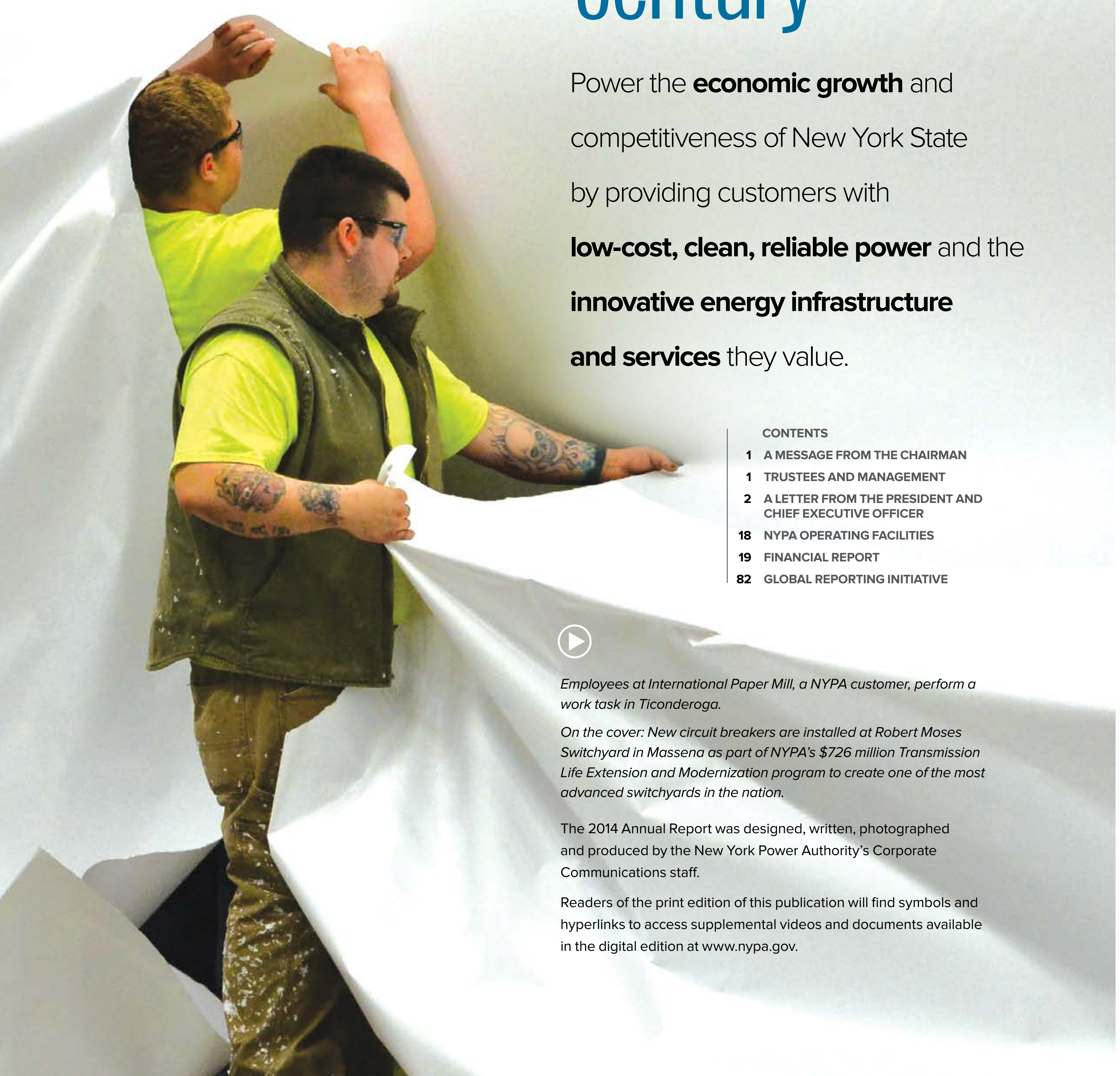
NEW YORK STATE OF OPPORTUNITY™ | NY Power Authority

Annual Report 2014

A mission for the 21st century

Power the **economic growth** and competitiveness of New York State by providing customers with **low-cost, clean, reliable power** and the **innovative energy infrastructure and services** they value.



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Employees at International Paper Mill, a NYPA customer, perform a work task in Ticonderoga.

On the cover: New circuit breakers are installed at Robert Moses Switchyard in Massena as part of NYPA's $726 million Transmission Life Extension and Modernization program to create one of the most advanced switchyards in the nation.

The 2014 Annual Report was designed, written, photographed and produced by the New York Power Authority's Corporate Communications staff.

Readers of the print edition of this publication will find symbols and hyperlinks to access supplemental videos and documents available in the digital edition at www.nypa.gov.

A MESSAGE from the Chairman

As a businessman in Western New York, I have seen firsthand how the New York Power Authority (NYPA) contributed to economic development and job growth throughout my region in 2014. From my vantage point as NYPA's Chairman, I am also well aware of how our initiatives benefit all of New York State, from Northern New York to Long Island.

NYPA is much more than an electric utility. As a high-tech organization, we are "leading by example" to help businesses prosper. We are achieving this essential mission by playing an active role in Gov. Andrew M. Cuomo's ReCharge NY program of low-cost power allocations and by purchasing goods and services from competitive New York vendors, large and small. These activities, combined with many other NYPA-led programs, are playing a significant role in transforming New York's economy.

"Leading by example" is what we do. That includes holding ourselves accountable. For instance, we conducted a top-to-bottom energy audit of our operations in 2014 that highlights our commitment to sustainability.

Serving New York effectively also requires that we continue to upgrade our operations. 2014 was the second of a 12-year, $726 million program to upgrade NYPA's statewide transmission network. Additionally, we're in the midst of a $460 million Life Extension and Modernization program at the Niagara Power Project's Lewiston Pump-Generating Plant.

As the largest state electric utility in the nation, NYPA plays a pivotal role in the ongoing reinvention of the power industry. On the pages that follow, President and Chief Executive Officer Gil C. Quiniones provides a more complete overview of our 2014 accomplishments and explains how they set both the strategic and operational foundations for a successful 2015 and beyond.

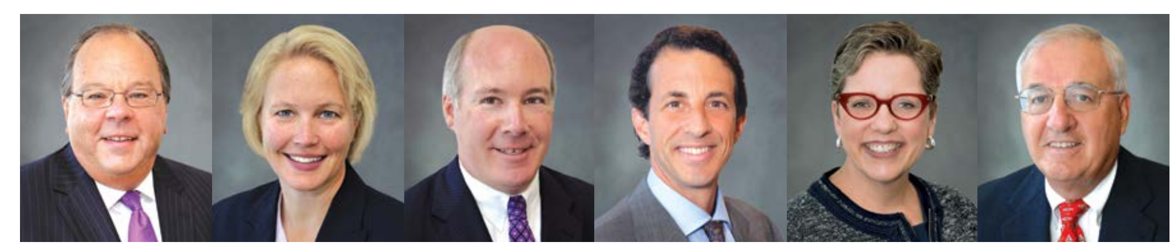
One major priority for 2015, that I want you to follow, is NYPA's efforts in filling essential engineering, financial and a growing array of technical positions over the next decade. The industry is experiencing dramatic technological and demographic shifts, and our Strategic Vision 2014-2019 set goals for NYPA to develop its own workforce and programs to meet customers' changing needs. It's another example of NYPA "leading by example."

On behalf of our entire Board of Trustees, I thank the entire NYPA Team for their continuing outstanding efforts that benefit our customers and everyone across our great state.

Sincerely,

John R. Koelmel
Chairman
March 2015

TRUSTEES and Management



Dear fellow New Yorker,

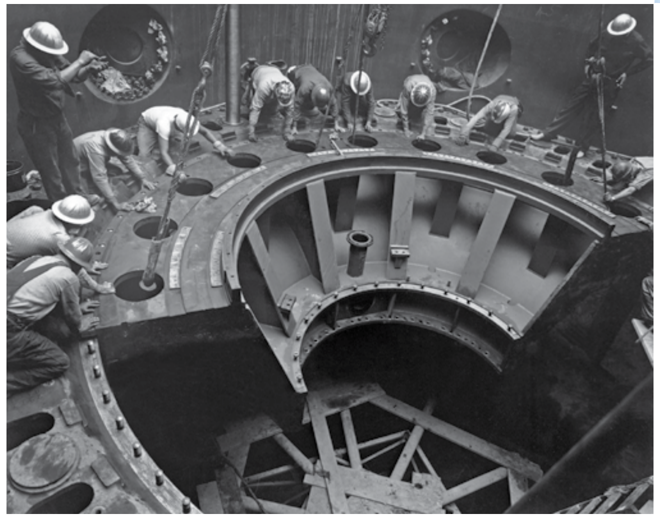
As President and Chief Executive Officer of NYPA, when I travel around New York State and in conversations with customers and colleagues, I am often asked, **"What is the next defining project for the New York Power Authority?"**

By thinking big...

It's an excellent and valid question. It speaks to our impressive legacy, the work that my more than 1,600 co-workers and I do daily and, most importantly, what we could accomplish.

