

**MINUTES OF THE MEETING
OF
THE AUDIT COMMITTEE**

February 23 2010

A meeting of the Audit Committee was held via videoconference at the Authority's offices at 501 Seventh Avenue, New York, New York and 95 Perry Street, Buffalo, New York at approximately 9:32 a.m.

The following Members of the Audit Committee were present:

Trustee D. Patrick Curley (Chairman) (Buffalo)

Trustee Elise M. Cusack (Buffalo)

Trustee Jonathan F. Foster (New York City)

Also in attendance were:

Eugene L. Nicandri

Gil Quiniones

Terryl Brown

Elizabeth McCarthy

Donald Russak

Lesly Pardo

Karen Delince

Angela Graves

Thomas Concadoro

Dennis Eccleston

Mary Jean Frank

Ken Deon

Jamie Cote

Bryan Mahoney

Trustee

Chief Operating Officer

Executive Vice President and General Counsel

Executive Vice President and Chief Financial Officer

Senior Vice President – Corporate Planning and Finance

Vice President – Internal Audit

Corporate Secretary

Deputy Corporate Secretary

Director – Accounting

Chief Information Officer

Associate Corporate Secretary

Managing Partner, KPMG

Senior Manager, KPMG

Manager, KPMG

1. **Minutes of the Regular Meeting of January 26, 2010**

The minutes of the Committee's Regular Meeting of January 26, 2010 were adopted.

2. Year-End 2009 Financial Statements Summary

Mr. Thomas Concadoro presented the highlights of the Authority's 2009 financial statements. He pointed out the following:

- Management's Discussion and Analysis ("MD&A") mentioned the following operating results:

Comparison of operating results for 2009 and 2008 noting items that resulted in a decrease in net income from \$299 million to \$253 million.

- ◆ Significant line-item variances on income statement substantially offset due to pass-through of majority of variances in purchased power, fuel and delivery service costs to Southeastern New York ("SENY") customers.
- ◆ Decrease of \$590 million in operating revenues reflects lower market-based sales due to lower prices and pass-through of lower purchased-power and fuel costs. During 2009, the benefits of lower energy and fuel prices were passed through to SENY customers through lower billings. Higher delivery service costs charged by the Authority's service provider were also passed through as an increase.
- ◆ Lower prices also resulted in lower market-based sales, which had a negative impact on net income. Sales of Niagara and Small Clean Power Plant ("SCPP") energy were highlighted as significant.
- ◆ Decrease of \$249 million in fuel expenses due to lower natural gas and oil prices combined with lower generation at Poletti and Small Clean Power Plants ("SCPPs"). Decrease of \$337 million in purchased-power expenses due to lower market prices on energy purchases; average purchase price for market purchases decreased by 21%, from \$66 per MWh to \$52 per MWh.
- ◆ Decrease of \$18 million in operations and maintenance expenses due to lower voluntary contribution to New York State related to Power for Jobs (\$12.5 million) combined with lower expenses at the 500 MW plant (2008 compressor replacement).
- ◆ Increase of \$9 million in depreciation expenses due to lower depreciation for Poletti in its last full year of operation.
- ◆ Decrease of \$32 million in non-operating revenues reflects unrealized loss on investments in 2009 (\$13 million) due to a change in mark-to-market compared to unrealized gain in 2008 (\$24 million).
- ◆ Increase of \$11 million in non-operating expenses reflects lower interest rates on variable-rate debt offset by higher voluntary contribution.

- Changes of significance in the Authority's balance sheets include:
 - ◆ Decrease in current assets (\$100 million) reflects impact of contribution to New York State in early 2009.
 - ◆ Increase in non-current assets of \$337 million primarily due to temporary asset transfers reflected as a long-term loan receivable.
 - ◆ Increase in restricted funds of \$124 million primarily due to appreciation in the nuclear decommissioning fund; this is offset 100% by an increase in the related liability to Entergy (limited to the funds in the decommissioning fund).
 - ◆ Long-term debt decreased by \$129 million during 2009 primarily due to scheduled maturities. Debt/equity ration continued to decrease to 0.72 to 1 (lowest since 1982) in 2009 from 0.83 to 1 in 2008.
 - ◆ Increase in cash flows from operations to \$491 million in 2009 vs. \$448 million in 2008.
 - ◆ Net generation of 27.3 million MWh was slightly higher in 2009, with increases at Niagara and St. Lawrence offsetting decreases at the fossil fuel plants.
 - ◆ Economic conditions and steps Authority has taken to assist customers, including Alcoa agreement and withdrawal of scheduled hydropower rate increase in May 2009.
 - ◆ Temporary asset transfers and increasing contributions made to New York State pursuant to budget legislation.

In response to a question from Trustee Eugene Nicandri, Mr. Concadoro said that in 2010 depreciation expenses would not be greatly affected by the closure of the Poletti plant because there had been little Poletti depreciation in 2009, as the retirement had been planned. Responding to a question from Audit Committee Chairman D. Patrick Curley, Mr. Concadoro said that the Authority's cash flow comprised net income plus depreciation plus amortization and other non-cash items.

- Footnotes:
 - ◆ Accounting Policies [Note 2]: Expanded disclosure regarding the effects of rate regulation and the associated accounting. Continues to reference new Government Account Standards Board ("GASB") pronouncement "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 2010. Incorporates new charts reflecting

capital asset activity in detail for 2009 and 2008 based on GASB requirements. Reformatted and expanded disclosures regarding risk management and derivative activities in accordance with Financial Accounting Standards (“FAS”) No. 161. Fair values reflect an increase in unrealized losses (\$30 million) primarily due to medium-term hedging positions taken to support New York City Governmental Customers.

◆ Commitments and Contingencies –

- Competition (Note 11a) includes disclosure of Alcoa agreement and withdrawal of scheduled rate increases in response to economic conditions. Also, includes proposal to assist Buffalo waterfront development.
- New York City Governmental Customers (Note 11b) highlights customer election of sharing option for variable-cost variations for 2010.
- Power for Jobs (Note 11c) expanded to include extension of program through May 2010 and unfavorable Court of Appeals decision in October 2009.
- New York State Budget and Other Matters (Note 11g) updated to reflect 2009 contributions and temporary asset transfers. Expanded to include County of Niagara lawsuit challenging the legality of contributions and transfers and seeking rebates for certain customers receiving hydropower.

In response to a question from Vice Chairman Foster, Ms. McCarthy said that the Authority’s new Enterprise Risk group was working to identify and put together a mitigation plan for risks throughout the organization. She said that work is ongoing to analyze different solutions for the Authority’s energy risk program.

Responding to a question from Audit Committee Chairman Curley, Mr. Concadoro said that the Authority uses the generally accepted definition for net assets, that is, assets less liabilities. Ms. McCarthy added that the financial statements look at how the Authority’s net assets at the beginning of 2009 were affected by what happened throughout the year.

Responding to a question from Vice Chairman Foster, Ms. Terryl Brown said that a new complaint had been filed in the lawsuit filed by Niagara County against the Authority, as well as a request to depose the individual Trustees.

In response to a question from Audit Committee Chairman Curley, Mr. Concadoro said that page 33 of the Financial Statements contained a very detailed disclosure of the Authority’s derivative swaps. As of December 31, 2008, there was an unrealized loss of \$123 million for these instruments, while at year-end 2009 the unrealized loss was \$153 million. He said that there had been some medium-term hedging toward the end of 2009, and that the volumes had

been relatively large. The combination of increased volumes and market price decreases near year-end 2009 accounted for most of the \$30 million change in fair value. Ms. McCarthy added that due to their length, the market value for these swaps may change, but that they were done at the request of the Authority's New York City Governmental Customers and were integrated into the Authority's cost-recovery mechanism. She said that the Executive Risk Committee and the Enterprise Risk group were working with Internal Audit and KPMG to improve controls in this area in terms of capturing, valuing and presenting these transactions. Mr. Russak added that the swaps were one way of mitigating cost swings for the Authority's New York City Governmental Customers.



February 16, 2010

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

From: **Thomas Concadoro** 

Subject: **Year 2009 Annual Report – Financial Section**

Please find a draft copy of the 2009 Annual Report – Financial Section (Attachment 2) for your consideration. We are planning to review the report at the February 23, 2010 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
Terryl Brown
Elizabeth McCarthy
Karen Delince

**2009 Annual Report- Financial Section
Highlights**

**Audit Committee
February 23, 2010**

Management's Discussion and Analysis (MD&A)

Operating Results:

- Comparison of operating results for the years 2009 and 2008 noting items that resulted in a decrease in net income from \$299 to \$253 million
- Significant line item variances on income statement substantially offset due to pass-through of majority of variances in purchased power, fuel and delivery service costs to SENY customers
- During 2009, the benefits of lower energy and fuel prices were passed through to SENY customers through lower billings. Higher delivery service costs charged by our service provider were also passed through as an increase.
- Lower prices also resulted in lower market-based sales, which had a negative impact on net income. Sales of Niagara & SCPP energy highlighted as significant.
- Unrealized loss on investments at year-end 2009 (\$13 million) vs. unrealized gain in 2008 (\$24 million) reflects movements in market interest rates during each year. No impact on cash flows if investments are held to maturity.

Summary Statement of Net Revenues
(\$'s in millions)

	<u>2009</u>	<u>2008</u>	Variance Favorable (Unfavorable)
Operating Revenues	2,595	3,185	(590) Reflects lower market based sales due to lower prices & pass-through of lower purchased power and fuel costs
Operating Expenses:			
Fuel	366	615	249 Lower natural gas and oil prices combined with lower generation at Poletti and the SCPP's
Purchased power	905	1,242	337 Lower market prices on energy purchases. Average purchase price on market purchases decreased bt 21% (\$66 /mwh to \$52/mwh)
Operations & Maintenance(1)	438	456	18 Lower voluntary contribution to N. Y. State related to Power for Jobs (\$12.5 m)partially combined with lower expenses at the 500 mw plant (2008 compressor replacement)
Wheeling	436	388	(48) Primarily due to higher delivery service rates charged by Con Ed passed through to customers
Depreciation	<u>164</u>	<u>173</u>	9 Lower depreciation for Poletti in last full year of operation
	2,309	2,874	565
Operating Income	286	311	(25)
Nonoperating revenues	132	164	(32) Reflects unrealized loss on investments in 2009 (\$13m) compared to unrealized gain in 2008 (\$24m)
Nonoperating expenses	<u>165</u>	<u>176</u>	11 Reflects lower costs on variable rate debt offset by higher voluntary contribution
Net income	253	299	(46)

Note(1) - For this presentation, O & M includes the following captions from NYPA's internal financial statements:
a) Site O&M and direct charges, b) administrative expenses and c) other expenses

Other significant items in MD&A include:

- Increase in cash flows from operations to \$491 million in 2009 vs. \$448 million in 2008
- Net generation of 27.3 million mwh was slightly higher in 2009 with increases at Niagara & St. Lawrence offsetting decreases at the fossil fuel plants
- Economic conditions and steps NYPA has taken to assist customers including Alcoa agreement and the withdrawal of scheduled hydropower rate increases in May 2009
- Temporary asset transfers and increasing contributions made to N. Y. State pursuant to budget legislation

Balance Sheet

Changes of significance include:

- decrease in current assets (\$100 million) reflects impact of contribution to State in early 2009
- an increase in non-current assets of \$337 million primarily due to temporary asset transfers reflected as a long-term loan receivable
- an increase in restricted funds of \$124 million primarily due to appreciation in the decommissioning fund. The increase is offset 100% by an increase in the related liability to Entergy (limited to the funds in the decommissioning fund.)
- Long-term debt decreased by \$129 million during 2009 primarily due to scheduled maturities. The Authority's debt/equity ratio continued to decrease to 0.72 to 1 (the Authority's lowest since 1982) in 2009 from 0.83 to 1 in 2008.

Footnotes

- Accounting Policies (Note 2) – Expanded disclosure regarding the effects of rate regulation and the associated accounting. Continues to reference new GASB pronouncement “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.
- Incorporates new charts reflected capital asset activity in detail for 2009 and 2008 based on GASB requirements
- Reformatted and expanded disclosures regarding risk management and derivative activities in accordance with FAS #161. Fair values reflect increase in unrealized losses (\$30 million) primarily due to medium term hedging positions taken to support NYC Government customers.

Footnotes (continued)

Commitments & Contingencies –

- Competition (Note 11a) includes disclosure of Alcoa agreement and withdrawal of scheduled rate increases in response to economic conditions. Also, includes proposal to assist Buffalo waterfront development
- NYC Government Customers (Note 11b) – Highlights customer election of sharing option for variable cost variations for 2010
- Power for Jobs (Note 11c) - Expanded to include extension of program through May 2010 and unfavorable Court Of Appeals decision in October 2009.
- New York State Budget and Other Matters (Note 11g) – Updated to reflect 2009 contributions and temporary asset transfers. Expanded to include County of Niagara lawsuit challenging the legality of contributions and transfers & seeking rebates for certain customers receiving hydropower

Final Editorial Review Not Completed

PLEASE COMPLETE	
Date/Time Due _____	
Services Requested:	
_____ <i>Format</i>	_____ <i>Revisions</i>
_____ <i>Editorial Review</i>	_____ <i>Print</i>
Name: _____	
Tel./Ext.: _____	
Special Instructions:	

NEW YORK POWER AUTHORITY

Financial Statements

December 31, 2009 and 2008

(With Independent Auditors' Report Thereon)

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NEW YORK POWER AUTHORITY

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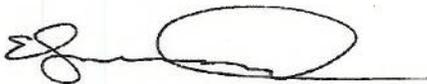
Management Report

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 U.S. generally accepted accounting principles 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 U.S. generally accepted accounting principles 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. Additionally, as part of its audit of the Authority's financial statements, KPMG 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 its 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, 2009, 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 and the Vice President of Labor Relations & Chief Ethics and Compliance Officer have direct access to the Audit Committee.



