Restated Grant Agreement, the Authority has the right to review SPEC's records and accounts, which SPEC is required to maintain as they pertain to activities under the agreement. The Authority has determined that a review of SPEC's activities to date should be undertaken.

- To that end, the Authority asked E&Y to provide a proposal to review SPEC's investment activities under the Grant Agreement and the capital commitment agreements. This proposal is attached as Exhibit "A."

- The Agreement for Accounting Services between the Authority and E&Y (Agreement No. 4500089614) provides, in relevant part, that non-audit services by E&Y must be preapproved by the Authority's Audit Committee before work commences. E&Y's fee for performing this work, which will be determined on an hourly basis in accord with the applicable compensation schedule, is estimated to be $50,000.

In response to a question from Trustee Elise Cusack, Ms. Cahill said that the Authority wants to see whether the funding it has provided has been appropriately invested.

Upon motion made and seconded, the Committee authorized E&Y services in conjunction with a review of SPEC's activities under the Amended and Restated Grant Agreement and the capital commitment agreements with Golden and North Bay.

Exhibit "A"

Power Authority of the State of New York
("Authority")

Summary of Agreed-Upon Procedures

Such procedures will include, but not be limited to:

1. General Procedures

A. Obtain the IRS ruling letter to support SPEC's incorporation as a 501(c)(3) not-for-profit organization.

B. Obtain a listing of expenditures from SPEC and identify any investment in a Qualified Investment Opportunity above the maximum amount of $1,000,000.

C. Inquire as to the retention policy followed by SPEC with respect to source documents supporting the expenditures incurred.

D. Obtain the listing expenditures from SPEC and compare the same to the requisitions to NYPA. Identify any differences.

E. Inquire as to whether there were any investments in new companies not based on renewable energy or environmental technologies. For all investments in new companies not based on renewable energy or environmental technologies, obtain a resolution of the Board of Trustees of SPEC that indicates that a vote of two-thirds of the entire Board approved the investment.

2. SPEC Investment Transactions

For each SPEC Investment, perform the following:

A. Obtain the quarterly unaudited financial statements and audited financial statement, prepared in accordance with generally accepted accounting principles, for the periods including and subsequent to the date of the investment.

B. Identify the location of the respective company's headquarters and its principal business.

C. Obtain the certification by Golden Technology Management, LLC ("Golden") and/or North Bay Technology Development, LLC ("North Bay") that the Qualified Investment Opportunity meets the requirements under the Amended and Restated Capital Commitment Agreement.

D. Obtain a copy of the signed investment agreement.

E. Determine whether the investment was matched by a Qualified Private Investor on a basis of $1 invested by SPEC for each $2 invested by Qualified Private Investors. Summarize the matching terms for each SPEC Investment.

3. Administrative Transactions

A. Obtain a listing of all payments made with the grant funding to Golden and/or North Bay for professional fees and summarize.

B. Obtain a listing of payments made to SPEC for establishing SPEC corporate structures and any other operating expenses paid by the grant. Select 25 transactions and determine that:

1. Transactions were properly documented with original vendor invoices, purchase orders, approved contracts and other original source documents.

4. Site Visits

A. Visit each company that was invested in and interview the chief financial officer or other executive and make the following inquiries:

1. *How long has the company been in business?*
2. *What is the nature of the company's current projects that are in process?*
3. *How many employees does the company have?*
4. *How many employees have been hired since SPEC's investment in the company?*
5. *Who are on the company's board of directors?*
6. *Does the company have any joint ventures?*
7. *Do you have any knowledge of fraud or suspected fraud?*
8. *Does the company have any significant claims against it?*

5. Status Reporting/AUP Report

A. The E&Y engagement team will meet with the Authority Project Manager regularly to provide status updates and discuss results of testing. E&Y will prepare an "Agreed-Upon Procedures" report

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9. Other Business

Mr. Concadoro advised the Committee that E&Y's audit contract ends this year. Chairman Curley said that the Audit Committee would like staff to develop a Request for Proposals ("RFP") for audit services for the next 3-5 years, asking staff to show the Committee a draft of the last RFP. He added that the Committee would like to see proposals from at least two accounting firms other than E&Y. Mr. Bellis said that the Authority had traditionally sought audit proposals from top-tier firms, but that last time proposals were also sought from some second-tier firms and none had responded. Mr. Concadoro explained that this was primarily due to the fact that utility accounting is very specialized and the large firms had more experience conducting these audits. In response to a question from Trustee Foster, Mr. Concadoro said that the Authority's previous auditing firm had been Pricewaterhouse Coopers. Responding to another question from Trustee Foster, Mr. Del Sindaco said that E&Y has performed satisfactorily. Trustee Foster said that he has been quite impressed with E&Y's work for the Authority.

Chairman Curley said that the Committee wanted staff to provide the Committee with a five-year analysis of hedging and derivatives by May, saying that the Committee was also going to look at enterprise risk analysis. Trustee Foster said that the Committee was looking for input as to whether hedging and derivatives were helping or hurting the Authority.

10. Next Meeting

Chairman Curley and Trustees Cusack and Foster agreed that the next regular meeting of the Committee would be held at 10:30 a.m. on Thursday, July 16, 2009. They also agreed that a special meeting of the Committee might need to be held toward the end of May to review the financial audit RFP responses.

Upon motion duly made and seconded, the meeting was adjourned at approximately 11:55 a.m.