I begin with our legacy because it provides a strong and enduring foundation for everything we want to do going forward. **By thinking big** and successfully addressing significant challenges for more than 80 years, NYPA has become more than just the largest state power organization in the United States. **We are the model for public power.**

NYPA's activities are guided by Gov. Andrew M. Cuomo's new "Reforming the Energy Vision" (REV) initiative, which spurs clean energy innovation, brings in new investments and improves consumer choice. As REV's regulatory framework and policy initiatives are implemented, we can increase the supply of distributed power, pursue new energy efficiency strategies and establish an energy marketplace that accommodates new opportunities.



Above, workers install one of the first rotors during construction of the St. Lawrence-Franklin D. Roosevelt Power Project in 1956; right, a present-day turbine installation at the project.

The energy industry is in the midst of significant changes. An organization like NYPA must do more than simply generate, distribute and sell power. More than ever, we need to be partners with our customers to help meet their complex energy needs and challenges.

There has been acceleration in the development and commercialization of new technologies, including solar power, smart grid and electric vehicles. Now, more than ever, people are paying attention to environmental concerns.

Responding to the shift within the industry is key to NYPA's future, and resonates in the question about our "next defining project." The answer has yet to materialize, but **NYPA took significant steps in 2014 to ensure that we will drive the conversation.**

NYPA President and Chief Executive Officer Gil C. Quiniones talks with employees of Hollingsworth & Vose in Greenwich during a ReCharge NY event.

In 2014, we updated our Mission Statement to set the course and introduced our Strategic Vision 2014-2019. The Strategic Vision created a plan to help New York State usher in a new energy era...one that involves thoughtful, sustainable use of energy, technology and natural resources.

But our Mission Statement, shown on the inside front cover, is what NYPA is all about. Within that single sentence are the elements—**economic growth, low-cost power, and innovative technology and services**—that speak perfectly to what we accomplished in 2014.

...we are the model for public power

Power the **economic growth** and competitiveness of New York State

NYPA's diverse customer markets—including government agencies, municipally owned and rural cooperative electric systems, job-producing companies and non-profit organizations—are becoming more sophisticated energy consumers. This requires NYPA to provide customized products and services tailored to their needs.

Customer Empowerment, one of our Strategic Vision themes, reinforces how NYPA is engaging with its 1,018 customers (as of Dec. 31, 2014) to address their success by providing knowledgeable solutions on energy needs ranging from reducing energy costs with low-cost power and adding system resiliency to improving power quality and meeting sustainability goals.

NYPA's economic development efforts are far reaching, both in terms of impact and geography, in their support of Customer Empowerment.

In 2014, NYPA's statewide and regional economic development programs—ReCharge NY, Expansion Power, Replacement Power and Preservation Power—continued to retain and create jobs, and spur capital investment.

An employee of NYPA customer Harden Furniture works on a project at the company's manufacturing facility in McConnellsville.

2014 ReCharge NY

NYPA Trustees approved three rounds of low-cost power allocations under the statewide ReCharge NY program, which stems from legislation signed by Governor Cuomo in 2011. The program supports hundreds of thousands of jobs in the state, and we're committed to continuing to leverage low-cost power to support employment, capital investment, economic growth and competitiveness.

124 Allocations

47 Megawatts of Power

16,000 Job Commitments

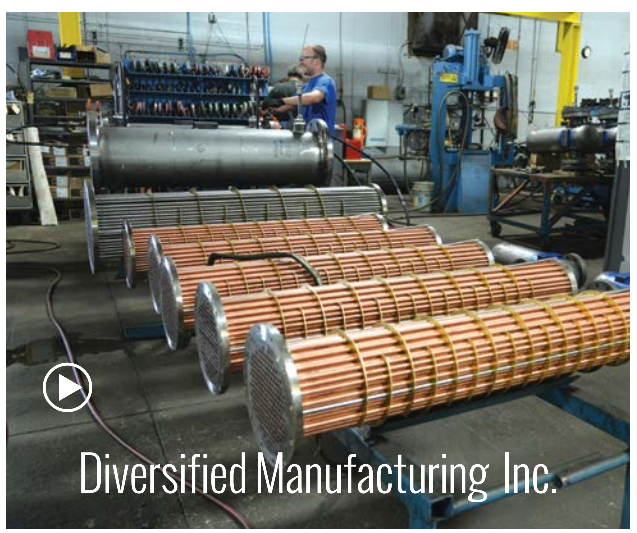
102 Businesses and Not-For-Profits

$1.92 Billion Capital Investments

Net revenues from unallocated Niagara power were deposited in the Western New York Economic Development Fund, a NYPA-administered account created under the Western New York Power Proceeds Allocation Act (WNYPPA). Founded in 2012, the fund is another way for NYPA to support job retention and growth in that region. The fund also supports 43 North, a business competition started in 2014 to draw innovative, growing companies to the Buffalo area. In 2014, the first company to complete a project using this funding was Diversified Manufacturing Inc. of Lockport.

Also in Northern New York, the North Country Economic Development Fund (NCEDF), which is jointly administered by the Development Authority of the North Country, is another channel that NYPA uses to promote economic growth. The $10 million loan fund was established in August 2014 to provide low-cost loans to businesses in New York's North Country.

The inaugural NCEDF loans totaling $725,000 were given to two businesses, which agreed in total to add 84 jobs, retain 110 existing positions and undertake capital investments of about $6 million.



NYPA supports 43 North, a business competition that is part of Governor Cuomo's Buffalo Billion initiative to fund economic opportunities throughout Buffalo and Western New York. Applicants were given the promise of a $1 million grand prize in exchange for locating their business in Buffalo for at least one year.

43 North generated 6,932 applications from startup companies in 96 countries and all 50 states. The top prize went to Tonawanda-based ASi, LLC, a metal manufacturing company, and 43 North also handed out six $500,000 awards and four $250,000 awards. The finalists included companies in fields like clean technology, medicine, therapeutics, biotechnology and smartphone applications.

The overwhelming interest in 43 North convinced NYPA's Board of Trustees to allocate $6 million toward the $7 million earmarked to continue the initiative in 2015. If 2014 is any indication, Buffalo will continue to be an attractive place for innovative companies to call home and grow their businesses.

NYPA's own financial well-being was recognized during 2014, with all three of the major credit-rating agencies raising their outlooks.

Standard & Poor's Long-Term Rating	Standard & Poor's Short-Term Rating	Moody's Long-Term Rating	Fitch Outlook
AA	A-1+	Aa1	+ Positive
AA-	A-1	Aa2	Stable

NYPA's visitors centers, located at our three largest hydropower projects, supported local tourism and economic development in 2014. They hosted a combined 205 education tours for 11,805 students during the year. Also, 248 organizations with a total of 34,398 participants used the centers for community functions.

138,609 Attendance at the NYPA Visitors Centers in 2014

A visitor to the Power Vista at the Niagara Power Project tries a hands-on energy exhibit.

2014 Regional Power Programs

Dedicated blocks of low-cost NYPA electricity are available regionally. **Expansion Power and Replacement Power** from the Niagara Power Project is sold to businesses within 30 miles of the project. **Preservation Power** generated at the St. Lawrence-FDR Power Project is made available to businesses in Franklin, Jefferson and St. Lawrence counties.

13 Business Allocations | **560** Job Commitments | **13.7** Megawatts of Power | **$265** Million Capital Investments

LEADING by example

Another positive impact on economic development came through NYPA's Supplier Diversity Program and its support of minority- and women-owned business enterprises (MWBEs).

$72.2 Million in Transactions With MWBEs | **22%** of Reportable Expenditures

Providing customers with **low-cost, clean, reliable power**

Workers monitor the height of a boom used to install transformers at NYPA's St. Lawrence-Franklin D. Roosevelt Power Project substation in Massena.

NYPA is becoming more innovative in the way we operate and maintain our generation and transmission facilities. Our Strategic Vision 2014-2019 calls for a combination of Asset Management and Smart Generation and Transmission strategic initiatives; these will allow us to find better ways to run and maintain our assets that bring optimal service to our customers.

In 2014, NYPA carried out the second year of a 12-year, $726 million program to upgrade our statewide transmission system. The **Transmission Life Extension and Modernization** (TLEM) effort is centered on NYPA's more than 1,400 circuit-miles of high-voltage power lines. The TLEM calls for some of this equipment—parts of which are more than a half-century old—to be repaired or rebuilt.

Early priorities for the TLEM project include an upgrade of three switchyards—at the St. Lawrence-Franklin D. Roosevelt and Niagara power projects, and the Frederick R. Clark Energy Center in Marcy, which is the hub of our power transmission facilities.

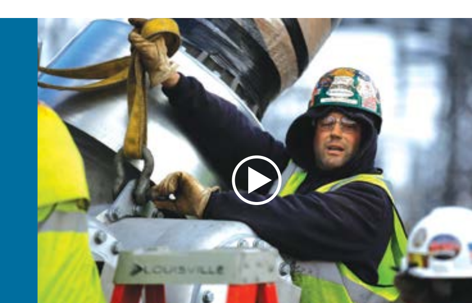
Significant TLEM investments during the year included the awarding of three contracts, two of which were given to O'Connell Electric of Victor. O'Connell received $5.2 million for site preparation work related to the installation of autotransformers at the St. Lawrence-FDR project, and $10.8 million to demolish existing transmission equipment and install 16 power circuit breakers and a capacitor bank at the Robert Moses Switchyard in Massena. NYPA also earmarked up to $5 million for Greenman-Pedersen, Inc. of Albany to provide inspection and consulting services for the application of paints and other coatings to protect transmission towers in Northern, Central and Western New York.