Elizabeth M. McCarthy
Executive Vice President & Chief Financial Officer

Independent Auditors' Report

The Board of Trustees
Power Authority of the State of New York:

We have audited the balance sheet, statement of revenues, expenses, and change in net assets and statement of cash flows of the Power Authority of the State of New York (the Authority) as of and for the year ended December 31, 2009. 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 audit. The financial statements of the Authority as of December 31, 2008, were audited by other auditors whose report dated February 26, 2009 expressed an unqualified opinion on those statements.

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. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides 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, 2009, and the changes in its financial position and its cash flows for the year then ended, in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated February __, 2010 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.

The accompanying management's discussion and analysis and the schedule of funding progress listed in the accompanying table of contents are not a required part of the basic financial statements but are supplementary information required by U.S. generally accepted accounting principles. 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.

February __, 2010

NEW YORK POWER AUTHORITY
Management's Discussion and Analysis
December 31, 2009 and 2008
(Unaudited)

Overview of the Financial Statements

This report consists of three parts: management's discussion and analysis, the basic financial statements, and the notes to the financial statements.

The financial statements provide summary information about the New York Power Authority's (Authority) overall financial condition. The notes provide explanation and more details about the contents of the financial statements.

The Authority is considered a special-purpose government entity engaged in business-type activities and follows financial reporting for enterprise funds. The Authority's financial statements are prepared in accordance with generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB). In accordance with GASB standards, the Authority has elected to comply with all authoritative pronouncements applicable to nongovernmental entities (i.e., Accounting Standards Codification of the Financial Accounting Standards Board) that do not conflict with GASB pronouncements.

Forward Looking Statements

The statements in this management discussion and analysis (MD&A) that are not historical facts are forward-looking statements based on current expectations of future events and are subject to risks and uncertainties that could cause actual results to differ materially from those expressed or implied by such statements. In addition, we, through our management, from time to time make forward-looking public statements concerning our expected future operations and performance and other developments. All of these forward-looking statements are subject to risks and uncertainties that may change at any time, and, therefore, our actual results may differ materially from those we expected. We therefore caution against placing substantial reliance on the forward-looking statements contained in this MD&A. All forward-looking statements included in this MD&A are made only as of the date of this MD&A and we assume no obligation to update any written or oral forward-looking statements made by us or on our behalf as a result of new information, future events or other factors.

NEW YORK POWER AUTHORITY

Management's Discussion and Analysis

December 31, 2009 and 2008

(Unaudited)

The following is a summary of the Authority's financial information for 2009, 2008, and 2007:

Summary Statement of Revenues, Expenses, and Changes in Net Assets
(In millions)

	<u>2009</u>	<u>2008</u>	<u>2007</u>	2009 vs. 2008 favorable (unfavorable)	2008 vs. 2007 favorable (unfavorable)
Operating revenues	\$ 2,595	3,185	2,906	(19)%	10%
Operating expenses:					
Purchased power	905	1,242	1,182	27	(5)
Fuel	366	615	535	40	(15)
Operations and maintenance	438	456	501	4	9
Wheeling	436	388	327	(12)	(19)
Depreciation	164	173	178	5	3
Total operating expenses	<u>2,309</u>	<u>2,874</u>	<u>2,723</u>	20	(6)
Operating income	<u>286</u>	<u>311</u>	<u>183</u>	(8)	70
Nonoperating revenues	132	164	166	(20)	(1)
Nonoperating expenses	<u>165</u>	<u>176</u>	<u>114</u>	6	(54)
Nonoperating income (loss)	<u>(33)</u>	<u>(12)</u>	<u>52</u>	(175)	(123)
Net income and change in net assets	253	299	235	(15)	27
Net assets – beginning	<u>2,567</u>	<u>2,268</u>	<u>2,033</u>	13	12
Net assets – ending	<u>\$ 2,820</u>	<u>2,567</u>	<u>2,268</u>	10	13

The following summarizes the Authority's financial performance for the years 2009 and 2008:

The Authority had net income of \$253 million in the year 2009, compared to \$299 million in 2008. This \$46 million decrease in net income includes lower operating income (\$25 million) combined with lower nonoperating income (\$21 million). Operating income was lower primarily due to lower operating revenues (\$590 million) substantially offset by lower operating expenses (\$565 million). Revenues were lower primarily due to lower market-based sales and the pass-through of lower fuel and purchased power prices to customers. Market-based sales were lower mainly due to lower prices on power generated by the Authority's Niagara plant and the Small Clean Power Plants that was sold to the New York Independent System Operator (NYISO). Lower operating expenses for 2009 include the aforementioned decreases in purchased power (\$337 million) and fuel (\$249 million) expenses. Operations and maintenance expenses were also lower (\$18 million) primarily due to a lower voluntary contribution to New York State related to the Authority's Power for Jobs program and the recognition of a loss in 2008 related to the early retirement of compressors at the Authority's 500-MW plant. The decrease in nonoperating income in 2009 included lower investment income (\$32 million) and a higher voluntary payment to the State (\$10 million) unrelated to the Authority's Power for Jobs program; partially offset by a lower interest expense (\$21 million). Investment income for 2009 has been reduced by an unrealized loss of \$13 million on investments due to higher market interest rates as compared to a \$24 million unrealized gain in 2008.

During 2009, long-debt decreased by \$129 million, or 7%, primarily due to scheduled maturities. Interest expense was \$21 million lower than 2008 primarily due to decreases in average balances and interest rates on long-term debt (\$17 million) and decreases in interest rates on short-term debt (\$3 million). During the period 1999 to 2009, the Authority reduced its total debt/equity ratio from 1.52 to 0.72.

NEW YORK POWER AUTHORITY

Management's Discussion and Analysis

December 31, 2009 and 2008

(Unaudited)

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 was 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.

Operating Revenues

Operating revenues of \$2,595 million in 2009 were \$590 million or 19% lower than the \$3,185 million in 2008, primarily due to lower market-based sales and the pass-through of lower fuel and purchased power prices to customers. Market-based sales were lower mainly due to lower prices on power generated by the Authority's Niagara plant and the Small Clean Power Plants that was sold to the NYISO.

Purchased Power and Fuel

Purchased power costs decreased by 27% in 2009 to \$905 million from \$1,242 million in 2008, primarily due to lower prices in the NYISO market. Fuel costs were \$249 million (40%) lower during 2009, reflecting lower fuel prices at the Flynn and Poletti plants and lower fossil-fuel usage at the Poletti plant due to lower power production.

Operations and Maintenance (O&M)

O&M expenses decreased by 4% in 2009 to \$438 million primarily due to lower accrued voluntary contributions to New York State relating to the Power for Jobs program (see note 12(g), "New York State Budget Matters and Other Issues" for related information on voluntary contributions to the State) and the recognition of a \$18 million loss in 2008 related to the early retirement of compressors at the Authority's 500-MW plant.

Nonoperating Revenues

For 2009, nonoperating revenues decreased by \$32 million or 20% due to a swing from an unrealized gain of \$24 million in 2008 to an unrealized loss of \$13 million in 2009 on the Authority's investment portfolio and lower average invested balances. These changes were offset by insurance recoveries of \$7 million related to the 2008 500 MW compressor outage and the 2008 St. Lawrence autotransformer failure. Nonoperating revenues for 2009 and 2008 include income recognition of \$72 million for each year resulting from a revenue sharing agreement relating the nuclear power plants sold by the Authority to subsidiaries of Entergy Corporation in 2000. See note 11(a), "Nuclear Plant Divestiture," for additional information.

Nonoperating Expenses

For 2009, nonoperating expenses decreased by \$11 million or 6% primarily due to lower costs on variable rate debt (\$21 million) partially offset by an increase of \$10 million in the Authority's voluntary contribution to New York State (\$70 million) that was not related to the Power for Jobs program.

Cash Flows

During 2009, the Authority generated cash flows of \$491 million from operations compared to \$448 million in 2008. Cash flows from operating activities for 2009 were higher than 2008 primarily due to decreases in the cost of purchased power and fossil fuel. These decreases were partially offset by decreased cash receipts from energy sales into the NYISO market at lower average prices than the prior year and decreased cash receipts from customers for the sale of power due to lower prices.

Net Generation

Net generation for 2009 was 27.3 million megawatt-hours (MWh) compared to the 27.2 million MWh generated in 2008. Net generation from the Niagara (14.3 million MWh) and St. Lawrence (7.2 million MWh) plants were 5% and 3% higher, respectively, than 2008.

NEW YORK POWER AUTHORITY

Management's Discussion and Analysis

December 31, 2009 and 2008

(Unaudited)

(13.6 million MWh and 7.0 million MWh, respectively). During 2009, combined net generation of the fossil fuel plants was 5.8 million MWh or 13% lower than 2008 (6.7 million MWh), with decreased output from the Poletti and Small Clean Power Plants offsetting an increase at the 500-MW plant.

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 2009.

The following is a summary of the Authority's balance sheet for 2009, 2008, and 2007:

Summary Balance Sheet
(In millions)

	2009	2008	2007	2009 vs. 2008	2008 vs. 2007
Current assets	\$ 1,375	1,475	1,370	(7)%	8%
Capital assets	3,711	3,737	3,773	(1)	(1)
Other noncurrent assets	2,224	1,795	1,865	24	(4)
Total assets	<u>\$ 7,310</u>	<u>7,007</u>	<u>7,008</u>	4	—
Current liabilities	\$ 964	895	830	8	8
Long-term liabilities	3,526	3,545	3,910	(1)	(9)
Total liabilities	4,490	4,440	4,740	1	(6)
Net assets	<u>2,820</u>	<u>2,567</u>	<u>2,268</u>	10	13
Total liabilities and net assets	<u>\$ 7,310</u>	<u>7,007</u>	<u>7,008</u>	4	—

The following summarizes the Authority's balance sheet variances for the years 2009 and 2008:

In 2009, current assets decreased by \$100 million (7%) to \$1,375 million primarily due to a \$119 million voluntary contribution to the State in January 2009. Capital assets decreased by \$26 million (1%) to \$3,711 million primarily due to annual depreciation (\$137 million) and a decrease in construction work in progress (\$13 million) partially offset by an increase in plant assets which includes Life Extension and Modernization programs at St. Lawrence and Blenheim-Gilboa (B-G) (\$124 million). Other noncurrent assets increased by \$429 million (24%) to \$2,224 million primarily due to the addition of the temporary asset transfer to New York State (\$318 million) (see note 11(g)) and an increase in the decommissioning fund (\$130 million). Current liabilities increased by \$69 million (8%) to \$964 million primarily due to increases in risk management obligations resulting from changes in fair market values related to the Authority's risk management and hedging transactions (\$32 million) and current maturities of long-term debt (\$27 million). Long-term liabilities decreased by \$19 million (1%) to \$3,526 million primarily due to decreases in long-term debt resulting from reclassifications to long-term debt due within one year (\$129 million) and other long-term liabilities (\$20 million) substantially offset by an increase in the nuclear plant decommissioning obligation (\$130 million). The increase in the nuclear plant decommissioning obligation reflects the increase in the market value of the decommissioning fund (i.e., the Authority's obligation is limited to no more than the amount in the decommissioning fund and therefore the liability increases or decreases to reflect the fair value of the decommissioning fund). (See note 10(c) for more information on decommissioning.) The changes in net assets for 2009 and 2008 are discussed in the Summary Statement of Revenues, Expenses and Changes in Net Assets in this Management Discussion and Analysis.

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

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(\$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 no more than 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).

Capital Asset and Long-Term Debt Activity

The Authority currently estimates that it will expend approximately \$1,159 million for various capital improvements over the five-year period 2010-2014. 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 (in millions):

Projects:

Transmission Reinforcement Project	\$	213
MA1 and MA2 Transmission Line Upgrade		206
Generating Plant Modernization Program (Blenheim-Gilboa (B-G), Lewiston Pump Generating Plant, St. Lawrence)		169
Relicensing Compliance/Implementation (B-G, Niagara, St. Lawrence)		70
Switchyard Modernization Program		68
Niagara Stator Rewind and Restack Project		49
Fleet		28
Niagara Warehouse		26
IT Initiatives		22
Storage Facility for the Niagara Ice Boom		16
Niagara 115 kV OCB Upgrade		13
Blenheim-Gilboa Spillway Capacity Remediation		11
Other (projects less than \$9 million)		268
	<u>\$</u>	<u>1,159</u>

In addition, the Authority's capital plan includes the provision of \$930 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 due to potential projects currently under review, there is a potential for significant increases in the capital expenditures indicated in the table above. Such additional capital expenditures would be subject to evaluation and trustee approval.

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 \$171 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

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for review of FERC's orders in the Court of Appeals for the District of Columbia Circuit. By decision dated March 13, 2009, the court denied the petition in all respects and the time to appeal that decision has expired.

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 therefore, 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 2 and 5 to the financial statements.

Capital Structure

	<u>2009</u>	<u>2008</u>	<u>2007</u>
		(In millions)	
Long-term debt:			
Senior:			
Revenue bonds	\$ 1,154	1,196	1,283
Adjustable rate tender notes	131	138	144
Subordinated:			
Subordinate revenue bonds		—	72
Commercial paper	330	410	394
Total long-term debt	<u>1,615</u>	<u>1,744</u>	<u>1,893</u>
Net assets	<u>2,820</u>	<u>2,567</u>	<u>2,268</u>
Total capitalization	<u>\$ 4,435</u>	<u>4,311</u>	<u>4,161</u>

During 2009, long-term debt, net of current maturities, decreased by \$129 million due to scheduled maturities.

During 2008, long-term debt, net of current maturities, decreased by \$149 million, due to scheduled maturities (\$102 million) and early extinguishments of debt (\$122 million) which included the February (\$47 million) and August 2008 (\$72 million) redemptions offset by a \$75 million increase in commercial paper classified as long-term debt. 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 of 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.

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Total Debt to Equity as of December 31, 2009, decreased to 0.72 to 1 from 0.83 to 1 as of December 31, 2008.

Debt Ratings

	<u>Moody's</u>	<u>Standard & Poor's</u>	<u>Fitch</u>
NYPA's underlying credit ratings:			
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 and 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	AA*

The Authority has a \$575 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 6 to the financial statements.