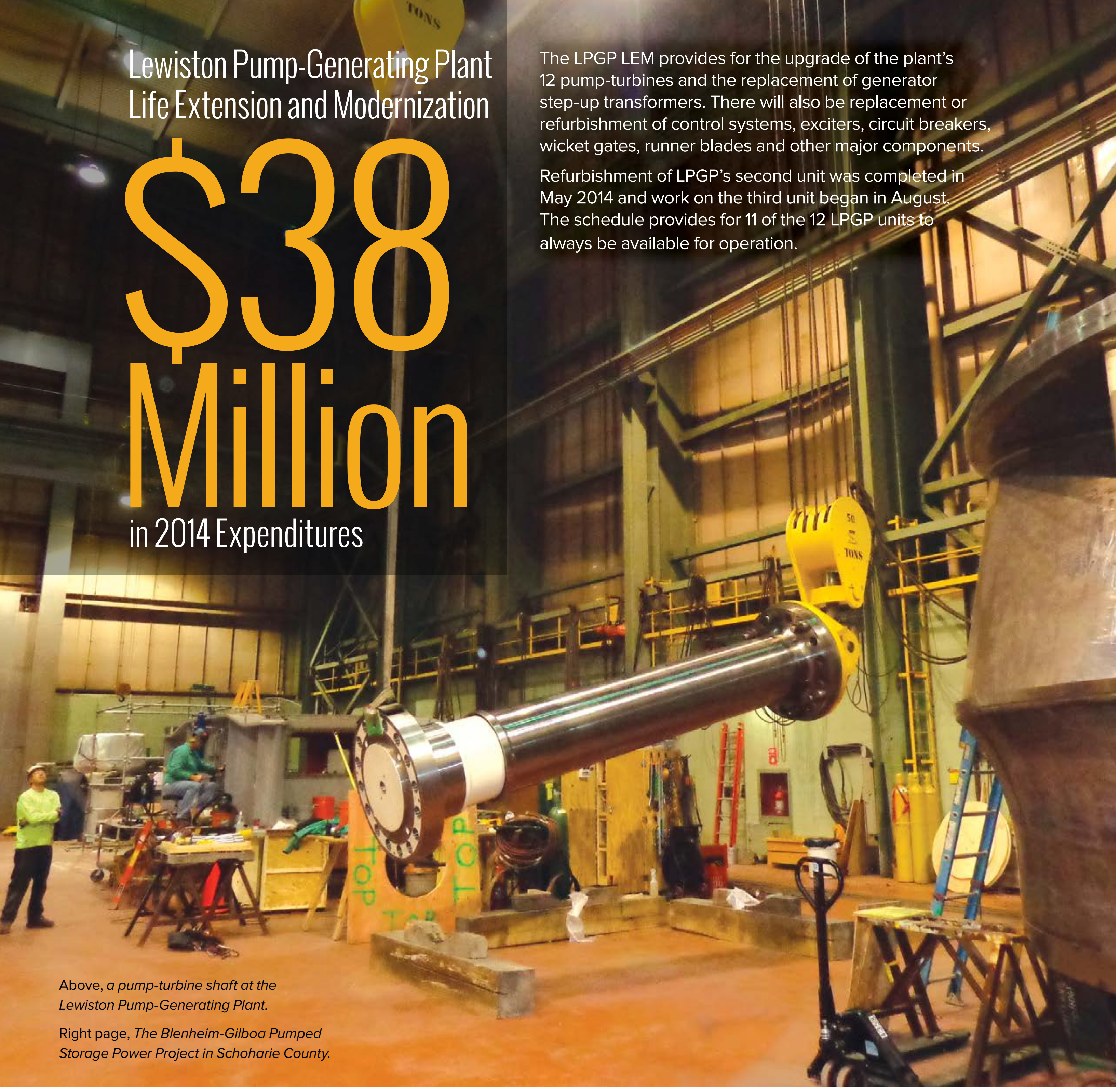
We recognize the importance of protecting our assets against adverse weather conditions, influenced in part by Superstorm Sandy in 2012. NYPA last year devoted capital funds to investments in smart-grid technologies to enhance situational awareness of the conditions of power lines. We also conducted a comprehensive evaluation of our power plants in New York City and on Long Island, and are fortifying them against potential flooding. We have upgraded the communications networks between sites to ensure connectivity during severe weather and other emergencies. Internal procedures were also enhanced.

These and other measures address the Smart Generation and Transmission initiative in NYPA's Strategic Vision 2014-19, which calls for making the generation and transmission system more flexible, resilient and agile using existing and emerging technologies.

2014 Transmission Life Extension and Modernization Program

At the St. Lawrence-Franklin D. Roosevelt Power Project, work began on a TLEM project that will make the Robert Moses Switchyard one of the most advanced transmission hubs in North America. This effort, known as the Switchyard Automated Monitoring and Controls system, will emphasize smart-grid technologies. It will include microprocessors providing real-time information that can be shared immediately with other switchyard components, allowing operations personnel to conduct precision monitoring and control of electricity transmission.





Lewiston Pump-Generating Plant Life Extension and Modernization

$38 Million

in 2014 Expenditures

The LPGP LEM provides for the upgrade of the plant's 12 pump-turbines and the replacement of generator step-up transformers. There will also be replacement or refurbishment of control systems, exciters, circuit breakers, wicket gates, runner blades and other major components.

Refurbishment of LPGP's second unit was completed in May 2014 and work on the third unit began in August. The schedule provides for 11 of the 12 LPGP units to always be available for operation.

Above, *a pump-turbine shaft at the Lewiston Pump-Generating Plant.*

Right page, *The Blenheim-Gilboa Pumped Storage Power Project in Schoharie County.*

28.7 Billion kilowatt hours (kWh) of Electricity Generated

72% Was Hydropower

39.7 Billion kWh Total Electric Sales
including power purchased from other generators

Even with the many new technologies we are incorporating in our operations there is one principle that remains the same—operating excellence. Major steps were taken in 2014 to continue investing to transform our generation and transmission systems so they can serve for the next 50 years.

The $38 million spent in 2014 is part of the 10-year, $460 million Life Extension and Modernization (LEM) at the Lewiston Pump-Generating Plant (LPGP), begun in 2010. LPGP operates during peak power demand hours to supplement the electricity output of the Robert Moses Niagara Power Plant, the Niagara Power Project's main generating facility.

The LPGP LEM has many challenges, including global sourcing of major equipment only built outside the U.S., from 18 factories in nine countries, many in Asia and Europe. That is complemented with goods and services provided by almost 50 New York vendors, some just a half-hour away. Work in 2014 continued on schedule and on budget.

LPGP is one of two major pumped storage facilities in New York State—the other being NYPA's Blenheim-Gilboa Pumped Storage Power Project (B-G). We completed a four-year overhaul of that facility in 2009, setting the foundation for NYPA to seek a new operating license for the project.

In April 2014, NYPA took the first official step in this direction by filing preliminary documents with the Federal Energy Regulatory Commission (FERC), which is responsible for the licensing of the nation's hydropower projects. In summer 2014, FERC held the first of many meetings to gather public input on NYPA's plans for the relicensing.

B-G received its first operating license in 1969 and was constructed in the early 1970s along the Schoharie Creek, a tributary of the Mohawk River in the northern Catskills. It began supplying electricity in 1973. By initiating the multiyear relicensing process now, NYPA is positioning itself to submit an application in 2017 to obtain a new 50-year license before the current one expires in April 2019.

The new license for B-G will allow NYPA to continue providing important energy reliability and community benefits to local residents and the people of New York State.

In Central New York, NYPA is seeking to strengthen the state's power grid to protect it from the potential retirement of aging plants and relieve a longstanding transmission bottleneck by enhancing the transmission system in the region without adding new lines.

The Marcy-South Series Compensation Project (MSSCP), developed by NYPA and New York State Electric & Gas, is a cost-effective way for increasing the amount of power from clean sources that can be moved along existing transmission lines from upstate generators to meet the downstate need.

Large transmission projects provide jobs and related economic development benefits to communities from business generated through multiyear construction activity, local supply purchases and increased operations at existing generating facilities.

In 2014, NYPA obtained the regulatory approvals to undertake the environmental and construction plan needed before work can begin on MSSCP.

NYPA is transforming its own energy infrastructure into the energy infrastructure of the future. The investments we have made and continue to make will fundamentally change what we are, who we are and what we will be over the next several decades.

Infrastructure Investments

In fall 2014, two generator step-up transformers—which increase electric power voltage for efficient travel along transmission lines—were delivered to the Blenheim-Gilboa Pumped Storage Power Project via rail and road. The transit of the transformers required lifting power lines and installing temporary portable bridges over existing ones to support the heavy loads during the two-day trip.

LEADING by example

In 2014, NYPA committed $10 million to the New York State Energy Research and Development Authority to establish a 2.5 million-gallon reserve of gasoline and ultra-low-sulfur diesel fuel to be dispersed at strategic upstate locations in Brewerton, Buffalo, Marcy, Rensselaer, Rochester and Vestal. This fuel reserve will provide emergency responders—including transmission and repair crews—with sufficient supplies during a power disruption. The reserve is a key component of Fuel NY, a statewide fuel infrastructure protection initiative developed in response to disruptions caused by Superstorm Sandy.

Providing customers with **innovative energy infrastructure and services** they value

NYPA worked with Coney Island Hospital in 2014 to complete a $21 million storm resiliency and energy efficiency project. The construction repaired damage caused by Superstorm Sandy in 2012.