During 2008, many bond insurers lost their triple-A ratings. Additional downgrades of bond insurers occurred during 2009. Except for the one instance where S&P maintained the AAA rating of Assured Guaranty Municipal Corp (formerly Financial Security Assurance Inc.), the bond insurers' ratings are no longer above the Authority's underlying rating and/or are no longer rated. Consequently, the insured bonds carry the Authority's underlying rating denoted by an asterisk (*) after the rating set forth in the table above.

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.

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 – Energy Risk and Assessment 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 New York Independent System Operator (NYISO) energy markets. In addition, the Authority has also initiated the development of a program to more formally assess enterprise-wide risk across the Authority.

Economic Conditions

The Authority operates in a competitive and sometimes volatile market environment. Volatility in the energy market has, in previous years, unfavorably impacted the Authority in its role as a buyer and has resulted in higher costs of purchased power and fuel in its New York City (NYC) Governmental Customer and other market areas. The NYC Governmental Customer market cost situation has been mitigated by the cost recovery provisions in the long-term supplemental electricity supply agreements and generation from the 500-MW plant. Wholesale electricity prices, which declined towards the 2008 year-end reflecting weaknesses in the economy and in commodity prices, continued its decline in 2009 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.

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According to the National Bureau of Economic Research, a recession in the United States began in December 2007. In this environment, the Authority has continued to utilize its financial flexibility to support its mission and its customers. In response to the economic downturn's effects on New York's manufacturing sector, the Authority's Trustees in March 2009 approved execution of an agreement with Alcoa, Inc. to provide temporary relief from certain power sales contract provisions relating to the firm's Massena, New York manufacturing operations, including allowing Alcoa to release back to the Authority certain hydropower allocated to it, temporary waivers of certain minimum bill and employment thresholds, and entry into arrangements with the Authority for inclusion of a portion of Alcoa's load in the NYISO's demand response programs. In addition, in May 2009, the Authority's Trustees authorized a temporary program whereby up to \$10 million will be utilized to provide electric bill discounts for up to a year to businesses located in Jefferson, St. Lawrence, and Franklin counties. These counties constitute the geographic region served by the Authority's Preservation Power program. The source of the \$10 million is the net margin resulting from the sale of a portion of Alcoa's currently unused Preservation Power allocation into the NYISO markets. Further, in March 2009, the Authority's Trustees withdrew for 2009 (1) a proposed \$10 million hydropower rate increase for the Authority's municipal electric and rural cooperative customers, neighboring state municipal customers, upstate investor-owned utilities, and certain other customers that was scheduled to go into effect on May 1, 2009, and (2) a proposed \$5.3 million hydropower rate increase for the Authority's Replacement Power, Expansion Power, and certain other industrial customers that was scheduled to go into effect on May 1, 2009.

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 Authority's 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) it 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. In recent years, annual extensions of the Power for Jobs (PFJ) Program have been signed into law. The most recent in July 2009 (1) extends the PFJ Program, including the PFJ Rebate provisions, to May 15, 2010; (2) authorizes the Authority to make an additional voluntary contribution of \$12.5 million for the State Fiscal year 2009-2010 with the aggregate amount of such contributions increasing to \$461.5 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 proposed and the Legislature enacted budget legislation, which among other things, authorized the Authority, as deemed "feasible and advisable by its trustees" to make voluntary contribution payments of \$60 million and \$119 million during the remainder of State Fiscal Year 2008-2009 and \$107 million during State Fiscal Year 2009-2010. The Authority's Trustees authorized and the Authority paid the voluntary contributions of \$60 million and \$119 million in May 2008 and January 2009, respectively. With this \$119 million payment, a portion of which was related to the PFJ Program, the Authority has made voluntary contributions to the State totaling \$449 million in connection with the PFJ Program and \$130 million unrelated to the PFJ Program. The 2009 (\$70 million) and the 2008 (\$60 million) contributions to the State which are not related to the PFJ Program were recorded as a nonoperating expense in the 2009 and 2008 statements of revenues, expenses and changes in net assets, respectively.

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In addition to the authorization for the voluntary contributions, the Authority was requested to provide temporary transfers to the State of certain funds then held in reserves. Pursuant to the terms of a Memorandum of Understanding dated February 2009 (MOU) between the State, acting by and through the Director of Budget of the State, and the Authority, the Authority agreed 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 provides 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 provides for the Authority to transfer during State Fiscal Year 2009-2010 \$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 were established. In February 2009, the Authority's Trustees 1) authorized the execution of the MOU relating to the temporary transfers of Asset B (\$215 million) and Asset A (\$103 million); and such transfers were made in March 2009 and September 2009, respectively, following Trustee reaffirmation of such transfers; and 2) approved the payment of the voluntary contribution of \$107 million by March 31, 2010. The voluntary contribution of \$107 million will require Trustee reaffirmation that the release of such funds remains feasible and advisable prior to the actual date of the contribution.

The Authority classified 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 certain State park properties 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 approximately \$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, if made, will be reflected and classified as a contribution to New York State in the 2010 statement of revenues, expenses and changes in net assets.

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.

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Balance Sheets

December 31, 2009 and 2008

(In millions)

Assets	2009	2008
Current assets:		
Cash and cash equivalents	\$ 82	—
Investment in securities	828	955
Interest receivable on investments	7	8
Accounts receivable	192	188
Materials and supplies:		
Plant and general	82	84
Fuel	22	39
Miscellaneous receivables and other	162	201
Total current assets	<u>1,375</u>	<u>1,475</u>
Noncurrent assets:		
Restricted funds:		
Cash and cash equivalents	21	21
Investment in securities	1,016	892
Total restricted funds	<u>1,037</u>	<u>913</u>
Capital funds:		
Cash and cash equivalents	14	10
Investment in securities	178	214
Total capital funds	<u>192</u>	<u>224</u>
Capital assets:		
Capital assets not being depreciated	292	306
Capital assets, net of accumulated depreciation	3,419	3,431
Total capital assets	<u>3,711</u>	<u>3,737</u>
Other noncurrent assets:		
Unamortized debt expense	16	18
Deferred regulatory assets – hedging	155	111
Due from New York State	318	—
Deferred charges, long-term receivables and other	424	434
Notes receivable – nuclear plant sale	82	95
Total other noncurrent assets	<u>995</u>	<u>658</u>
Total noncurrent assets	<u>5,935</u>	<u>5,532</u>
Total assets	<u>\$ 7,310</u>	<u>7,007</u>

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Balance Sheets

December 31, 2009 and 2008

(In millions)

Liabilities and Net Assets	2009	2008
Current liabilities:		
Accounts payable and accrued liabilities	\$ 391	397
Short-term debt	289	273
Long-term debt due within one year	129	102
Risk management obligations	155	123
Total current liabilities	<u>964</u>	<u>895</u>
Noncurrent liabilities:		
Long-term debt:		
Senior:		
Revenue bonds	1,154	1,196
Adjustable rate tender notes	131	138
Subordinated:		
Commercial paper	330	410
Total long-term debt	<u>1,615</u>	<u>1,744</u>
Other noncurrent liabilities:		
Liability to decommission divested nuclear facilities	942	812
Disposal of spent nuclear fuel	216	216
Relicensing	331	357
Deferred credits and other	422	416
Total other noncurrent liabilities	<u>1,911</u>	<u>1,801</u>
Total noncurrent liabilities	<u>3,526</u>	<u>3,545</u>
Total liabilities	<u>4,490</u>	<u>4,440</u>
Net assets:		
Invested in capital assets, net of related debt	1,717	1,685
Restricted	38	41
Unrestricted	1,065	841
Total net assets	<u>2,820</u>	<u>2,567</u>
Total liabilities and net assets	<u>\$ 7,310</u>	<u>7,007</u>

See accompanying notes to financial statements.

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Statements of Revenues, Expenses, and Changes in Net Assets

Years ended December 31, 2009 and 2008

(In millions)

	<u>2009</u>	<u>2008</u>
Operating revenues:		
Power sales	\$ 2,014	2,643
Transmission charges	145	154
Wheeling charges	436	388
Total operating revenues	<u>2,595</u>	<u>3,185</u>
Operating expenses:		
Purchased power	905	1,242
Operations	324	357
Fuel oil and gas	366	615
Maintenance	114	99
Wheeling	436	388
Depreciation	164	173
Total operating expenses	<u>2,309</u>	<u>2,874</u>
Operating income	<u>286</u>	<u>311</u>
Nonoperating revenues and expenses:		
Nonoperating revenues:		
Investment income	32	80
Other income	100	84
Total nonoperating revenues	<u>132</u>	<u>164</u>
Nonoperating expenses:		
Contributions to New York State	70	60
Interest on long-term debt	82	99
Interest – other	21	26
Interest capitalized	(5)	(5)
Amortization of debt premium	(3)	(4)
Total nonoperating expenses	<u>165</u>	<u>176</u>
Nonoperating loss	<u>(33)</u>	<u>(12)</u>
Net income and change in net assets	253	299
Net assets at January 1	<u>2,567</u>	<u>2,268</u>
Net assets at December 31	<u>\$ 2,820</u>	<u>2,567</u>

See accompanying notes to financial statements.

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Statements of Cash Flows

Years ended December 31, 2009 and 2008

(In millions)

	2009	2008
Cash flows from operating activities:		
Received from customers for the sale of power, transmission and wheeling	\$ 2,594	3,204
Disbursements for:		
Purchased power	(915)	(1,239)
Operations and maintenance	(401)	(516)
Fuel oil and gas	(357)	(626)
Wheeling of power by other utilities	(430)	(375)
Net cash provided by operating activities	491	448
Cash flows from capital and related financing activities:		
Earnings received on capital fund investments	6	8
Sale of commercial paper	142	250
Repayment of notes	(6)	(6)
Retirement of bonds	(37)	(229)
Repayment of commercial paper	(197)	(185)
Gross additions to capital assets	(93)	(142)
Interest paid, net	(81)	(92)
Net cash used in capital and related financing activities	(266)	(396)
Cash flows from noncapital – related financing activities:		
Energy conservation program payments received from participants	111	92
Energy conservation program costs	(116)	(86)
Sale of commercial paper	123	133
Repayment of commercial paper	(107)	(129)
Interest paid on commercial paper	(2)	(7)
Other Postemployment Benefits (OPEB) funding	—	(125)
Contributions to New York State	(119)	(60)
Temporary asset transfer to New York State	(318)	—
Entergy value sharing agreement	72	72
Entergy notes receivable	30	30
Net cash used in noncapital – related financing activities	(326)	(80)
Cash flows from investing activities:		
Earning received on investments	38	57
Purchase of investment securities	(4,329)	(8,385)
Sale of investment securities	4,478	8,326
Net cash provided by (used in) investing activities	187	(2)
Net increase (decrease) in cash	86	(30)
Cash and cash equivalents, January 1	31	61
Cash and cash equivalents, December 31	\$ 117	31
Reconciliation to net cash provided by operating activities:		
Operating income	\$ 286	311
Adjustments to reconcile operating income to net cash provided by operating activities:		
Provision for depreciation	164	173
Change in assets and liabilities:		
Net increase in prepayments and other	(29)	(126)
Net decrease in receivables and inventory	15	2
Net increase in accounts payable and accrued liabilities	55	88
Net cash provided by operating activities	\$ 491	448

See accompanying notes to financial statements.

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(1) General

The Power Authority of the State of New York (Authority), doing business as The New York Power 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.

(2) Summary of Significant Accounting Policies

The Authority's significant accounting policies include the following:

(a) General

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 nongovernmental entities (i.e., Accounting Standards Codification (ASC) of the Financial Accounting Standards Board) that do not conflict with GASB pronouncements. The Authority also applies the standard that allows utilities to capitalize or defer certain costs or revenues based on management's ongoing assessment that it is probable these items will be recovered or reflected in the rates charged for electricity. The operations of the Authority are presented as an enterprise fund following the accrual basis of accounting in order to recognize the flow of economic resources. Under this basis, revenues are recognized in the period in which they are earned and expenses are recognized in the period in which they are incurred.

(b) Accounting for the Effects of Rate Regulation

The Authority is subject to the provisions of ASC Topic 980, Regulated Operations (FAS No. 71, Accounting for the Effects of Certain Types of Regulation). These provisions recognize the economic ability of regulators, through the ratemaking process, to create future economic benefits and obligations affecting rate-regulated companies. Accordingly, the Authority records these future economic benefits and obligations as regulatory assets and regulatory liabilities, respectively.

Regulatory assets represent probable future revenues associated with previously incurred costs that are expected to be recovered from customers. Regulatory liabilities represent probable future reductions in revenues associated with amounts that are expected to be refunded to customers through the ratemaking process.

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In order for a rate-regulated entity to continue to apply the provisions of ASC Topic 980, it must continue to meet the following three criteria: (1) the enterprise's rates for regulated services provided to its customers must be established by an independent third-party regulator or its own governing board empowered by a statute to establish rates that bind customers; (2) the regulated rates must be designed to recover the specific enterprise's costs of providing the regulated services; and (3) in view of the demand for the regulated services and the level of competition, it is reasonable to assume that rates set at levels that will recover the enterprise's costs can be charged to and collected from customers.

Based upon the Authority's evaluation of the three criteria discussed above in relation to its operations, and the effect of competition on its ability to recover its costs, the Authority believes that the provisions of ASC Topic 980 continue to apply.

The Authority estimates that the impact would not be material if the Authority had been unable to continue to apply this standard, as of December 31, 2009.

(c) Estimates

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.

(d) Capital Assets

Capital assets are recorded 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. Depreciation of capital assets is generally provided on a straight-line basis over the estimated lives of the various classes of capital assets.

The related depreciation provisions at December 31, 2009 and 2008 expressed as a percentage of average depreciable capital assets on an annual basis are:

	Average depreciation rate	
	2009	2008
Type of plant:		
Production:		
Hydro	1.8%	1.8%
Gas turbine/combined cycle	3.6	3.5
Transmission	2.7	2.8
General	3.6	3.4
	<u>2.6%</u>	<u>2.8%</u>

(e) Asset Retirement Obligation

The Authority applies the applicable provisions of ASC Topic 410 Asset Retirement and Environmental Obligations (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

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Small Clean Power Plants 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.

ASC Topic 410 does not apply to asset retirement obligations involving pollution remediation obligations are 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 2009 or 2008.

In addition to asset retirement obligations, the Authority has other cost of removal obligations that are being collected from customers and accounted for under the provisions of ASC Topic 980 that as of December 31, 2009 and 2008 were approximately \$216 million and \$208 million, respectively, and are recorded in other noncurrent liabilities on the balance sheet.

Asset retirement obligations (ARO) and cost of removal obligation amounts included in other noncurrent liabilities are as follows:

	ARO amounts	Cost of removal obligation
	(In millions)	
Balance – December 31, 2008	\$ 20	208
Depreciation expense	1	8
Balance – December 31, 2009	\$ 21	216

(f) Long Lived Assets

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.

(g) Cash, Cash Equivalents and Investments

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. 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*.

(h) Derivative Instruments

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. ASC Topic 815, *Derivatives and Hedging* (FAS No. 133, *Accounting for Derivatives and Certain Hedging Activities*, as amended) establishes accounting and reporting requirements for derivative

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instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. 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.

(i) Accounts Receivable

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

(j) Materials and Supply Inventory

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.

(k) Deferred Charges

At December 31, 2009 and 2008, deferred charges include \$108 million and \$124 million, respectively, of energy services program costs. In addition, the deferred charges relating to the fair value of derivatives are included in this classification. See note 2(h) above and note 8 for more detailed information. These deferred costs will be recovered from certain customers through the terms of contracts.

(l) Deferred Debt Refinancing Charges

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*.

(m) Compensated Absences

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.

(n) Net Assets

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. 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.

(o) Revenues

Revenues are recorded when power is delivered or 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 53% and 42% of the Authority's operating

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revenues in 2009 and 2008, respectively. The Authority distinguishes operating revenues and expenses from nonoperating 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, operations and 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 nonoperating income and expenses.

(p) Reclassifications

Certain prior year amounts have been reclassified to conform with the current year's presentation. These reclassifications had no effect on net income and changes in net assets.

(3) 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 there for (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.

(4) 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.

(a) 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. debt instruments are issued or explicitly guaranteed by the U.S. government.

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(b) 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.

(c) 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, 2009, \$234 million (11%), \$227 million (11%), \$197 million (9%) and \$193 million (9%) of the Authority's investments were in securities of Federal Home Loan Bank (FHLB), Federal Farm Credit Bank (FFCB), Federal Home Loan Mortgage Corp. (FHLMC) and Federal National Mortgage Association (FNMA or Fannie Mae), respectively.

(d) Decommissioning Fund

The Decommissioning Trust Fund is managed by external investment portfolio managers. Under the Decommissioning Agreements (see note 10), 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 held within the Trust Estate of the Bond Resolution and therefore is administered under separate investment guidelines from those of the Authority or New York State.

(e) Other

All investments are held by designated custodians in the name of the Authority. At December 31, 2009 and 2008, the Authority had investments in repurchase agreements of \$72 million and \$4.0 million, respectively. The bank balances were \$43.7 million and \$22.8 million, respectively, of which \$43.2 million and \$22.3 million, respectively, were uninsured, but were collateralized by assets held by the bank in the name of the Authority.

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Cash and Investments of the Authority at December 31, 2009 and 2008, are as follows:

December 31, 2009	Total	Total restricted	Decommissioning Trust Fund	Restricted	ART note debt reserve	Capital fund	Unrestricted
				POCR and CAS projects and other (In millions)			
Cash and investments:							
Cash and equivalents	\$ 117	21	—	21	—	14	82
U.S. government/agencies:							
Treasury bills	52	52	—	52	—	—	—
GNMA	39	—	—	—	—	—	39
	91	52	—	52	—	—	39
Other debt securities:							
FNMA	193	5	—	—	5	10	178
FHLMC	197	—	—	—	—	16	181
FHLB	234	9	—	—	9	48	177
FFCB	227	—	—	—	—	55	172
All other	138	8	—	1	7	49	81
	989	22	—	1	21	178	789
Portfolio Manager	942	942	942	—	—	—	—
Total investments	2,022	1,016	942	53	21	178	828
	\$ 2,139	1,037	942	74	21	192	910

December 31, 2009	Total	Total restricted	Decommissioning Trust Fund	Restricted	ART note debt reserve	Capital fund	Unrestricted
				POCR and CAS projects and other (In millions)			
Summary of maturities (years):							
0-1	\$ 301	74	—	74	—	54	173
1-5	679	21	—	—	21	101	557
5-10	110	—	—	—	—	10	100
10+	107	—	—	—	—	27	80
Portfolio manager	942	942	942	—	—	—	—
	\$ 2,139	1,037	942	74	21	192	910

Petroleum Overcharge Restitution (POCR) Funds and Clean Air for Schools (CAS) Projects Funds – Legislation enacted into State law from 1995 to 2002, 2007 and 2008 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.

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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 funding for the projects allowed the conversion of 80 schools by the end of 2009. As of December 31, 2009, restricted funds include the POCR fund (\$19 million), the CAS Projects fund (\$10 million), the Lower Manhattan Energy Independence Initiative fund (\$23 million) and the Fish & Wildlife Habitat Enhancement fund related to the Niagara relicensing costs (\$17 million).

<u>December 31, 2008</u>	<u>Total</u>	<u>Total restricted</u>	<u>Decommissioning Trust Fund</u>	<u>Restricted POCR and CAS projects and other (In millions)</u>	<u>ART note debt reserve</u>	<u>Capital fund</u>	<u>Unrestricted</u>
Cash and investments:							
Cash and equivalents	\$ 31	21	—	21	—	10	—
U.S. government/agencies:							
Treasury bills	60	60	—	60	—	—	—
Treasury notes	—	—	—	—	—	—	—
GNMA	43	—	—	—	—	—	43
	<u>103</u>	<u>60</u>	<u>—</u>	<u>60</u>	<u>—</u>	<u>—</u>	<u>43</u>
Other debt securities:							
FNMA	380	—	—	—	—	28	352
FHLMC	85	5	—	—	5	19	61
FHILB	275	9	—	—	9	45	221
FFCB	278	—	—	—	—	75	203
All other	124	6	—	—	6	47	71
	<u>1,142</u>	<u>20</u>	<u>—</u>	<u>—</u>	<u>20</u>	<u>214</u>	<u>908</u>
Repurchase agreements	4	—	—	—	—	—	4
Portfolio Manager	812	812	812	—	—	—	—
Total investments	<u>2,061</u>	<u>892</u>	<u>812</u>	<u>60</u>	<u>20</u>	<u>214</u>	<u>955</u>
	<u>\$ 2,092</u>	<u>913</u>	<u>812</u>	<u>81</u>	<u>20</u>	<u>224</u>	<u>955</u>
Summary of maturities (years):							
0 – 1	\$ 282	81	—	81	—	49	152
1 – 5	747	20	—	—	20	131	596
5 – 10	131	—	—	—	—	14	117
10+	120	—	—	—	—	30	90
Portfolio manager	812	812	812	—	—	—	—
	<u>\$ 2,092</u>	<u>913</u>	<u>812</u>	<u>81</u>	<u>20</u>	<u>224</u>	<u>955</u>

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Capital Assets

The following schedule summarizes the capital assets activity of the Authority for the year ended December 31, 2009:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending balance</u>
	(Amounts in millions)			
Capital assets, not being depreciated:				
Land	\$ 148	—	—	148
Construction in progress	158	131	(145)	144
Total capital assets not being depreciated	<u>306</u>	<u>131</u>	<u>(145)</u>	<u>292</u>
Capital assets, being depreciated:				
Production – Steam	436	1	—	437
Production – Hydro	1,622	81	(14)	1,689
Production – Gas turbine/combined cycle	1,225	11	—	1,236
Transmission	1,729	21	(1)	1,749
General	1,011	28	(2)	1,037
Total capital assets not being depreciated	<u>6,023</u>	<u>142</u>	<u>(17)</u>	<u>6,148</u>
Less accumulated depreciation for:				
Production – Steam	436	—	—	436
Production – Hydro	603	26	(15)	614
Production – Gas turbine/combined cycle	398	50	—	448
Transmission	869	42	(1)	910
General	286	37	(2)	321
Total accumulated depreciation	<u>2,592</u>	<u>155</u>	<u>(18)</u>	<u>2,729</u>
Net value of capital assets, being depreciated	<u>3,431</u>	<u>(13)</u>	<u>1</u>	<u>3,419</u>
Net value of all capital assets	<u>\$ 3,737</u>	<u>118</u>	<u>(144)</u>	<u>3,711</u>

The following schedule summarizes the capital assets activity of the Authority for the year ended December 31, 2008:

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	<u>Beginning balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending balance</u>
	(Amounts in millions)			
Capital assets, not being depreciated:				
Land	\$ 147	1	—	148
Construction in progress	124	127	(93)	158
	<u>271</u>	<u>128</u>	<u>(93)</u>	<u>306</u>
Total capital assets not being depreciated				
Capital assets, being depreciated:				
Production – Steam	436	—	—	436
Production – Hydro	1,592	36	(6)	1,622
Production – Gas turbine/combined cycle	1,224	23	(22)	1,225
Transmission	1,720	11	(2)	1,729
General	971	43	(3)	1,011
	<u>5,943</u>	<u>113</u>	<u>(33)</u>	<u>6,023</u>
Total capital assets being depreciated				
Less accumulated depreciation for:				
Production – Steam	423	13	—	436
Production – Hydro	584	25	(6)	603
Production – Gas turbine/combined cycle	354	49	(5)	398
Transmission	826	43	—	869
General	254	33	(1)	286
	<u>2,441</u>	<u>163</u>	<u>(12)</u>	<u>2,592</u>
Total accumulated depreciation				
Net value of capital assets, being depreciated	<u>3,502</u>	<u>(50)</u>	<u>(21)</u>	<u>3,431</u>
Net value of all capital assets	<u>\$ 3,773</u>	<u>78</u>	<u>(114)</u>	<u>3,737</u>

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(5) Long-Term Debt

(a) Components

	Amount		Interest rate	Maturity	Earliest redemption date prior to maturity
	2009	2008			
	(In millions)				
Senior debt					
Revenue Bonds:					
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 2002 A Revenue Bonds:					
Serial Bonds	145	168	3.00% to 5.00%	11/15/2010 to 2022	11/15/2012
Series 2003 A Revenue Bonds:					
Serial Bonds	19	23	4.25% to 4.83%	11/15/2010 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	144	154	3.375% to 5.0%	11/15/2010 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 and 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
	1,174	1,211			
Plus unamortized premium and discount	25	29			
Less deferred refinancing costs	6	7			
	1,193	1,233			
Less due in one year	39	37			
	\$ 1,154	1,196			

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	Amount		Interest rate	Maturity	Earliest redemption date prior to maturity
	2009	2008			
	(In millions)				
Adjustable Rate Tender Notes:					
2016 Notes	\$ 63	69	0.4%	3/1/2016	Any adjustment date
2020 Notes	75	75	0.4	3/1/2020	Same as above
	138	144			
Less due in one year	7	6			
	131	138			
Subordinate debt:					
Commercial Paper:					
EMPC (Series 1)	149	85	1.83%	2010 to 2025	
CP (Series 2)	196	314	1.69	2010 to 2015	
CP (Series 3)	68	70	1.85	2010 to 2025	
	413	469			
Less due within one year	83	59			
	330	410			
Total Long-term debt	1,744	1,846			
Less due within one year	129	102			
Long-term debt, net of due in one year	\$ 1,615	1,744			

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

Senior Debt

As indicated in note 3, "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 interest remaining to be paid on the Senior Debt is \$2.3 billion. Principal and interest paid for 2009 and operating income plus depreciation were \$108 million and \$450 million, respectively.

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 above, at principal amount or at various redemption prices according to the date of redemption, together with accrued interest to the redemption date.

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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, 2009 and 2008, \$315 million and \$437 million, respectively, of outstanding bonds were considered defeased.

The Adjustable Rate Tender 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 \$138 million for the purpose of repaying, redeeming or purchasing the Notes. The Agreement provides for interest on outstanding borrowings (none outstanding at December 31, 2009 or 2008) 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 7 for the Authority's risk management program relating to interest rates.

At December 31, 2009 and 2008, the current market value of the senior debt was approximately \$1.20 billion and \$1.21 billion, respectively. Market values were obtained from a third party that utilized a matrix-pricing model.

Subordinate Debt – Commercial Paper

Under the Extendable 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 2010 to 2025, as indicated in the table above.

The Authority has a line of credit under a revolving credit agreement (the 2008 RCA) to provide liquidity support for the Series 1-3 CP Notes, with a syndicate of banks, providing \$575 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 facility for the EMCP Note.

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.

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

Long-Term Debt Maturities and Interest Expense

Year:	Principal	Interest	Total
	(In millions)		
2010	\$ 129	63	192
2011	121	61	182
2012	81	59	140
2013	97	57	154
2014	98	54	152
2015 – 2019	446	228	674
2020 – 2024	267	155	422
2025 – 2029	107	122	229
2030 – 2034	123	89	212
2035 – 2039	96	60	156
2040 – 2044	98	29	127
2045 – 2047	62	6	68
	<u>1,725</u>	<u>983</u>	<u>2,708</u>
Plus unamortized bond premium	25	—	25
Less deferred refinancing cost	<u>6</u>	<u>—</u>	<u>6</u>
	<u>\$ 1,744</u>	<u>983</u>	<u>2,727</u>

The interest rate used to calculate future interest expense on variable rate debt is the interest rate at December 31, 2009.

(b) 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 adjustment 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. On July 28, 2009, the Authority approved an amendment to its 2002 EMCP Resolution revising the reset rate formula as well as capping such rate at 12%, applicable only to Series 1 Notes issued on or after October 29, 2009. If the Authority exercises its option to extend the maturity of the EMCP Notes, the reset rate will be the higher of (SIFMA + E) or F, where SIFMA is the Securities Industry and Financial Markets Association Municipal Swap Index, which is calculated weekly, and where "E" and "F" are fixed percentage rates expressed in basis points (each basis point being 1/100 of one percent) and yields, respectively, that are determined based on the Authority's debt ratings. As of December 31, 2009, the reset rate would have been 7.33%.