It's not enough to simply reinforce and upgrade our operations infrastructure. If NYPA is to continue to thrive, we need to reinvent the traditional role of an electric utility. We must offer our customers more than just the flow of electricity.

We are in the midst of rapid transformation, one in which we must adjust to meet customers' needs. Simultaneously, the NYPA of today is one where data helps us operate and maintain our infrastructure. This resource alignment is covered in our Strategic Vision 2014-2019, which calls for NYPA to build on recent efforts, respond to the changes underway in the energy industry and to seize upon key opportunities.

These objectives are being addressed through three essential elements:

- Access to a skilled, flexible workforce that can deliver the outcomes envisioned
- Access to the relevant information and knowledge that supports effective delivery
- Streamlined business processes that provide structure as well as promoting efficiency and sustainability

As part of this reinvention, NYPA in 2014 created a Customer Energy Solutions (CES) business unit that lets us become and remain our customers' trusted energy advisor. CES allows NYPA to serve as a marketplace for accessing energy services, and it proactively addresses customers' needs by strategically and carefully expanding our service offerings, and making the offerings more flexible, user-friendly, continuous and real-time. CES integrates well with both existing NYPA programs and initiatives, and it will also help us retain and grow our customer base.

We will continue to work with state agencies to accelerate strategic, cost-effective energy investments and to improve

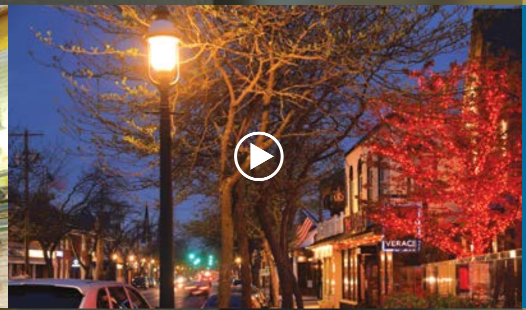
2014 Energy Efficiency Program Advances

NYPA's implementation of energy efficiency technologies has a significant positive impact. Key highlights in 2014 included completing streetlight replacements in Islip that will save the town nearly $1 million annually and remove an estimated 2,500 tons of carbon dioxide emissions per year; and finishing a $2.8 million phase of a project that will let MTA New York City Transit wirelessly control its more than 1,200 rail heaters in Brooklyn and Queens.

72 Projects Completed at Public Facilities

$10.2 Million in Annual Customer Energy Savings

46,000 Tons of Greenhouse Gases Reduced Per Year



how their facilities are operated and maintained. While we are pursuing a wide range of improvements, BuildSmart NY–Governor Cuomo's initiative to reduce energy consumption at state facilities by 20 percent by 2020–focuses on retrofitting and replacing existing building energy systems with more energy-efficient models, including new lighting, heating, ventilation and air-conditioning systems. This program also allows us to deploy real-time energy monitoring tools and data analytics as ways to reduce usage.

NYPA is responsible for coordinating the state's compliance with BuildSmart NY mandates. During 2014 we issued the first BuildSmart NY Annual Progress Report, which highlights effective practices, principles and methods for achieving energy savings at state universities, prisons, hospitals, offices, and other facilities.

BuildSmart NY also includes the Energy Efficiency Innovation Collaborative (EE-INC), a public-private partnership overseen by NYPA. EE-INC works with firms offering market-ready, but not yet widely deployed, energy-saving technologies. Other members of the collaborative include the New York State Energy Research and Development Authority (NYSERDA), the Syracuse Center of Excellence in Environmental and Energy Systems, the Institute for Building Technology and Safety and the Electric Power Research Institute. NYPA is also working with New York's Empire State Development agency to link and leverage EE-INC with StartUp NY, a state initiative for encouraging new or expanded businesses.

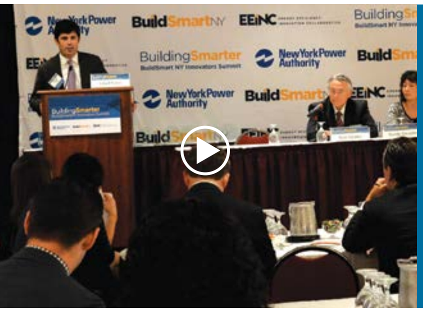
NYPA continues to partner with the State University of New York (SUNY) to improve energy efficiency at campuses throughout the state. At the end of 2014, we were involved with construction on projects at 289 SUNY facilities. When completed, those energy efficiency upgrades will save taxpayers more than $4.6 million a year and remove more than 20,000 tons of greenhouse gases from the atmosphere annually.

In Western New York, we completed energy efficiency projects totaling $27 million at two SUNY campuses—the University at Buffalo and Upstate Medical University—that will save a combined $1.4 million in annual energy costs and remove more than 7,700 tons of greenhouse gases from the atmosphere every year.

The University at Buffalo received more than $20 million in heating, ventilation and air-conditioning upgrades, and interior and exterior lighting enhancements. At Upstate Medical University, similar work was done to the heating, ventilation and air-conditioning systems, along with interior and exterior lighting enhancements, boiler controls and hot water upgrades. The improvements included a 50-kilowatt solar photovoltaic array, which is part of the Governor's NY-Sun initiative to scale up solar deployment across the state. Construction on both projects began in 2012 and included funding from National Grid and NYSERDA.

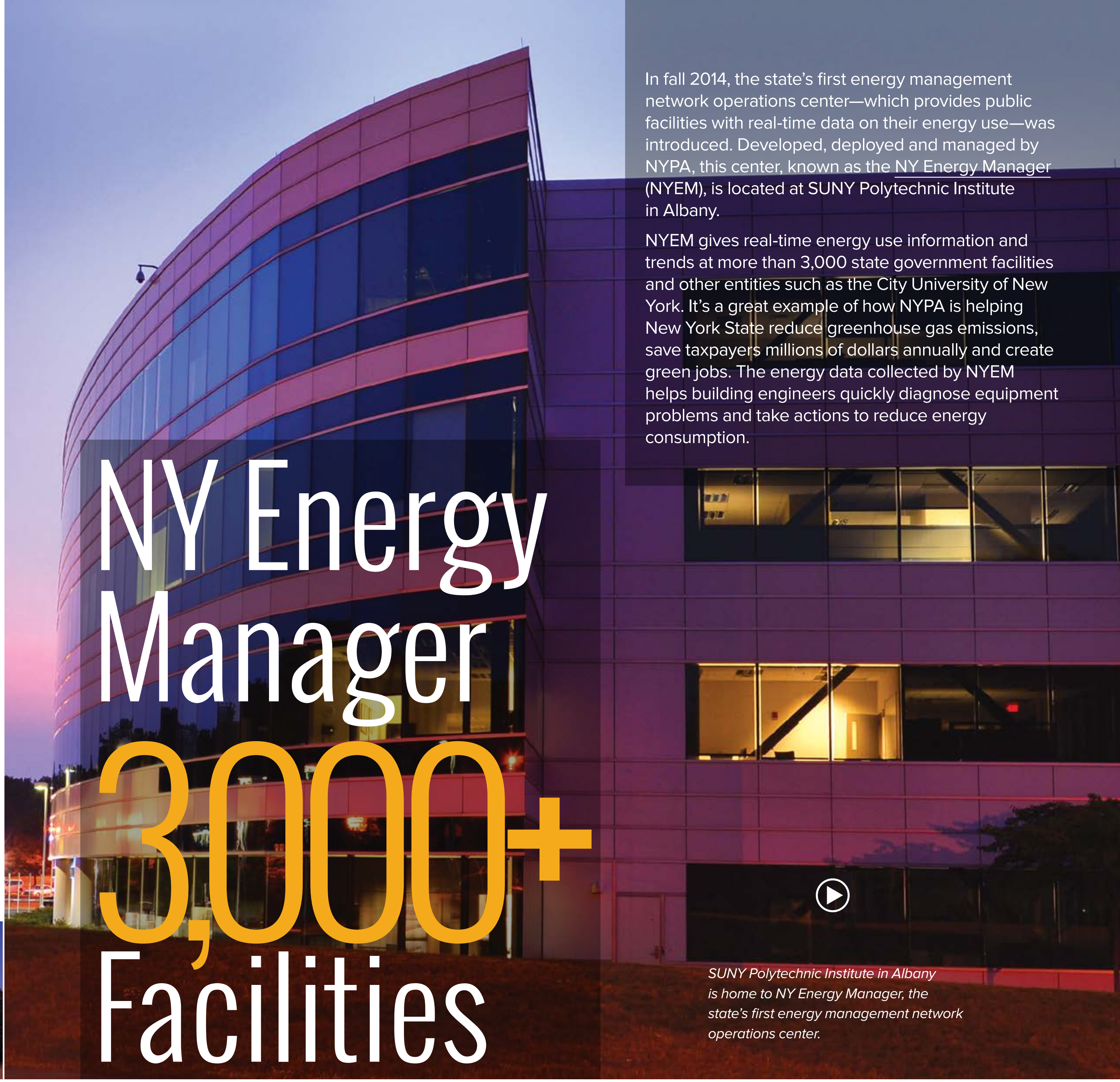
In 2014, NYPA also took a closer look at energy-resiliency measures such as the installation of micro-grids at certain locations around the state, including the New York City Housing Authority's Red Hook Houses in Brooklyn, which would serve 2,800 residential apartment units and the residential facility's community center. Other locations under consideration include Stony Brook University Research and Development Park on Long Island and Empire State Plaza in Albany. Micro-grids, which are comprised of interconnected distributed energy resources that are closer to end users than traditional power sources, can operate in a grid-connected or "island" mode. This, in turn, ensures a continued high level of power service if there are problems on the power grid.