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(c) Changes in Long-Term Liabilities

Changes in the Authority's long-term liabilities for the year ended December 31, 2009 are comprised of the following:

	Beginning balance	Additions	Maturities/ refundings and other	Ending balance	Due within one year
	(Amounts in millions)				
Senior debt:					
Revenue bonds	\$ 1,211	—	37	1,174	39
Adjustable rate tender bonds	144	—	6	138	7
Subtotal	1,355	—	43	1,312	46
Subordinate debt:					
Commercial paper	469	3	59	413	83
Subtotal	469	3	59	413	83
Net unamortized discounts/ premiums and deferred losses	22	—	3	19	—
Total debt, net of unamortized discounts/ premiums/ deferred losses	\$ 1,846	3	105	1,744	129
Other long-term liabilities:					
Nuclear decommissioning	\$ 812	130	—	942	—
Disposal of nuclear fuel	216	—	—	216	—
Deferred revenues and other	773	11	31	753	—
Total other long-term liabilities	\$ 1,801	141	31	1,911	—

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Changes in the Authority's long-term liabilities for the year ended December 31, 2008 are comprised of the following:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Maturities/ refundings and other</u>	<u>Ending balance</u>	<u>Due within one year</u>
	(Amounts in millions)				
Senior debt:					
Revenue bonds	\$ 1,365	—	154	1,211	37
Adjustable rate tender bonds	150	—	6	144	6
Subtotal	<u>1,515</u>	<u>—</u>	<u>160</u>	<u>1,355</u>	<u>43</u>
Subordinate debt:					
Subordinate revenue bonds	75	—	75	—	—
Commercial Paper	404	71	6	469	59
Subtotal	<u>479</u>	<u>71</u>	<u>81</u>	<u>469</u>	<u>59</u>
Net unamortized discounts/ premiums and deferred losses	<u>29</u>	<u>—</u>	<u>7</u>	<u>22</u>	<u>—</u>
Total debt, net of unamortized discounts/ premiums/ deferred losses	<u>\$ 2,023</u>	<u>71</u>	<u>248</u>	<u>1,846</u>	<u>102</u>
Other long-term liabilities:					
Nuclear decommissioning	\$ 979	—	167	812	—
Disposal of nuclear fuel	211	5	—	216	—
Deferred revenues and other	827	12	66	773	—
Total other long-term liabilities	<u>\$ 2,017</u>	<u>17</u>	<u>233</u>	<u>1,801</u>	<u>—</u>

(6) Short-Term Debt

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

	<u>December 31</u>			
	<u>2009</u>		<u>2008</u>	
	<u>Availability</u>	<u>Outstanding</u>	<u>Availability</u>	<u>Outstanding</u>
	(In millions)			
CP Notes (Series 1)	\$ 400	289	400	273

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

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the date of issue, up to a maximum amount outstanding at any time of \$400 million (Series 1 CP Notes). See note 6 – 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 for other corporate purposes.

The changes in short-term debt are as follows:

Year:	<u>Beginning balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending balance</u>
	(In millions)			
2008	\$ 268	133	128	273
2009	273	123	107	289

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.

(7) Risk Management and Hedging Activities

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. Insured losses by the Authority did not exceed coverage for any of the three preceding fiscal years. The Authority self-insures a certain amount of its general liability coverage and the physical damage claims for its owned and leased vehicles. The Authority is also self-insured for its health, dental and workers' compensation insurance programs. In addition, the Authority pursues subrogation claims against any entities that cause damage to its property.

In addition to insurance, which is described above, 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 derivative instruments.

The fair values of all Authority derivative instruments are reported in current assets or liabilities on the balance sheet. Changes in fair value of derivative instruments designated as hedges or governmental support contracts are deferred in other noncurrent assets and liabilities as regulatory assets or liabilities. Changes in fair value of derivative instruments designated as hedges and not qualifying for deferral are charged or credited to the related operating or nonoperating expenses or operating revenues in the statement of revenues, expenses and changes in net assets.

The fair value of interest rate swap contracts take into consideration the prevailing interest rate environment and the specific terms and conditions of each contract. The fair values were estimated using the zero-coupon discounting method. The fair value of the interest rate option contracts were measured using an option pricing model that considers probabilities, volatilities, time, underlying prices, and other variables. The fair value for over-the-counter energy, renewable energy and natural gas transportation contracts are determined by the monthly market prices over the lifetime of each outstanding contract using the latest end-of-trading-month forward prices published by Platts or derived from pricing models based upon Platt's prices.

The Authority's policy regarding the creditworthiness of counterparties for interest rate derivative contracts is defined in the Bond Resolution. It requires that such counterparties achieve at least the third highest rating category for each appropriate rating agency maintaining a rating for qualified swap providers.

It is the Authority's policy to evaluate counterparties to commodity derivative contracts considering the market segment, financial ratios, agency and market implied ratings and other factors. In addition for certain counterparties the Authority may require a two way credit support agreement that require collateral such as parental guarantees, letters of credit or margin calls.

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Based upon the fair values as of December 31, 2009 the Authority's individual or aggregate exposure to derivative contract counterparty credit risk is not significant.

The following table shows the fair value and net settlement amounts of derivatives contracts for 2009 and 2008:

Fair Value and Settlements of Derivative Contracts								
Description hedge/ investment	Fair value balance	Net settlements receipts/ (payments)	Fair value balance	Net settlements receipts/ (payments)	Type of transaction	Accounting	Notional amount	Volume
	December 31 2009	2009	December 31 2008	2008			December 31, 2009	
(In millions)								
Interest rate contracts:								
Series 2 CPNotes (2)	\$ (11.9)	(9.4)	(18.6)	(7.1)	Interest Rate Swap Cash Flow	Deferred Regulatory Asset (1)	\$ 194.0	—
ART Notes (3)	(10.5)	(3.7)	(16.4)	(2.0)	Interest Rate Swap Cash Flow	Deferred Regulatory Asset (1)	138.0	—
Series 1 CPNotes (4)	—	—	0.1	—	Interest Rate Cap Cash Flow	Deferred Regulatory Asset (1)	300.0	—
Energy contracts:								
Power for Jobs Program (5)	0.1	(1.0)	(0.3)	(2.7)	Energy Swap Cash Flow	Deferred Regulatory Liability (1)	33,144.0	MWh
SENY Service Load (6)	(8.2)	(183.3)	(85.7)	11.3	Energy Swap Cash Flow	Deferred Regulatory Asset (1)	3,270,800.0	MWh
SENY Service Revenue (7)	—	128.9	83.2	(14.8)	Energy Swap Cash Flow	Deferred Regulatory Asset (1)	—	—
Economic Cost Savings Benefits (8)	1.8	(0.4)	(8.9)	(6.4)	Energy Swap Cash Flow	Expensed - Purchased Power	321,900.0	MWh
Power for Jobs Rebate Program (9)	—	(4.1)	(3.4)	(2.1)	Energy Swap Cash Flow	Expensed - Purchased Power	—	—
SENY Customer Load (10)	(12.5)	(21.1)	(7.1)	(5.2)	Energy Swap Cash Flow	Deferred Regulatory Asset (1)	819,200.0	MWh
SENY Customer Load (11)	(42.9)	—	—	—	Energy Swap Cash Flow	Deferred Regulatory Asset (1)	8,548,800.0	MWh
SENY Customer Load (12)	(28.5)	—	—	—	Energy Swap Cash Flow	Deferred Regulatory Asset (1)	6,574,200.0	MWh
Renewable energy contracts:								
SENY Renewable Energy (13)	(40.7)	(5.1)	(10.2)	(1.0)	Energy Swap	Deferred Asset - Contractual Recovery (1)	1,431,786.0	MWh
Fuel and fuel related contracts:								
Poletti Fuel Requirements (14)	—	(73.0)	(49.6)	6.3	NYMEX Futures Cash Flow	Deferred Regulatory Asset (1)	—	—
Natural Gas Transportation (15)	—	(6.6)	(6.2)	(1.4)	Basis Swap Cash Flow	Deferred Regulatory Asset (1)	—	—
Total derivatives \$	<u>(153.3)</u>	<u>(178.8)</u>	<u>(123.1)</u>	<u>(25.1)</u>				

- (1) The Authority anticipates the recovery or distribution of and net settlements (net liquidations in case of NYMEX future contracts) through customer rates or specific contractual agreements with customers.
- (2) In 1998, the Authority entered into forward interest rate swaps to fix rates on long-term obligations initially issued to refinance \$268.2 million of Series 1998 B Revenue Bonds required to be tendered in the years 2002 (the 2002 Swaps). Based upon the terms of these forward interest rate swaps, the Authority would pay interest calculated at a fixed rate of 5.1% 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. On November 15, 2002 the

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Authority completed the mandatory payment on the Series 1998 B Revenue Bonds from the proceeds of the issuance of Series 2 CP Notes. The 2002 Swaps became active on November 15, 2002.

- (3) In 2006 the Authority entered into a forward interest rate swap with the objective of fixing the 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% on the initial notional amount of \$156 million. In return, the counterparty pays interest to the Authority based upon 67% of the six-month LIBOR established on the reset dates that coincide with the ART Notes interest rate reset dates.
- (4) In 2007, an interest rate cap was purchased with the objective of limiting exposure to rising interest rates relating to the Series 1 CP Notes at a premium cost of \$0.035 million. The interest rate for the Series 1 CP Notes is capped at 5.9% and is based upon the SIFMA Index for a notional amount (\$300 million) through August 15, 2010.
- (5) The objective of these short-term energy swaps is to fix the price of purchases of energy in the NYISO electric market to meet short-term forecasted load requirements for the Authority's Power for Jobs program. These short-term energy swaps purchased in 2009 and 2008 terminate in less than one year.
- (6) The objective of these short-term energy swaps was to fix the cost of energy purchases in the NYISO electric market to the benefit of the Authority's NYC Governmental Customers. These short-term energy swaps purchased in 2009 and 2008 terminate in less than two years.
- (7) The objective of these short-term energy swaps was, in conjunction with NYMEX gas futures contracts to operate the 500 MW plant, to fix the margin between the prices of sales of energy in the NYISO electric market and purchases of natural gas to the benefit of the Authority's NYC Governmental Customers. These short-term energy swaps sold in 2009 and 2008 terminate in less than two year.
- (8) The objective of these short-term energy swaps is to fix the price of power to meet the forecasted load requirements of certain Economic Development Cost Saving Benefits program (ECSB) customers. These short-term energy swaps purchased in 2009 and 2008 terminate in less than one year and were designed as cash flow hedges. Since it is anticipated that net settlements will not be passed through to customers the changes in fair value are reflected in the current period purchase power expenses.
- (9) The objective of these short-term energy swaps is to fix the price of power to meet the forecasted load requirements for certain Power for Jobs customers that opted to leave the program. These short-term energy swaps purchased in 2008 terminated in less than one year.
- (10) 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.
- (11) On October 1, 2009, the Authority entered into the first of two long-term forward energy swaps to fix the cost of energy to meet certain long-term customer load requirements between 2010 and 2012.
- (12) On October 1, 2009, the Authority entered into the second of two long-term forward energy swaps to fix the cost of energy to meet certain long-term customer load requirements between 2011 and 2014.
- (13) In 2006, the Authority entered into long-term forward energy swaps and purchase agreements based upon a portion of the generation of the counterparties' wind-farm-power-generating facilities between 2008 and 2017. The fixed price includes the purchase of related environmental attributes. The intent of the swaps and purchase agreements is to assist specific governmental customers in acquiring and investing in such environmental attributes to satisfy certain New York State mandates to support renewable energy.
- (14) In 2009 and 2008, the Authority purchased a number of NYMEX natural gas futures contracts with the objective, in conjunction with the sale of energy swaps, to fix the margin between the prices of purchases of natural gas to operate the 500 MW facility and sales of energy in the NYISO electric market to the benefit of the Authority's NYC Governmental Customers. These NYMEX natural gas futures contracts liquidate in less than two years.

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- (15) In 2009 and 2008 the Authority entered into a number of natural gas basis swaps with the objective to fix natural gas pipeline transportation costs to the New York City Gate. These natural gas basis swaps terminate in less than two years.

(8) Pension Plans, Other Postemployment Benefits, Deferred Compensation and Savings Plans

(a) Pension Plans

The Authority and substantially all of the Authority's employees participate in the New York State and Local Employees' Retirement System (ERS) and the Public Employees' Group Life Insurance Plan (the Plan). These are cost-sharing, multiple-employer defined benefit retirement plans. The ERS and the Plan provide retirement benefits as well as death and disability benefits. Obligations of employers and employees to contribute and benefits to employees are governed by the New York State Retirement and Social Security Law (NYSRSSL). As set forth in the NYSRSSL, the Comptroller of the State of New York (Comptroller) serves as sole trustee and administrative head of the ERS and the Plan. The Comptroller adopts and may amend rules and regulations for the administration and transaction of the business of the ERS and the Plan, and for the custody and control of their funds. The ERS and the Plan issue a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the New York State and Local Employees' Retirement System, 110 State Street, Albany, NY 12236.

The ERS is noncontributory except for employees who joined the ERS after July 27, 1976 and have less than ten years of service and, therefore, contribute 3% of their salary. Under new legislation, employees who join the ERS on or after January 1, 2010 contribute 3% of their salary during their entire length of service. Under the authority of the NYSRSSL, the Comptroller shall certify annually the rates expressed as proportions of payroll of members, which shall be used in computing the contributions required to be made by employers to the pension accumulation fund.

The Authority is required to contribute at an actuarially determined rate. The required contributions for 2009, 2008 and 2007 were \$9.6 million, \$11.8 million and \$12.3 million, respectively. The Authority's contributions made to the ERS were equal to 100% of the contributions required for each year.

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

(b) 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 noncontributory (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, 3,800 participants including 1,600 current employees, and 2,200 retired and/or spouses of retired employees were eligible to receive these benefits at December 31, 2009. The Authority's post-retirement health care trust does not issue a stand-alone financial report.

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. Plan members are not required to contribute. No contribution was made in 2009. For 2008 and 2007, the Authority contributed \$125 million and \$100 million, respectively. These contributions represent 0%, 390% and 270% of the annual OPEB cost for each of these years. The Authority will continue to evaluate the performance of the trust fund before making decisions on additional actions.

The Authority's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The Authority is amortizing the unfunded actuarial liability over a closed 20-year period. The following table shows the

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components of the Authority's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the Authority's net OPEB obligation (dollar amounts in millions)

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Annual OPEB cost:			
Annual required contribution (ARC):			
Normal cost	\$ 7	6	6
Amortization payment	13	25	32
Interest to the end of the year	1	2	3
Total	<u>21</u>	<u>33</u>	<u>41</u>
ARC adjustment	8	(4)	(12)
Interest on net OPEB obligation	(5)	3	8
Annual OPEB cost	<u>\$ 24</u>	<u>32</u>	<u>37</u>
Net OPEB obligation:			
Net OPEB (asset) obligation at beginning of fiscal year	\$ (69)	38	113
Annual required contribution:			
Annual OPEB cost	24	32	37
Employer contribution:			
Payments for retirees during the year	16	14	12
Trust fund contributions	—	125	100
Total	<u>16</u>	<u>139</u>	<u>112</u>
Net OPEB (asset) obligation at end of fiscal year	<u>\$ (61)</u>	<u>(69)</u>	<u>38</u>

The \$61 million OPEB asset is reported as an other noncurrent asset in the balance sheet.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. 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 with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits. The Authority's most recent actuarial evaluation was performed on January 1, 2008 and reported an actuarial accrued liability of \$337 million which was funded with assets with an actuarial value of \$100 million resulting in the Authority's retiree health plan to be 30% funded.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. In the 2008 actuarial valuation, the projected unit credit actuarial cost method was used with benefits attributed on a level basis. The actuarial assumptions included a 7% investment rate of return (net of administrative expenses) and an annual healthcare cost trend rate of 8.5% (net of administrative expenses) including inflation, declining approximately 1% each year to an ultimate trend rate of 5%. Both rates include a 4.5% inflation assumption.

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(c) *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 were approximately \$2.4 million per year for 2009 and 2008.

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 nonunion employees and a committee of nonunion 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.

(9) **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 nondiscriminatory transmission services and to administer an open, competitive and nondiscriminatory 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).

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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 12(f)) 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.

(10) Nuclear Plant Divestiture and Related Matters**(a) 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 noninterest-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, 2009 and 2008, the present value of the notes receivable were:

	2009	2008
	(In millions)	
Notes receivable – nuclear plant sale	\$ 95	107
Less due within one year	13	12
	<u>\$ 82</u>	<u>95</u>

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, 2009 and 2008 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

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(\$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 related to calendar years 2008 and 2009. 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, 2009, 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. In August 2008, the Authority and Entergy reached agreement that such spin-off would not constitute a terminating event for the VSAs. Relating to calendar year 2009, 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.

As a result of competitive bidding, and not related to the sale of the nuclear plants, the Authority agreed to purchase energy from Entergy's IP3 and IP2 nuclear power plants in the total amount of 200 MW during the period 2009 to 2013.

(b) Nuclear Fuel Disposal

In accordance with the Nuclear Waste Policy Act of 1982, in June 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 11(g), "New York State Budget and Other Matters" relating to a temporary transfer of such funds to the State). As of December 31, 2009, 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.

(c) 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 the 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 paid 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 amounts 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 IPS 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 years, 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 IP3, respectively. The current licenses for JAF and IP3 expire in 2014 and 2015, respectively.

Decommissioning Funds of \$942 million and \$812 million are included in restricted funds and other noncurrent liabilities in the balance sheets at December 31, 2009 and 2008, respectively.

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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.

(11) Commitments and Contingencies

(a) Competition

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. 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. 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 mitigated by the cost recovery provisions in the long-term supplemental electricity supply agreements and generation from the 500-MW plant.

According to the National Bureau of Economic Research, a recession in the United States began in December 2007. In this environment, the Authority has continued to utilize its financial flexibility to support its mission and its customers. In response to the economic downturn's effects on New York's manufacturing sector, the Authority's Trustees in March 2009 approved execution of an agreement with Alcoa, Inc. to provide temporary relief from certain power sales contract provisions relating to the firm's Massena, New York manufacturing operations, including allowing Alcoa to release back to the Authority certain hydropower allocated to it, temporary waivers of certain minimum bill and employment thresholds, and entry into arrangements with the Authority for inclusion of a portion of Alcoa's load in the NYISO's demand response programs. In addition, in May 2009, the Authority's Trustees authorized a temporary program whereby up to \$10 million would be utilized to provide electric bill discounts for up to a year to businesses located in Jefferson, St. Lawrence, and Franklin counties. These counties constitute the geographic region served by the Authority's Preservation Power program. The source of the \$10 million is the net margin resulting from the sale of a portion of Alcoa's currently unused Preservation Power allocation into the NYISO markets. Further, in March 2009, the Authority's Trustees withdrew for 2009 (1) a proposed \$10 million hydropower rate increase for the Authority's municipal electric and rural cooperative customers, neighboring state municipal customers, upstate investor-owned utilities, and certain other customers that was scheduled to go into effect on May 1, 2009, and (2) a proposed \$5.3 million hydropower rate increase for the Authority's Replacement Power, Expansion Power, and certain other industrial customers that was scheduled to go into effect on May 1, 2009.

The Authority also has implemented a restructuring program for its long-term debt through open-market purchases, early retirements and refundings, which has resulted in cost savings and increased financial flexibility. 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 the 500-MW plant output, 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.

(b) 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

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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.

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. The Authority provides the customers with indicative electricity prices for the following year reflecting market-risk hedging options designated by the NYC Governmental Customers. 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) and a sharing option where the customers and the Authority will share in actual cost variations as specified in the Agreements.

For 2009, the NYC Governmental Customers agreed to continue the "Energy Charge Adjustment with Hedging" cost recovery mechanism under which all variable costs are passed on to them. 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 2009 billings.

For 2010, the NYC Governmental Customers chose a market-risk hedging price option designated a "sharing option," and the customers and the Authority will share equally in actual cost variations (up to \$60 million) above a projected amount for the year and cost variations in excess of \$60 million are borne by the Authority. In addition, if actual costs are below the projected amount, the NYC Governmental Customers and the Authority share equally in such savings after the NYC Governmental Customers receive the first \$10 million in savings, in aggregate over the term of the Agreement.

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.

In anticipation of the closure of the Authority's existing Poletti Project in January 2010, and in addition to its supply agreements, the Authority, in November 2007, issued a nonbinding 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. In April 2008, 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 will enter into service by the summer of 2011.

The Authority's other Southeastern New York (SENY) Governmental Customers are Westchester County and numerous municipalities, school districts, and other public agencies located in Westchester County (collectively, the "Westchester Governmental Customers"). By early 2008, the Authority had entered into a new supplemental electricity supply agreement with all 104 Westchester Governmental Customers. Among other things, under the agreement, an energy charge adjustment mechanism is 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. For 2010, the Westchester County Governmental Customers chose to continue the above mentioned ECA.

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(c) Power for Jobs

In 1997, legislation was enacted into New York law which authorized the Power for Jobs (PFJ) Program to make low-cost electric power available 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. 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 Rebates 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 2009, provisions of the approved State budgets extended the PFJ Program. The most recent extension in July 2009 (1) extends the PFJ Program, including the PFJ Rebate provisions, to May 15, 2010; (2) authorizes certain customers that had elected to be served by PFJ contract extensions to elect to receive PFJ Rebates instead; and (3) 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. As of December 31, 2009, 199 PFJ Program customers have opted to extend their contracts and 245 PFJ Program customers have opted to receive PFJ Rebates. The Authority approved PFJ Rebate payments of \$42 million and \$54 million for 2009 and 2008, respectively.

The Power for Jobs legislation authorizes the Authority "as deemed feasible and advisable by the Trustees," to make annual "voluntary contributions." Commencing in December 2002 through March 2009, the Authority made such voluntary contributions to the State in an aggregate amount of \$449 million. The July 2009 legislation authorizes the Authority to make an additional voluntary contribution of \$12.5 million for the State Fiscal year 2009-2010 with the aggregate amount of such contributions increasing to \$461.5 million.

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 primarily alleged two 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; and (b) 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 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 was 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 both issues discussed above were erroneous. Thereafter, the Authority moved for permission to appeal to the Court of Appeals and that motion was granted. By decision dated October 20, 2009, the Court of Appeals affirmed the decision of the Appellate Division on both issues. Thereafter, the Authority served a motion for reargument concerning the second issue and by decision dated January 14, 2010, the Court of Appeals denied that motion. The Authority has accrued an estimated liability based upon the Court of Appeals decision.

(d) Legal and Related Matters

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.

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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 these 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 and additional briefing by the parties occurred thereafter. Litigation has been stayed and resolution of the pending defense motions is awaiting a decision by the Court of Appeals for the Second Circuit in a related land claim litigation involving similar defense motions. 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, 2009.

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.

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.

(e) Construction Contracts and Net Operating Leases

Estimated costs to be incurred on outstanding contracts in connection with the Authority's construction programs aggregated approximately \$209 million at December 31, 2009.

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

	Total	2010	2011 (In millions)	2012	2013
Gross operating leases	\$ 2.5	1.6	0.4	0.3	0.2
Less subleases/assignments	0.5	0.5	—	—	—
Net operating leases	\$ 2.0	1.1	0.4	0.3	0.2

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

To meet capacity deficiencies and ongoing load 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 NYC 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. In connection with the licensing of the 500-MW plant, the Authority entered into an agreement which required, and resulted in, the closure of the Authority's Poletti plant on January 31, 2010.

(g) New York State Budget and Other Matters

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.

1. Budget

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,

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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.

In light of the severe budget problems facing the State at this time, the Governor proposed and the Legislature enacted budget legislation, which among other things, authorized the Authority, as deemed "feasible and advisable by its trustees" to make voluntary contribution payments of \$60 million and \$119 million during the State Fiscal Year 2008 – 2009 and \$107 million during State Fiscal Year 2009 – 2010. The Authority's Trustees authorized and the Authority paid the additional voluntary contributions of \$60 million and \$119 million in May 2008 and January 2009, respectively. With this \$119 million, a portion of which was related to the PFJ Program, the Authority has made voluntary contributions to the State totaling \$449 million in connection with the PFJ Program and \$130 million unrelated to the PFJ Program. The 2009 (\$70 million) and the 2008 (\$60 million) contributions to State which are not related to the PFJ Program were recorded as a nonoperating expense in the 2009 and 2008 statement of revenues, expenses and changes in net assets, respectively.

In addition to the authorization for the voluntary contributions, the Authority was requested to provide temporary transfers to the State of certain funds currently in reserves. Pursuant to the terms of a Memorandum of Understanding dated February 2009 (MOU) between the State, acting by and through the Director of Budget of the State, and the Authority, the Authority agreed to transfer approximately \$215 million associated with its Spent Nuclear Fuel Reserves (Asset B) by March 27, 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 provides 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 provides for the Authority to transfer within 180 days of the enactment of the 2009-2010 State budget \$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 1) authorized the execution of the MOU relating to the temporary transfers of Asset B (\$215 million) and Asset A (\$103 million); and such transfers were made in March 2009 and September 2009, respectively, following Trustee reaffirmation of such transfers; and 2) approved the payment of the voluntary contribution of \$107 million by March 31, 2010. The voluntary contribution of \$107 million will require Trustee reaffirmation that the release of such funds remains feasible and advisable prior to the actual date of the contribution.

The Authority has classified the transfers of Assets A and 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. The waived payments include the Authority's obligation to pay until September 30, 2017 the amounts to which the State is entitled under a governmental cost recovery process for the costs of central governmental services. 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. Further the obligation to make payments in support of certain State park properties 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 approximately \$8 million per year but the waiver would be limited to a maximum of \$43 million for the period. The present value

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of the waivers exceeds the present value of the lost interest income. The voluntary contribution of \$107 million, if made, will be reflected and classified as a contribution to New York State in the 2010 statement of revenues, expenses and changes in net assets.

In May 2009, the County of Niagara, "on behalf of its residents", and several individuals commenced an Article 78 lawsuit in Niagara County Supreme Court against the Authority, its Trustees, the State of New York, and the State Comptroller. The lawsuit challenges on numerous grounds the legality of the two temporary asset transfers totaling \$318 million and the two voluntary contributions totaling \$226 million (except as such contributions relate to the Power for Jobs Program) that were approved as discussed above by the Authority's Trustees in January and February 2009. Among other things, the lawsuit seeks judgment providing for the return to the Authority of any such monies that have been paid; prohibiting such asset transfers and voluntary contributions in the future; directing the Authority to utilize such returned monies only for "statutorily permissible purposes"; directing the Authority to "rebate" to certain customers receiving hydropower from it some portion, to be determined, of the monies returned to the Authority; and directing that the Authority submit to an audit by the State Comptroller. No temporary or preliminary injunctive relief is sought in the petition. By decision dated October 5, 2009, the court granted a cross-motion by petitioners to amend the petition so as to remove the State Comptroller from the case. By decision dated December 23, 2009, the court denied respondents' motion to dismiss the petition and granted petitioners' motion to file a complaint and serve discovery demands. Thereafter, the Authority and the State of New York filed notices of appeal as well as motions for permission to appeal the lower court's decision to the Appellate Division, Fourth Department, and those motions were returnable on February 14, 2010. The Authority is unable to predict the outcome of this matter but believes it has meritorious defenses with respect to the claims asserted in the petition. However, adverse decisions of a certain type could adversely affect Authority revenues.

2. Energy Cost Savings Benefits

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 legislative enactments have extended the ECS Benefits program through May 15, 2010.