We also collaborated with the New York City Health and Hospitals Corporation and National Grid on a $21 million overhaul of storm resiliency and energy efficiency upgrades at Coney Island Hospital in Brooklyn, where equipment was



Award-Winning Innovations

NYPA also continued to administer Governor Cuomo's BuildSmart NY initiative, which is intended to reduce energy consumption at state facilities by 20 percent by 2020. In September, we held the first BuildSmart NY Innovators Summit, a daylong event in Albany where seven state agencies and two individuals received awards for their achievements in lowering energy consumption and costs. Speakers at the event discussed the lessons learned and successes.



In fall 2014, the state's first energy management network operations center—which provides public facilities with real-time data on their energy use—was introduced. Developed, deployed and managed by NYPA, this center, known as the NY Energy Manager (NYEM), is located at SUNY Polytechnic Institute in Albany.

NYEM gives real-time energy use information and trends at more than 3,000 state government facilities and other entities such as the City University of New York. It's a great example of how NYPA is helping New York State reduce greenhouse gas emissions, save taxpayers millions of dollars annually and create green jobs. The energy data collected by NYEM helps building engineers quickly diagnose equipment problems and take actions to reduce energy consumption.

NY Energy Manager 3,000+ Facilities

SUNY Polytechnic Institute in Albany is home to NY Energy Manager, the state's first energy management network operations center.

LEADING by example

NYPA in 2014 took significant steps toward improving its carbon footprint by measuring the carbon output of all aspects of NYPA's business.

NYPA's Sustainability Office collaborated with cross-functional teams to establish baselines, identify metrics and set targets for energy use intensity and carbon-intensity reductions. We analyzed the vehicle fleet and identified measures to increase fuel efficiency and reduce carbon emissions across the fleet. The office also worked with our Energy Efficiency Program to complete the first-ever energy audit of all NYPA buildings, and with Operations to identify opportunities to reduce the carbon intensity of net generation.

flooded during Superstorm Sandy in 2012. These improvements not only help protect the hardware but are expected to save the hospital $1.5 million in annual energy costs and reduce greenhouse gas emissions by more than 7,000 tons a year.

The Five Cities Energy Plans are a sweeping set of short- and long-term energy-saving blueprints for the five largest New York State cities other than New York City: Albany, Buffalo, Rochester, Syracuse and Yonkers. Representatives of each city worked with NYPA during 2014 to develop the plans, which were formally unveiled in the first part of 2015 and were guided by BuildSmart NY principles. The plans are the result of months of data analysis, meetings with more than 100 stakeholder groups, and an extensive sharing of thoughts and proposals across the cities.

NYPA collaborated with the Five Cities to rethink how municipalities can reduce their energy use and use their resources more effectively. As a result, the cities can now measure their progress, embrace new ideas and pursue best practices. We expect the Five Cities Energy Plans will inspire other municipalities—both in New York State and beyond—to pursue new ways to manage their energy use.

We partnered with NYSERDA to launch K-Solar, which provides New York State public school districts—at no cost and no obligation—with the tools and expertise to bring solar energy to their facilities and reduce energy costs. It is part of the state's NY-Sun initiative to make cost-effective solar power more affordable to K-12 schools. As the lead K-Solar agency, NYPA is creating large purchasing pools to be marketed to solar installers, and we will conduct a competitive solar solicitation process on behalf of interested school districts statewide. Our objective is to get schools the best value and contract terms. Within a few weeks of announcing the program in September, nearly 200 school districts representing more than 800 public schools across 51 counties had shown interest in participating in K-Solar.

Looking ahead

I am proud of NYPA's many and varied accomplishments during 2014, and am convinced that the hard work that our employees carried out will benefit all of New York State for years to come. When I look back on the year, I will remember it in part for the many important seeds we planted. While some remain below the surface, others have already broken through the ground and are taking shape.

Now that the Five Cities Energy Plans have been unveiled, we will work with Albany, Buffalo, Rochester, Syracuse and Yonkers to accomplish the goals set forth in those documents. NYPA is excited to help the Five Cities save money and become more energy efficient, while also providing guidance to other communities across New York State that recognize the many benefits of taking such an approach.

Our Customer Energy Solutions group will continue to evolve; much of 2014 was spent establishing its functions, leadership and integrating existing services and programs into its day-to-day mission. This year will see us staff the group's key functions, establish dedicated resources, and—as appropriate—adjust existing services, delivery methods and areas of focus.

2014 Charge NY NYPA made contributions to the state's Charge NY Initiative, which began in 2013, to encourage use of plug-in electric vehicles (EV). Working with NYSERDA in 2014, NYPA unveiled EV charging stations across the state, including Albany and Niagara Falls airports, where drivers can charge their vehicles for free during a trial period.

41 Electric Vehicle Charging Units Installed **15** Locations **7,110 lbs** of CO_2 Emissions Avoided

Left, clockwise from left: James Kirkland, electrical maintenance supervisor, Lewiston Pump-Generating Plant; Ke He, lead program engineer I, Energy Efficiency Program; Millicent Hopper, building and grounds attendant, St. Lawrence-Franklin D. Roosevelt Power Project. This page, from left: Kevin McNamara, chief mechanic, and Robin Fleischman, journeyman mechanic, Blenheim-Gilboa Pumped Storage Project.

NYPA's effort to upgrade our transmission system enters its third year in 2015, and we have pushed ahead with capital projects related to the Transmission Life Extension and Modernization (TLEM) program. NYPA's 2015 capital budget includes $36.3 million earmarked for TLEM work at the Niagara Power Project's Lewiston Pump-Generating Plant and $18.4 million for Niagara's interconnection switchyard.

We also expect to reap more benefits in for the state in 2015 through the expansion of the NY Energy Manager (NYEM) system. Its technology will be applicable for use in the private sector in the future, and as NYEM evolves, we will help accelerate the transfer of its technology for use in entrepreneurial and commercial settings.

In 2014, NYPA's Sustainability Office collaborated with cross-functional teams to establish baselines, and identify metrics for energy use intensity and carbon intensity reductions across our operations. We are using 2015 to set targets in this area as we continue to lead by example in sustainability.

Our workforce will continue to evolve under the guidelines set in NYPA's Strategic Vision 2014-2019. To keep ahead of ongoing changes in the energy industry, NYPA will embrace a skilled, flexible employee base; stay abreast of relevant information and knowledge; further streamline businesses processes; and promote efficiency and sustainability. Above it all, the Mission Statement that was on display across the preceding pages will guide us forward.

These are just a sampling of the many new and still-developing aspects of today's NYPA. As I mentioned earlier, it's impossible to predict what the Power Authority will be like in the future. There's one thing I do feel confident in predicting—when we look back on 2014 years from now—it will be remembered as a time when NYPA once again thought and acted big to meet the needs of its customers and define the mission of public power.

Sincerely,

Gil C. Quiniones
President and Chief Executive Officer
March 2015

NYPA Operating Facilities

Below is a summary of key information for NYPA's statewide facilities from 2014. Data supporting the **Global Reporting Initiative** is referenced on page 82. Images of the facilities are shown on the back cover.

ST. LAWRENCE-FRANKLIN D. ROOSEVELT POWER PROJECT

Type: Hydroelectric
Location: Massena, St. Lawrence County
Net Dependable Capacity: 827,000 kW
First Commercial Power: July 1958
2014 Net Generation: 7.05 billion kWh
Net Generation Through 2014: 380.75 billion kWh
Average Plant Availability Factor: 92.4%
Forced Outage Factor: 1.1%
Power Outage Duration: 75.3 hours
Thermal Heat Rate: Not applicable

NIAGARA POWER PROJECT

Type: Hydroelectric
Location: Lewiston, Niagara County
Net Dependable Capacity: 2,680,000 kW
First Commercial Power: January 1961
2014 Net Generation: 13.68 billion kWh
Net Generation Through 2014: 776.88 billion kWh
Average Plant Availability Factor: 87.4%
Forced Outage Factor: 1.2%
Power Outage Duration: 144.7 hours
Thermal Heat Rate: Not applicable

BLENHEIM-GILBOA PUMPED STORAGE POWER PROJECT

Type: Pumped Storage/Hydroelectric
Location: North Blenheim and Gilboa, Schoharie County
Net Dependable Capacity: 1,168,000 kW
First Commercial Power: July 1973
2014 Gross Generation: 0.38 billion kWh
Gross Generation Through 2014: 50.48 billion kWh
Average Plant Availability Factor: 86.6%
Forced Outage Factor: 2.3%
Power Outage Duration: 68.1 hours
Thermal Heat Rate: Not applicable

RICHARD M. FLYNN POWER PLANT

Type: Gas/Oil
Location: Holtsville, Suffolk County
Net Dependable Capacity: 148,000 kW
First Commercial Power: May 1994
2014 Net Generation: 1.21 billion kWh
Net Generation Through 2014: 23.21 billion kWh
Average Plant Availability Factor: 95.4%
Forced Outage Factor: 0.3%
Power Outage Duration: 50.5 hours
Thermal Heat Rate: 7,992 Btu/kWh

FREDERICK R. CLARK ENERGY CENTER

Function: Coordinates NYPA system operations
Location: Marcy, Oneida County
Opened: June 1980

SMALL HYDRO FACILITIES

Located on reservoirs and waterways around the state, these facilities include the Ashokan Plant, the Gregory B. Jarvis Plant, the Crescent Plant and the Vischer Ferry Plant, with a combined net dependable capacity of 37,000 kW. They produced a total of 136.5 million kWh in 2014.