A 2006 amendment 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. From the inception of the ECS Benefits program through December 31, 2007, there were no ECS Benefits paid by the Authority from internal funds, as opposed to funds derived from the sale of such hydropower. For 2008, due to the general increase in energy prices, the Authority paid \$20.7 million in ECS Benefits from internal funds. In 2009, following the general decline in energy prices, no ECS Benefits were paid from internal funds of the Authority, nor are any such payments from internal funds expected through the May 15, 2010 expiration date of the program.

(h) Relicensing of St. Lawrence and Niagara

On October 23, 2003, 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 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 \$166 million has already been spent. These total costs could increase in the future as a result of additional requirements that may be imposed by FERC under the new license.

NEW YORK POWER AUTHORITY

Management's Discussion and Analysis

December 31, 2009 and 2008

(Unaudited)

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. By decision dated March 13, 2009, the court denied the petition in all respects and the time to appeal that decision has expired.

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 therefore, were incorporated into the cost-based rates of the Project beginning in 2007.

In December 2009, the Authority's Trustees approved a proposal to expedite and enhance the current funding stream provided for Buffalo's waterfront redevelopment effort under the Niagara Relicensing Settlement Agreement in order to facilitate the completion of the Canal Side project and reinvigorate downtown Buffalo's inner harbor area. This acceleration in funding would result in the Authority providing a payment stream of \$4.7 million a year for 20 years in lieu of the original payment stream of \$3.5 million per year for the remaining 48 years of the Niagara License. In addition, the Economic Development Power Allocation Board and the Authority's Trustees have approved an Industrial Incentive Award which would provide an additional \$3.7 million a year for the next 20 years to support the harbor revitalization efforts.

(i) Regional Greenhouse Gas Initiative and Related Matters

The Regional Greenhouse Gas Initiative (RGGI) is a cooperative 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 requires electricity generators to hold carbon dioxide allowances in a compliance account in a quantity that matches their total emissions of carbon dioxide for the compliance period. The Authority's Flynn, SCPPs, and 500-MW Plant are subject to the RGGI requirements. The Authority has participated in program auctions commencing in September 2008 and expects to recover RGGI costs through its power sales revenues. The Authority is monitoring the potential federal programs that are under discussion and debate for their potential impact on RGGI in the future.

Comprehensive energy legislation passed in the House of Representatives on June 26, 2009 (Waxman-Markey) which would, among other things: (a) establish federal cap-and-trade requirements applicable to greenhouse gas emissions, including emissions from fossil fuel power plants, commencing in 2012 that are designed to gradually reduce such emissions through 2050 and (b) establish a combined efficiency and renewable electricity standard that would require retail electricity suppliers beginning in 2012 to acquire prescribed amounts of renewable energy certificates, which may be substituted for in part by quantified electricity savings, with such prescribed amounts gradually increasing over time and with the standard sunseting in 2040. Both of these programs would be applicable to the Authority. It is uncertain at this time whether Waxman-Markey or similar legislation will be enacted into law in the future and what the impact of such legislation would be on the Authority.

(j) 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 Contract, 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.

**REQUIRED SUPPLEMENTARY INFORMATION
(UNAUDITED)**

NEW YORK POWER AUTHORITY

Required Supplementary Information

Schedule of Funding Progress for the Retiree Health Plan (Unaudited)

(In millions)

<u>Actuarial valuation date</u>	<u>Actuarial value of assets (a)*</u>	<u>Actuarial Liability (AAL) – projected unit credit method (b)</u>	<u>Unfunded AAL (UAAL) (b – a)</u>	<u>Funded ratio (a/b)</u>	<u>Covered payroll (c)</u>	<u>UAAL as a percentage of covered payroll ((b – a)/c)</u>
January 1, 2008	\$ 100	337	237	30%	\$ 136	174%
January 1, 2006	—	301	301	—	130	232
January 1, 2004	—	279	279	—	116	241
January 1, 2002	—	271	271	—	107	253

See accompanying independent auditors' report.

3. **Summary of 2009 Annual Audit of Financial Statements**

Mr. Ken Deon of KPMG discussed the following:

Audit results – all audit test work was substantially completed as of February 19, 2010.

- Scope and audit testing consistent with that discussed in January 2010 presentation of 2009 Audit Plan.
- Scope focused on:
 - Derivatives (purchased power and financial) (KPMG brought their subject-matter experts to examine these transactions)
 - New York Independent System Operator, Southeastern New York and wholesale revenues/receivables.
 - Long-term debt, including compliance with covenants.
 - Nuclear liabilities (decommissioning trust and liabilities – investments and offsetting assets).
 - Litigation/contingencies (risk management).
- No material misstatements identified.
- No corrected or uncorrected adjustments identified (how well management performed in closing books).
- No significant deficiencies or material weaknesses in internal controls identified.
- KPMG to issue unqualified opinion.
- Went very smoothly for a first-year audit; complete cooperation from management and staff.
- Completing the audit by this date for year-end 2009 was a very good result for a government or private entity.

KPMG responsibilities under Generally Accepted Auditing Standards –

- Audit planned and performed to obtain reasonable (but not absolute) assurance about whether financial statements are free of material misstatement, whether caused by error or fraud; no responsibility to detect immaterial misstatements.
- Considered internal controls in order to determine auditing procedures for purpose expressing opinion on financial statements. Audit does not include examining internal controls' effectiveness and does not provide assurance on internal controls. However, internal control test work did not identify any deficiencies in internal controls over financial reporting that KPMG considers to be material weaknesses.

Mr. Jamie Cote of KPMG discussed the following:

- KPMG reviewed accounting policies used by Authority management to prepare financial statements and found them to be appropriate.

Significant Accounting Policies	Financial Statement Accounts Affected	Literature Guidance Summary	Alternative Methods
Accounting for rate regulation (old FAS 71)	Deferred charges Regulatory assets and liabilities	ASC Topic 980, <i>Regulated Operations</i>	None
Revenue recognition Billed and unbilled	Receivables Revenue	SAB 101 FASB Concept 5 and 6	None
Derivatives – energy and interest rate	Purchased power costs Interest/financing cost	ASC Topic 815, <i>Derivatives and Hedging</i>	None
Cash and investments	Cash and investments Investment income	GASB 31 GASB 3	None
Capital assets	Capital assets, depreciation	GASB 34	Other depreciation methods
Asset retirement obligations	Other assets Other liabilities	ASC Topic 410, <i>Asset Retirement and Environmental Obligations</i>	None

- KPMG reviewed accounting estimates used by Authority management to prepare financial statements and evaluated key factors and assumptions used by management and found such factors and assumptions to be reasonable. (In the case of Other Post-Employment Benefits (“OPEB”), KPMG’s actuaries reviewed the Authority’s actuarial reports and found them to be reasonable.)

Accounting Area	Literature Guidance Summary	Financial Statement Accounts Affected
Self-insurance accruals Claims and damages Environmental reserves	ASC Top 450, <i>Contingencies</i>	Deferred credits and other Operating expense
Asset retirement obligations	ASC Topic 410	Deferred charges, long-term receivables and other Deferred credits and other
Energy derivatives Interest rate derivatives	ASC Topic 815	Deferred regulatory assets – hedging Risk management obligations
OPEB	GASB 45	Miscellaneous receivables and other Deferred charges, long-term receivables and other

Audit Risks and Issues – key audit risks/account balances and primary procedures to address risk:

- Derivatives – valuation associated with energy price and interest rate fluctuations:
 - Verification of external pricing sources and confirmations/statements from counterparties.

- Review of risk management policies by KPMG Financial Risk Management professionals who work with energy companies.
- Revenue – appropriate revenue recorded as power is delivered:
 - Confirmation of receivables and detailed testing of SENY/wholesale revenue (sample of customers).
 - Confirmation of revenue/receivables with NYISO.
- Nuclear decommissioning liabilities – reporting and receipt of information and accounting for decommissioning trust and liabilities:
 - Review of financial statements for completeness and accuracy of trust assets and obligations.
- Management judgments and accounting estimates:
 - Appropriate methodologies and assumptions in assessing exposures/liabilities (accruals).
 - Reviewed methodology, assumptions (and third-party statements, where Applicable) for reasonableness of amounts set up as reserves/liabilities.
 - Refer to detailed listing of significant judgments and estimates.
- Manual journals and non-recurring transactions:
 - Appropriate accounting for existence and accuracy of unusual non-recurring transactions.
 - Selection and review of material journals, large and unusual entries, frequency, management approvals, etc.
- Investments:
 - Appropriate accounting for investments in accordance with Board-approved guidelines (as required by the Public Authorities Law and Office of the State Comptroller regulations).
 - Fair-market-value testing of all investments.
 - Review of sample of investments for compliance with Board-approved policies.
- Debt obligations:
 - Compliance with accounting covenants (nothing significant found).
 - Review of debt compliance calculations in accordance with terms of agreements.

Fraud

- During the course of the audit, KPMG has undertaken, or will undertake prior to report issuance, fraud discussions with the following members of the Authority's senior management staff:
 - The members of the Audit Committee
 - Richard Kessel, President and Chief Executive Officer

- Terry Brown – Executive Vice President and General Counsel
 - Elizabeth McCarthy – Executive Vice President and Chief Financial Officer
 - Joseph Del Sindaco – former Executive Vice President and Chief Financial Officer
 - Donald Russak – Senior Vice President – Corporate Planning and Finance
 - Arnold Bellis – former Vice President and Controller
 - Thomas Concadoro – Director of Accounting
- In addition, KPMG designed audit procedures and conducted walkthroughs of significant account balances to identify potential instances of fraud and sampled journal entries using computer-assisted auditing techniques.
 - Based on KPMG’s inquiries and testing, no financial statement fraud came to their attention for the year ended December 31, 2009.

In response to a question from Vice Chairman Foster, Mr. Cote said that KPMG had worked with Internal Audit staff during the audit.

Mr. Brian Mahoney of KPMG discussed the following:

Other Required Communications

- There were no audit adjustments for the year ended December 31, 2009.
- There were no disagreements with management on financial accounting and reporting matters.
- KPMG encountered no difficulties in dealing with management while performing the audit.
- Significant written communications between KPMG and management include:
 - Engagement letter/contract
 - Management representation letter
 - Forthcoming management letter
- Other information in documents containing audited financial statements:
 - KPMG report does not extend beyond financial information identified in it and KPMG has no obligation to perform any procedures to corroborate other information contained in these documents (i.e., Management’s Discussion and Analysis (“MD&A”).
 - KPMG has, however, read the other information included in the Authority’s MD&A and no matters came to its attention that cause KPMG to believe that such information is materially inconsistent with the information, or manner of its presentation, appearing in the financial statements.
- KPMG is in compliance with Public Authorities Accountability Act with regard to non-audit services.
- KPMG is independent in accordance with AICPA Standards and Governmental Audit Standards (Yellow Book Requirements).

KPMG Reports

- Audit opinion on Authority's financial statements as of and for year ended December 31, 2009 (draft of which is presented to Audit Committee today).
- Accountant's report on investment compliance with New York State guidelines.
- Required communications to Audit Committee (some of which are included in this presentation).
- Auditor's report on internal control over financial reporting and on compliance with other matters.
- Management letter.

Responding to a question from Vice Chairman Foster, Mr. Cote said that KPMG's management letter will include suggested process improvements in the areas of derivatives and Information Technology internal controls. Mr. Deon said that the Authority was to be commended on the fact that the audit was completed in less than two months from the end of the audit year.



New York Power Authority

2009 Audit

Audit Committee

February 23, 2010

KPMG LLP

Agenda

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Results of Audit:

Completed substantially all audit test work as of February 19, 2010

- Scope and Audit testing consistent with that discussed in January 2010 presentation of 2009 Audit Plan
- Scope focused on:
 - Derivatives (Purchased Power and Financial)
 - NYISO, SENY and Wholesale revenues/receivables
 - Long term debt including compliance with covenants
 - Nuclear Liabilities
 - Litigation/contingencies
- No material misstatements identified
- No corrected or uncorrected adjustments identified
- No identified significant deficiencies or material weaknesses in internal controls
- KPMG to issue an unqualified opinion



KPMG Responsibilities under GAAS

Our Responsibilities under GAAS:

We have a responsibility to conduct our audit in accordance with generally accepted auditing standards. In carrying out this responsibility, we planned and performed the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud. Because of the nature of audit evidence and the characteristics of fraud, we are to obtain reasonable, not absolute, assurance that material misstatements are detected. We have no responsibility to plan and perform the audit to obtain reasonable assurance that misstatements, whether caused by error or fraud, that are not material to the financial statements are detected.

In addition, in planning and performing our audit, we considered internal controls in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements. An audit does not include examining the effectiveness of internal controls and does not provide assurance on internal controls. However, our internal control testwork did not identify any deficiencies in internal controls over financial reporting that we consider to be material weaknesses.