Average Plant Availability Factor: 55.1%
Forced Outage Factor: 25.9%
Power Outage Duration: 134.5 hours
Thermal Heat Rate: Not applicable

SMALL CLEAN POWER PLANTS

Type: Gas
Location: Six New York City sites and Brentwood, Suffolk County
Net Dependable Capacity: 413,000 kW
First Commercial Power: June 2001
2014 Net Generation: 0.35 billion kWh
Net Generation Through 2014: 8.35 billion kWh
Average Plant Availability Factor: 87.3%
Forced Outage Factor: 0.6%
Power Outage Duration: 61.7 hours
Thermal Heat Rate: 10,471 Btu/kWh

500-MW COMBINED-CYCLE POWER PLANT

Type: Gas/Oil
Location: Astoria, Queens County
Net Dependable Capacity: 488,000 kW
First Commercial Power: December 2005
2014 Net Generation: 3.31 billion kWh
Net Generation Through 2014: 27.61 billion kWh
Average Plant Availability Factor: 88.2%
Forced Outage Factor: 1.4%
Power Outage Duration: 77.7 hours
Thermal Heat Rate: 7,355 Btu/kWh

NYPA TRANSMISSION FACILITIES

1,456.2 circuit-miles of alternating current transmission lines.

Size	Underground	Overhead	Total
765kV	0.0	154.9	**154.9**
345kV	44.7	883.2	**927.9**
230kV	0.0	338.0	**338.0**
115kV	1.2	34.2	**35.4**
Total	**45.9**	**1410.3**	**1456.2**

ASTORIA ENERGY II*

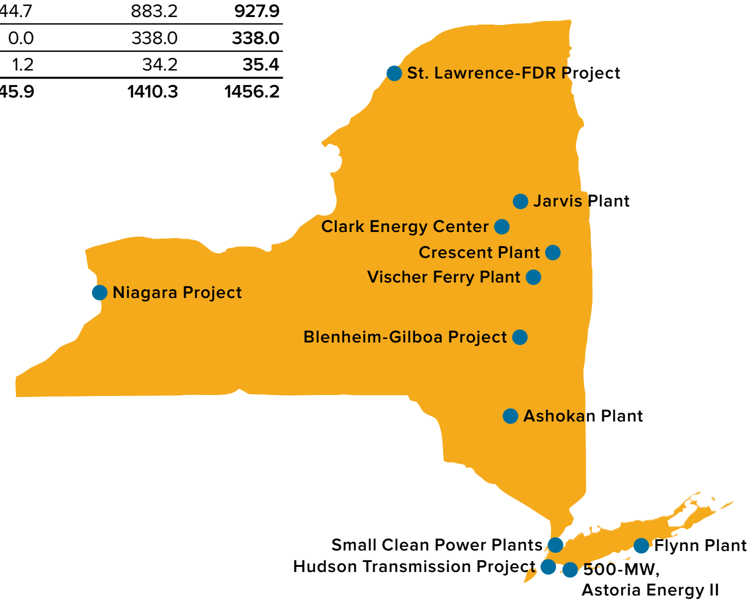
Type: Gas/Oil
Location: Astoria, Queens County
Net Dependable Capacity: 578,000 kW
First Commercial Power: July 2011
2014 Net Generation: 3.18 billion kWh
Net Generation Through 2014: 10.98 billion kWh

* Astoria Energy II is an independently owned facility that has entered into a 20-year supply agreement with NYPA to service its New York City governmental customers.

HUDSON TRANSMISSION PROJECT (HTP)**

Type: High-Voltage Transmission Line
Location: Seven-mile 345-kV line from Public Service Electric & Gas Co.'s Bergen Substation in Ridgefield, N.J., to Consolidated Edison Co.'s West 49th St. Substation in Manhattan. (Includes four-mile Hudson River section).
Capacity: 660 MW
First Commercial Operation: June 2013
Average 2014 Availability to Transmit Power: 98.8%
Availability Hours: 8,661.1

**NYPA has a 20-year firm transmission capacity purchase agreement with Hudson Transmission Partners, LLC, the developer, owner and operator of the line, which connects with a neighboring regional transmission organization, PJM Interconnection. NYPA contracts for 75 percent of HTP's transmission capacity, or up to 495 MW.



New York Power Authority Financial Report

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, 2014, 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 Sr. 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 Sr. Vice President of Internal Audit and the Vice President & Chief Ethics and Compliance Officer have direct access to the Audit Committee.

Robert F. Lurie
Executive Vice President and Chief Financial Officer

March 26, 2015

KPMG LLP
345 Park Avenue
New York, NY 10154-0102

Independent Auditors' Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the Power Authority of the State of New York (the Authority), which comprise the statements of net position as of December 31, 2014 and 2013, and the related statements of revenues, expenses, and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion on the Financial Statements

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, 2014 and 2013, and the changes in net position, and cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

KPMG

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the information in the Management's Discussion and Analysis and Required Supplementary Information sections be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 26, 2015 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* in considering the Authority's internal control over financial reporting and compliance.

KPMG LLP

New York, New York
March 26, 2015

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 (the 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). Under the criteria set forth in GASB Statement No. 14, *The Financial Reporting Entity*, as amended by Governmental Accounting Standard (GAS) No. 39, *Determining Whether Certain Organizations Are Component Units* and GAS No. 61, *The Financial Reporting Entity: Omnibus--an amendment of GASB Statements No. 14 and No. 34*, the Authority considers its relationship to the State to be that of a related organization.

Forward Looking Statements

The statements in this management's discussion and analysis (MD&A) that are not purely historical facts are forward-looking statements based on current expectations of future events. Such forward-looking statements are necessarily based on various assumptions and estimates and are inherently subject to various risks and uncertainties, including, but not limited to, risks and uncertainties relating to the possible invalidity of the underlying assumptions and estimates and possible changes to or development in various important factors. Accordingly, actual results may vary from those we presently expect and such variations may be material. We therefore caution against placing undue 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 such forward-looking statements as a result of new information, future events or other factors.

Summary of Revenues, Expenses and Changes in Net Position

The following is a summary of the Authority's financial information for 2014, 2013, and 2012:

	2014	2013	2012	2014 vs. 2013 favorable (unfavorable)	2013 vs. 2012 favorable (unfavorable)
	(In millions, except percentages)				
Operating revenues	$ 3,175	$ 3,030	$ 2,673	5%	13%
Operating expenses:					
Purchased power	996	934	744	(7)	(26)
Fuel oil & gas	361	324	228	(11)	(42)
Wheeling	614	603	598	(2)	(1)
Operations and maintenance	562	566	558	1	(1)
Depreciation	232	228	226	(2)	(1)
Total operating expenses	2,765	2,655	2,354	(4)	(13)
Operating income	410	375	319	9	18
Nonoperating revenues	115	90	120	28	(25)
Nonoperating expenses	253	237	264	7	10
Net income	272	228	175	19	30
Contributed capital	—	21	—		
Change in net position	272	249	175		
Net position – beginning	3,719	3,470	3,295		
Net position – ending	$ 3,991	$ 3,719	$ 3,470		

The following summarizes the Authority's financial performance for the years 2014 and 2013:

The Authority had net income of $272 million for the year ended December 31, 2014 compared to $228 million in 2013. The current year increase of $44 million included higher operating income of $35 million and higher nonoperating revenues of $25 million; partially offset by higher nonoperating expenses of $16 million. Operating income was higher primarily due to higher production at Niagara and higher prices on market-based sales of energy into the NYISO market. Severe winter weather conditions caused a significant spike in market energy prices in early 2014. Large increases in purchased power and fuel expenses from year to year were substantially offset by the recovery of such costs through operating revenues. Nonoperating revenue was higher primarily due to insurance reimbursements received in the current year and a lower unrealized loss on fixed income securities in the Authority's investment portfolio. Nonoperating expenses were higher in 2014 due to higher voluntary contributions to New York State ($25 million) partially offset by a lower interest expense.

Net position increased in 2014 due to positive net income of $272 million.

The Authority had net income of $228 million for the year ended December 31, 2013 compared to $175 million in 2012. The increase of $53 million in net income included higher operating income of $56 million and lower nonoperating expenses of $27 million; partially offset by lower nonoperating revenue of $30 million. Operating income was higher primarily due to higher prices on market-based sales of capacity into the NYISO market. Capacity prices were higher primarily due to the retirement and mothballing of power plants owned by other generators in N.Y. State. Large increases in purchased power and fuel expenses from year to year were substantially offset by the recovery of such costs through operating revenues. Nonoperating expenses were lower in 2013 due to lower voluntary contributions to New York State ($20 million) combined with lower interest expenses. Nonoperating revenue was lower primarily due to a higher unrealized loss on fixed income securities in the Authority's investment portfolio due to higher market interest rates in 2013.

Net position increased by $249 million in 2013 due to positive net income of $228 million and $21 million of contributed capital related to wind farm assets (see note 5 of the notes to the financial statements).

Operating Revenues

Operating revenues of $3,175 million in 2014 were $145 million or 5% higher than the $3,030 million in 2013, primarily due to a higher volume of market energy and capacity sales and higher prices on those sales.

Purchased Power and Fuel

Purchased power costs increased by 7% in 2014 to $996 million from $934 million in 2013, primarily due to higher prices ($133 million) and volumes ($10 million) of energy purchases and a full year of payments for HTP ($30 million). These additional costs were offset by lower Entergy costs ($64 million) as a result of the expiration of the contract in 2013 and lower capacity purchases in 2014 ($42 million). Fuel costs were $37 million (11%) higher during 2014, primarily due to higher prices ($46 million) offset by a lower volume ($9 million). The average price of fuel consumed was higher in 2014 compared to 2013 due to increased fuel prices during the winter months attributable to severe weather conditions.

Operations and Maintenance (O&M)

O&M expenses decreased by $4 million, or 1%, in 2014 to $562 million, primarily due to a decline in the Recharge NY Power Program residential consumer discount program expense partially offset by the NYS-Upstate fuel reserve initiative payment.

Nonoperating Revenues

For 2014, nonoperating revenues increased by $25 million, or 28%, primarily due to lower unrealized loss on fixed income securities in the Authority's investment portfolio as result of market interest rate fluctuations and an insurance reimbursement received in 2014 for claims on transformer failures. Nonoperating revenues for 2014 and 2013 include income recognition of $71 million and $72 million, respectively, resulting from a value-sharing agreement relating to the nuclear power plants sold by the Authority to subsidiaries of Entergy Corporation in 2000. See note 10(a) "Nuclear Plant Divestiture," of notes to the financial statements, for additional information.

Nonoperating Expenses

For 2014, nonoperating expenses increased by $16 million, or 7%, primarily due to higher voluntary contributions (from $65 million in 2013 to $90 million in 2014) to New York State partially offset by a lower interest expense resulting from lower interest rates.

Cash Flows

Cash flows from operating activities for 2014 ($512 million) were essentially unchanged from the prior year ($513 million).

Net Generation

Net generation for 2014 was 28.7 million megawatt-hours (MWh), a 3% increase from the level generated in 2013. Net generation from the Niagara and St. Lawrence plants in 2014 (20.7 million MWh) was 5% higher than 2013 (19.7 million MWh) due to higher water flows. The higher water flows occurred primarily in the second half of 2014 due to melting of snow pack. During 2014, net hydro generation was approximately 103% of long-term average and above 2013, which was 97% of long-term average. Combined net generation of the fossil fuel plants for 2014 was 8.05 million MWh, or 3% lower than 2013 (8.26 million MWh), with a 0.2 million MWh decrease attributable to the Small Clean Power Plants (SCPP).

Summary of Statements of Net Position

The following is a summary of the Authority's statements of net position for 2014, 2013, and 2012:

	2014	2013	2012	2014 vs. 2013	2013 vs. 2012
	(In millions, except percentages)				
Current assets	$ 1,925	$ 1,824	$ 1,875	6 %	(3) %
Capital assets	4,731	4,771	4,819	(1)	(1)
Other noncurrent assets	2,851	2,694	2,320	6	16
Deferred outflows	17	42	107	(60)	(61)
Total assets and deferred outflows	$ 9,524	$ 9,331	$ 9,121	2	2
Current liabilities	$ 927	$ 1,012	$ 1,030	(8)	(2)
Noncurrent liabilities	4,320	4,320	4,621	-	(7)
Total liabilities	5,247	5,332	5,651	(2)	(6)
Deferred inflows	286	280	—	2	-
Net position	3,991	3,719	3,470	7	7
Total liabilities, deferred inflows and net position	$ 9,524	$ 9,331	$ 9,121	2	2

The following summarizes the Authority's statements of net position variances for the years 2014 and 2013:

In 2014, current assets increased by $101 million (6%) to $1,925 million primarily due to an increases in cash resulting from the timing of payments and receipts. Capital assets decreased by $40 million (1%) to $4,731 million, primarily due to the excess of depreciation over additions to plant and construction in progress. Other noncurrent assets increased by $157 million (6%) primarily due to an increase in the nuclear decommissioning fund, transmission line interconnection costs associated with HTP and recoverable costs related to the Astoria capital lease. Deferred outflows decreased by $25 million (60%) primarily due to changes in fair value and settlements of derivative instruments. Current liabilities decreased by $85 million (8%), to $927 million, primarily due to decreases in accounts payable and accrued liabilities ($76 million). Noncurrent liabilities, which were unchanged, included a $115 million increase in the nuclear plant decommissioning obligation reflecting investment earnings 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), partially offset by decreases in long-term debt ($93 million) due to scheduled maturities and payments on capital lease obligations. Deferred inflows reflect a reclassification of $286 million from other noncurrent liabilities to deferred inflows based on a current year review of deferred inflows of resources financial reporting requirements related to costs of removal obligations. The changes in net position for 2014 and 2013 are discussed in the summary of revenues, expenses and changes in net position in this Management's Discussion and Analysis.

In 2013, current assets decreased by $51 million (3%) to $1,824 million primarily due to a decreases in cash resulting from the timing of payments and receipts. Capital assets decreased by $48 million (1%) to $4,771 million, primarily due to the excess of depreciation over additions to plant and construction in progress. Other noncurrent assets increased by $374 million (16%) primarily due to an increase in the nuclear decommissioning fund, transmission line interconnection costs associated with HTP and energy efficiency program work in progress. Deferred outflows decreased by $65 million (61%) primarily due to changes in fair value and settlements of derivative instruments. Current liabilities decreased by $18 million (2%), to $1,012 million, primarily due to increases in short-term debt ($20 million) utilized to finance energy efficiency

NEW YORK POWER AUTHORITY
Management's Discussion and Analysis
December 31, 2014 and 2013
(Unaudited)

projects. Noncurrent liabilities decreased by $301 million (7%) to $4,320 million primarily due to a reclassification of cost of removal obligations ($280 million), the decreases in long-term debt ($96 million), risk management activities – derivatives ($63 million) and Niagara relicensing ($26 million), partially offset by increases in the nuclear plant decommissioning obligation ($114 million). The decrease in long-term debt was due to scheduled maturities. The increase in the nuclear plant decommissioning obligation reflects the increase in investment earnings 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). Deferred inflows reflect a reclassification of $280 million from other noncurrent liabilities to deferred inflows to conform to the 2014 presentation. The changes in net position for 2013 and 2012 are discussed in the summary of revenues, expenses and changes in net position in this Management's Discussion and Analysis.

Capital Asset and Long-Term Debt Activity

The Authority currently estimates that it will expend approximately $1,861 million for various capital improvements over the five-year period 2015-2019. 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 commercial paper notes and/or the issuance of long-term fixed rate debt. Projected capital requirements during this period include (in millions):

Smart Grid G & T Implementation	$ 274
Plant Modernization Program-LEM (Lewiston Pump Generation Plant)	263
MA1 & MA2 Line - 230 kV Transmission Line	204
Switchyard Modernization Program-LEM (Niagara, St. Lawrence, Blenheim-Gilboa, Clark Energy Center)	199
Information Technology Infrastructure/Initiatives	90
Breaker and Relay Replacement Program (Niagara, St. Lawrence)	85
RMNPP Upgrade Program	61
High Voltage Initiative	50
Substation Upgrades (Adk, Plattsburgh, Saranac, Willis, Massena)	45
Relicensing And Compliance (Niagara, St. Lawrence, Blenheim-Gilboa)	28
R-22 Inlet Chiller Systems	26
Marcy South Series Compensation	24
STL - New Security and Warehouse Facility	22
St. Lawrence Headgate Automation	20
Install Advanced Hot Gas Path Components	20
Stator Rewind And Restack Project - Phase III (Niagara)	19
Pv-20 Line submarine cable	18
St. Lawrence Generator Step-Up (GSU) Transformer Replacement	18
Small Hydro Facilities-Units Upgrades (Vischer Ferry , Crescent)	16
Governor And Controls Upgrade (RMNPP)	16
765/230 Kv Mult-Unit Autotransformer Replacement (Massena)	15
Implementation of CIP Version 5 Standard Requirements	12
Rotor Modification For Stress Redistribution	12
Flynn Major Outage-New Parts	10
SCPP Black Start (Hellgate & Harlem River)	9
Other (projects less than $9 million)	305
	$ 1,861

In addition, the Authority's capital plan includes the provision of approximately $1,016 million in financing for Energy Services and Technology projects to be undertaken by the Authority's governmental customers and other public entities in the State. It should also be noted that due to projects currently under review as well as energy initiatives announced in the

Governor's State of the State address, 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.

In December 2012, the Authority's Trustees approved a $726 million Transmission Life Extension and Modernization Program (Transmission LEM Program) on the Authority's Transmission system through 2025. The Transmission LEM Program encompasses transmission assets in the Central, Northern and Western regions of New York and will include work to be done such as upgrades, refurbishments and replacements associated with switchyards and substations, transmission line structures or towers and associated hardware and replacement of the submarine cable on the PV-20 line. Reinvestment in this strategic component of the Authority's overall mission supports the repair, upgrade and/or expansion of the transmission infrastructure. The Authority intends to finance the Transmission LEM Program with internal funds and proceeds from debt obligations to be issued by the Authority. The work on the Transmission LEM Program is underway and is expected to continue through 2025.