Significant Accounting Policies

- Significant accounting policies are disclosed in the financial statements
- We have reviewed the accounting policies used by management in preparation of the financial statements and found such policies to be appropriate

Significant Accounting Policies	Financial Statement Accounts Affected	Literature Guidance Summary	Alternative Methods
<ul style="list-style-type: none"> • Accounting for Rate Regulation 	<ul style="list-style-type: none"> • Deferred charges • Regulatory assets/liabilities 	<ul style="list-style-type: none"> • ASC Topic 980, <i>Regulated Operations</i> 	<ul style="list-style-type: none"> • None
<ul style="list-style-type: none"> • Revenue Recognition • Billed and unbilled 	<ul style="list-style-type: none"> • Receivables • Revenue 	<ul style="list-style-type: none"> • SAB 101 • FASB Concept 5 and 6 	<ul style="list-style-type: none"> • None
<ul style="list-style-type: none"> • Derivatives – Energy and Interest Rate 	<ul style="list-style-type: none"> • Purchased power costs • Interest/financing cost 	<ul style="list-style-type: none"> • ASC Topic 815, <i>Derivatives and Hedging</i> 	<ul style="list-style-type: none"> • None
<ul style="list-style-type: none"> • Cash and Investments 	<ul style="list-style-type: none"> • Cash and investments • Investment income 	<ul style="list-style-type: none"> • GASB 31 • GASB 3 	<ul style="list-style-type: none"> • None
<ul style="list-style-type: none"> • Capital Assets 	<ul style="list-style-type: none"> • Capital Assets, depreciation 	<ul style="list-style-type: none"> • GASB 34 	<ul style="list-style-type: none"> • Other depreciation methods
<ul style="list-style-type: none"> • Asset Retirement Obligations 	<ul style="list-style-type: none"> • Other Assets • Other Liabilities 	<ul style="list-style-type: none"> • ASC Topic 410, <i>Asset Retirement and Environmental Obligations</i> 	<ul style="list-style-type: none"> • None

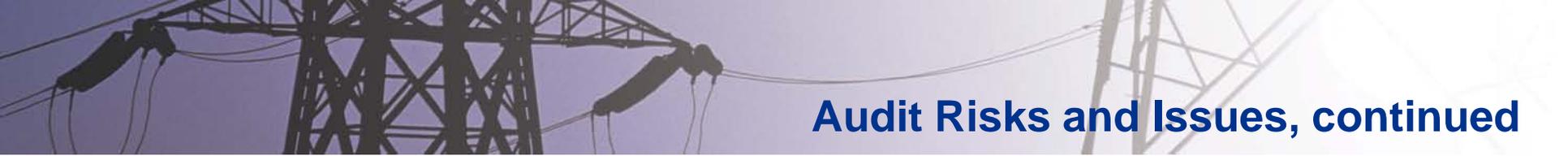
Significant Judgments and Estimates

- We have reviewed the accounting estimates used by management in preparation of the financial statements. We evaluated the key factors and assumptions used by management and found such factors and assumptions to be reasonable

Accounting Area	Literature Guidance Summary	Financial Statement Accounts Affected
<ul style="list-style-type: none"> • Self-Insurance Accruals <ul style="list-style-type: none"> — Claims and Damages — Environmental Reserves 	<ul style="list-style-type: none"> • ASC Topic 450, <i>Contingencies</i> • GASB 10 • GASB 49 	<ul style="list-style-type: none"> • Deferred credits and other • Operating expense
<ul style="list-style-type: none"> • Asset Retirement Obligations 	<ul style="list-style-type: none"> • ASC Topic 410 	<ul style="list-style-type: none"> • Deferred charges, long-term receivables and other • Deferred credits and other
<ul style="list-style-type: none"> • Energy Derivatives • Interest Rate Derivatives 	<ul style="list-style-type: none"> • ASC Topic 815 	<ul style="list-style-type: none"> • Deferred regulatory assets - hedging • Risk management obligations
<ul style="list-style-type: none"> • Other Post-employment Benefits (OPEB) 	<ul style="list-style-type: none"> • GASB 45 	<ul style="list-style-type: none"> • Misc. receivables and other • Deferred charges, long-term receivables and other

Key audit risks/account balances and primary procedures to address the risk:

- Derivatives
 - Valuation of derivatives associated with energy price and interest rate fluctuations.
 - Verification of external pricing sources and confirmations/statements from counterparties.
 - Review of risk management policies by KPMG Financial Risk Management professionals.
- Revenue
 - Appropriate revenue recorded as power is delivered
 - Confirmation of Receivables and detailed testing of SENY / Wholesale revenue.
 - Confirmation of Revenue/Receivables with NYISO.
- Nuclear Decommissioning Liabilities
 - Reporting and receipt of information and accounting for decommissioning trust and liabilities.
 - Review of financial statements for completeness and accuracy of trust assets and obligations.
- Management Judgments and accounting estimates
 - Appropriate methodologies and assumptions in assessing exposures / liabilities.
 - Reviewed methodology, assumptions (and third party statements where applicable) for reasonableness of amounts set up as reserves/liabilities.
 - Refer to detailed listing of significant judgments and estimates on page 5.
- Manual Journals and non recurring transactions
 - Appropriate accounting for existence and accuracy of unusual nonrecurring transactions.
 - Selection and review of material journals, large and unusual entries, frequency, management approvals, etc.



Audit Risks and Issues, continued

- Investments
 - Appropriate accounting for investments in accordance with approved guidelines.
 - Fair market value testing of all investments.
 - Review of sample of investments for compliance with Board approved policies.
- Debt Obligations
 - Compliance with accounting covenants.
 - Review of debt compliance calculations in accordance with terms of agreements.

During the course of our audit, KPMG has undertaken, or will undertake prior to report issuance, fraud discussions with the following members of NYPA senior management:

- Richard M. Kessel – President and Chief Executive Officer
- Elizabeth McCarthy – Executive Vice President and Chief Financial Officer
- Joe DeSindaco – Former Chief Financial Officer
- Audit Committee
- Terryl Brown – Executive Vice President and General Counsel
- Donald Russack – Senior Vice President of Corporate Planning and Finance
- Arnold Bellis – Former Controller
- Thomas Concadoro – Director of Accounting

In addition, KPMG designed audit procedures and conducted walkthroughs of significant account balances to identify potential instances of fraud and sampled journal entries using computer assisted auditing techniques.

Based upon our inquiries and testing, no financial statement fraud came to our attention for the year ended December 31, 2009.



Other Required Communications

- There were no audit adjustments for the year-ended December 31, 2009
- Disagreements with Management
 - There were no disagreements with management on financial accounting and reporting matters
- Difficulties Encountered in Performing the Audit
 - We encountered no difficulties in dealing with management in performing our audit.
- Significant Written Communications Between Auditor and Management
 - Engagement Letter / Contract
 - Management Representation Letter
 - Forthcoming Management Letter
- Other Information in Documents Containing Audited Financial Statements
 - Our report does not extend beyond the financial information identified in our report, and we have no obligation to perform any procedures to corroborate other information contained in these documents, for example, Management's Discussion and Analysis.
 - We have, however, read the other information included in the Authority's MD&A, and no matters came to our attention that cause us to believe that such information is materially inconsistent with the information, or manner of its presentation, appearing in the financial statements.
- We are in compliance with the Public Authority Accountability Act in regards to non-audit services.
- We are independent in accordance with AICPA Standards and Governmental Auditing Standards (Yellow Book Requirements).

- Audit Opinion on the Authority's Financial Statements as of and for the year ended December 31, 2009
- Accountant's Report on Investment Compliance with New York State Guidelines
- Required Communications to the Audit Committee
- Auditor's Report on Internal Control over Financial Reporting and on Compliance on Other Matters
- Management Letter

4. **Motion to Conduct an Executive Session**

“Mr. Chairman, I move that the Audit Committee conduct an executive session pursuant to Section 105 of the Public Officers Law in connection with discussions relating to matters concerning employment.” On 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.” On motion made and seconded, the meeting resumed in open session.

6. Amendments to Audit Committee Charter

Ms. Brown presented the highlights of staff's recommendations to the members of the Audit Committee, as follows.

BACKGROUND

Recent amendments to the Public Authorities Law made by Chapter 506 of the Laws of 2009 ("Chapter 506"), which prompted the January 2010 changes to the Authority's By-Laws, also require changes to the Audit Committee Charter. The Charter, which was in the process of being reviewed by the Authority and a consultant, was, therefore, reconsidered in light of the requirements of Chapter 506. The revisions reflect: (1) the requirements of Chapter 506; and (2) certain changes recommended by the Authority's consultant that were approved by the Authority's senior management. The proposed amended Audit Committee Charter is attached as Exhibit "A"

DISCUSSION

Article V(2) of the Authority's By-Laws, as amended on January 26, 2010, requires an Audit Committee that consists of three eligible Trustees who are independent members, who possess the necessary skills to understand the duties and functions of the Audit Committee and who are familiar with corporate financial and accounting practices. It specifies that the Audit Committee is responsible for: recommending to the Trustees the hiring of a certified independent accounting firm for the Authority; establishing the compensation to be paid to the accounting firm; providing direct oversight of the performance of the independent audit performed by the accounting firm hired for such purposes and performing such other responsibilities as the Trustees shall from time to time assign to it.

Accordingly, amendments to the Audit Committee Charter would implement the following changes:

- Reference to the Inspector General has been eliminated.
- Committee membership is determined by the Board of Trustees.
- Committee member terms have been changed from four to five years to coincide with the Trustee term of office.
- A Committee member must be familiar with corporate financial and accounting practices and understand the duties and function of the Audit Committee.
- In addition to advising the Trustees on the selection of the certified independent accountant, the Committee must now establish the compensation to be paid to the accounting firm.

February 23, 2010

- The Committee is charged with direct oversight of the performance of the independent audit firm.
- Language regarding risk management has been added.

AUDIT COMMITTEE CHARTER

A. PURPOSE

The purpose of the Audit Committee (“Committee”) is to: recommend to the Board of Trustees the hiring of a certified independent accounting firm for the Authority; establish the compensation to be paid to the accounting firm; provide direct oversight of the performance of the independent audit conducted by the accounting firm hired for such purposes; provide direct oversight of the internal audit function; and perform such other responsibilities as the Trustees shall assign to it.

B. MEMBERSHIP AND ORGANIZATION

(1) Committee Composition

The Committee shall be comprised of three independent members of the Board of Trustees who shall possess the necessary skills to understand the duties and functions of the Committee and be familiar with corporate finance and accounting. Committee members and the Committee Chair shall be selected by a vote of the Board of Trustees.

(2) Term

Committee members shall serve for a period of five years subject to their term of office under the Public Authorities Law § 1003. Committee members may be reelected to serve for additional periods of five years subject to their term of office. A Committee member may resign his or her position on the Committee while continuing to serve as a Trustee. In the event of a vacancy on the Committee due to death, resignation or otherwise, a successor will be selected to serve in the manner and for the term described above.

(3) Removal

A Committee member may be removed if he or she is removed as a Trustee for cause, subject to Public Authorities Law § 2827, or is no longer eligible to serve as a Committee member.

(4) Meetings and Quorum

The Committee shall hold regularly scheduled meetings at least three times per year. A Committee member may call a special meeting of the Committee individually, or upon the request of the Authority’s President and Chief Executive Officer, Chief Operating Officer, Executive Vice President and General Counsel, Chief Risk Officer, Chief Financial Officer, Controller, or head of the Office of Internal Audit (“OIA”).

In addition, the Committee: (1) shall meet at least three times a year with the head of the OIA for the purpose of reviewing audit activities, audit findings, management's responses, remedial action plans, and providing the OIA with an opportunity to discuss items and topics of relevant to the Audit Committee; (2) shall meet at least twice a year with the Authority's independent accountants to discuss the audit work plans, objectives, results and recommendations; and (3) may meet independently with the Authority's President and Chief Executive Officer, Chief Operating Officer, Executive Vice President and General Counsel, Chief Risk Officer, Chief Financial Officer, Controller, or head of the OIA on matters or issues and items within the Committee's purview as it deems necessary. These meetings may be held as part of a regular or special meeting in the Committee's discretion.

An agenda shall be prepared and distributed to each Committee member prior to each meeting and minutes shall be prepared in accordance with the New York Open Meetings Law. A majority of those present, but no less than two Committee members, at a regular or special meeting of the Committee shall constitute a quorum for the purposes of conducting the business of the Committee and receiving reports.

Any meeting of the Committee may be conducted by video conferencing.

To the extent permitted by law, the Committee may hold meetings or portions of meetings in executive session.

C. FUNCTIONS AND POWERS

The Committee shall have the following responsibilities:

(1) General Powers

The Committee may call upon the resources of the Authority to assist the Committee in the discharge of its oversight functions. Such assistance may include the assignment of Authority employees to assist the Committee, and the retention of external advisors subject to the requirements of the Public Authorities Law and the Authority's Expenditure Authorization Procedures.

The Committee may direct any Authority employee to make oral or written reports to the Committee on issues and items within the Committee's purview.

The Committee may direct the Authority's internal auditors to conduct special audits of items and issues of concern to the Committee.

(2) Accounting, Financial Reporting, and Oversight of Independent Accountants and Controller

The Committee shall seek to enhance the integrity, quality, reliability and accuracy of the Authority's financial statements and accompanying notes, and shall oversee the relationship with the Authority's independent accountants. To accomplish this objective, the Committee shall:

- a. Provide advice to the Trustees on the selection, engagement, compensation, evaluation and discharge of the independent accountants.
- b. Review and discuss as necessary the Authority's financial statements including any material changes in accounting principles and practices with the independent accountants, the Controller, or members of Authority management.
- c. Review and approve the Authority's annual audited financial statements (including the independent accountants' associated management letter).
- d. Oversee the establishment of procedures for the effective receipt and treatment of (i) complaints regarding auditing, internal auditing and accounting matters, and (ii) the confidential submission of concerns raised by whistleblowers and other persons regarding accounting or auditing practices.
- e. Review at least annually the scope, objectives and results of the independent accountants' examination of the annual financial statements and accompanying notes, and report to the Trustees on the Committee's findings.
- f. Assure the independence of the independent accountants by approving any non-audit work for the Authority and examining the accountant's relationship with the Authority.
- g. Report to the Trustees on any matters relevant to the audit process or independent accountant communications, and make such recommendations as the Committee deems appropriate.

(3) Risk Management, Internal Controls and Oversight of the OIA

The Committee shall seek to enhance the Authority's risk management infrastructure, and ensure timely and effective identification and mitigation of critical business risks. To accomplish these objectives the Committee shall:

- a. Review and approve the appointment, evaluation and removal of the head of the OIA.
- b. Provide oversight of the OIA and the OIA's resources and activities to facilitate the OIA's improvement of internal controls.
- c. Require the head of the OIA to attend any meeting of the Committee and to prepare and deliver such reports as the Committee requests.
- d. Provide guidance to the Authority's Chief Risk Officer and enterprise risk management program on critical business objectives, risks and philosophy and tolerance for risk mitigation, and establish requirements for the Chief Risk Officer to report to the Committee.

- e. Report at least annually to the Board of Trustees on matters relating to the internal audit function and enterprise-wide risk management infrastructure, and make such recommendations as the Committee deems appropriate.

7. Next Meeting

Chairman Curley and Trustees Cusack and Foster agreed that the next regular meeting of the Committee would be held at 10:00 a.m. on Tuesday, July 27, 2010.

On motion made and seconded, the meeting was adjourned at approximately 10:48 a.m.