The Authority's Trustees approved a $460 million Life Extension and Modernization Program at the Niagara project's Lewiston Pump-Generating Plant, (Lewiston LEM Program) of which $300 million of expenditures have been authorized and $131 million spent as of December 31, 2014. The work to be done includes a major overhaul of the plant's 12 pump turbine generator units. The Lewiston LEM Program will increase pump and turbine efficiency, operating efficiency, and the peaking capacity of the overall Niagara project. The Authority filed an application with the Federal Energy Regulatory Commission (FERC) for a non-capacity license amendment in connection with the program. The amendment was approved with a FERC order issued in 2012. The Authority intends to finance this LEM Program with internal funds and proceeds from debt obligations to be issued by the Authority. The unit work began in late 2012 and is on-going, with the final unit expected to be completed in 2020.

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. In 2007, the Authority estimated that the capital cost associated with the relicensing of the Niagara project would be approximately $495 million. This estimate 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. As of December 31, 2014, the balance in the liability associated with the relicensing on the statement of net position is $301 million ($22 million in current and $279 million in other noncurrent liabilities).

The Authority is embarking on several initiatives, which are currently in varying stages of development. These initiatives will enhance the Authority's current operations and expand energy services and include, but are not limited to Smart Generation and Transmission (deployment of advanced technologies that ensure that grid operations become increasingly intelligent), Customer Energy Solutions (development of innovative, cost-effective and resilient energy systems to provide our customers with choices enabling them to achieve their energy goals in new ways) and Asset Management (strengthening investment planning through enhanced use of technology, data, people and processes).

More detailed information about the Authority's capital assets is presented in notes 2 and 5 of the notes to the financial statements.

NEW YORK POWER AUTHORITY
Management's Discussion and Analysis
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(Unaudited)

Capital Structure

	2014	2013	2012
		(In millions)	
Long-term debt, net of current maturities:			
Senior:			
Revenue bonds	$ 902	$ 958	$ 1,012
Adjustable rate tender notes	86	96	106
Subordinated:			
Subordinated Notes, Series 2012 (1)	23	24	24
Commercial paper	44	70	102
Total long-term debt, net of current maturities	1,055	1,148	1,244
Net position	3,991	3,719	3,470
Total capitalization	$ 5,046	$ 4,867	$ 4,714

(1) The Subordinated Notes, Series 2012, which were issued on November 2012, are subordinate to the Series 2003 A Revenue Bonds, the Series 2006 A Revenue Bonds, the Series 2007 A, B, and C Revenue Bonds, the Series 2011 A Revenue Bonds and the Adjustable Rate Tender Notes.

During 2014, long-term debt, net of current maturities, decreased by $93 million, primarily due to scheduled maturities and cash funding of capital expenditures.

Total debt to equity ratio as of December 31, 2014, decreased to .40-to-1 from .46-to-1 as of December 31, 2013 and from 1.25-to-1 in 2004. Total debt as of December 31, 2014 is at its lowest level since December 31, 1975.

Debt Ratings

	Moody's	Standard & Poor's	Fitch
NYPA's underlying credit ratings:			
Senior debt:			
Long-term debt (a)	Aa1	AA	AA
Adjustable rate tender notes	Aa1/VMIG1	AA/A-1+	N/A
Subordinate debt:			
Subordinate Note, Series 2012	N/A	N/A	AA
Commercial paper	P-1	A-1+	F1+

(a) Long term debt includes certain bonds - Series 2007 A, B and C Revenue Bonds, Series 2006 A Revenue Bonds and Series 2003 A Revenue Bonds - which are covered by Municipal bond insurance. In March 2014, S&P upgraded Assured Guaranty Municipal Corp's AA- rating (formerly Financial Security Assurance Inc.) to AA. All other 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 set forth in the table above. The impact of the bond insurers' credit actions on the market value of the Authority's insured bonds was not discernible because of the Authority's strong underlying ratings.

In August 2014, Fitch Ratings affirmed the Authority's senior and subordinate debt ratings and assigned a positive outlook. In November 2014, Standard & Poor's Rating Service upgraded the Authority's long-term senior debt ratings to AA from AA- and upgraded the Authority's short-term subordinate debt ratings to A-1+ from A-1. In November 2014, Moody's

Investor Service, Inc. upgraded the Authority's senior lien revenue bonds to Aa1 from Aa2 and affirmed the Authority's short-term ratings for Commercial Paper Notes and ART Notes at P-1 and VMIG1 respectively.

The Authority has a revolving credit agreement (Agreement) with The Bank of Nova Scotia, which terminates on September 1, 2015, to provide a supporting line of credit for the purpose of repaying, redeeming or purchasing the Adjustable Rate Tender Notes. Under the Agreement, the Authority may borrow up to the outstanding principle of the ART Notes, which at December 31, 2014 was $96 million. The Agreement provides for interest on outstanding borrowings 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 addition, the Authority also has a line of credit under a 2015 revolving credit agreement (the 2015 RCA) with a syndicate of banks, to provide liquidity support for the Series 1-3 CP Notes, under which the Authority may borrow up to $600 million in aggregate principal amount outstanding at any time for certain purposes, including the repayment of the Series 1–3 CP Notes. The 2015 RCA terminates January 15, 2017, unless mutually extended by the banks and the Authority. The 2015 RCA succeeded another revolving credit agreement (the 2011 RCA) in January 2015. No borrowings have been made under the 2015 RCA or the 2011 RCA.

Economic Conditions

Competitive Environment

The Authority's mission is to power the economic growth and competitiveness of New York State by providing customers with low-cost, clean, reliable power and the innovative energy infrastructure and services they value. 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 long-term electricity supply contract with Astoria Generating LLC for the purchase of the output of a new 550-MW power plant in Astoria, Queens, which entered into service on July 1, 2011; (e) contracting a 660 MW, seven mile, underground and underwater transmission line connecting into the PJM ISO, which went operational in June 2013; (f) a significant reduction of outstanding debt; and (g) implementation of an enterprise-wide and energy/fuel risk management program. As a component of NYPA's strategic plan, efforts to modernize NYPA's generation and transmission infrastructure are being developed and implemented to increase flexibility and resiliency, and to serve customers' needs in an increasingly changing electric utility marketplace.

The Authority operates in a competitive and sometimes volatile market environment. Volatility in the energy market has impacted the Authority in its role as a buyer and until recent years had 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 is mitigated by the cost-recovery provisions in the long-term supplemental electricity supply agreements and generation from the Authority's 500-MW Plant. 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.

Through its participation in the NYISO and other commodity markets, the Authority is subject to electric energy price, fuel price and electric capacity price risks that impact the revenue and purchased power streams of its facilities and customer market areas. Such volatility can potentially have adverse effects on the Authority's financial condition. To mitigate downside effects, many of the Authority's customer contracts provide for the complete or partial pass-through of these costs

and to moderate cost impacts to its customers, the Authority hedges market risks through the use of financial instruments and physical contracts. Hedges are transacted by the Authority to mitigate volatility in the cost of energy or related products needed to meet customer needs; to mitigate risk related to the price of energy and related products sold by the Authority; to mitigate risk related to margins (electric sales versus fuel use) where the Authority owns generation or other capacity; and mitigation of geographic cost differentials of energy procured or sold for transmission or transportation to an ultimate location. Commodities to be hedged include, but are not limited to, natural gas, natural gas basis, electric energy, electric capacity and congestion costs associated with the transmission of electricity. Any such actions are taken pursuant to policies and procedures approved by the Authority's Trustees and under the oversight of an Executive Risk Management Committee headed by the Chief Financial Officer.

Rate Actions

Power and energy from the St. Lawrence-FDR and Niagara hydroelectric facilities are sold to municipal electric systems, rural electric cooperatives, industrial and other business customers, certain public bodies, investor-owned utilities, and out-of-state customers, as provided for under state and federal laws. The charges for firm and/or firm peaking power and associated energy sold by the Authority, as applicable, to the fifty-one municipal electric systems and rural electric cooperatives in New York State, two public transportation agencies, three investor-owned utilities for the benefit of rural and domestic customers, and seven out-of-state public customers have been established on the basis of the cost to serve these loads. These charges are among the lowest found throughout the United States. In November 2011, the Authority's Trustees approved a 41-month rate plan providing for certain phased-in increases to these rates which result in effective hydro rate increases of 5.5% on December 1, 2011 and annual increases of approximately 5.5% from May 1, 2012 to May 1, 2014. The rates effective May 1, 2014 are sufficient to recover the costs estimated to be incurred during 2015 and will remain in effect at current levels until further notice.

Expansion and replacement power industrial customers supplied from the Niagara facility and preservation power industrial customers supplied from the St. Lawrence-FDR facility are allocated over 30% of the combined firm contract demand of the plants. Their rates are subject to annual adjustment based on the average of three contractually agreed-upon economic indices reflecting changes in industrial energy prices.

In an order issued January 27, 1999, FERC approved the use of a $165.4 million transmission system revenue requirement in developing rates for use of NYPA's transmission facilities in the NYISO market. FERC also approved, among other things, the imposition of a NYPA Transmission Adjustment Charge ("NTAC") and the NYPA Transmission Service Charges ("TSC") which are the tariff elements established to achieve full recovery of the Authority's annual transmission revenue requirement. In July 2012, the Authority filed for its first requested increase in the revenue requirement with FERC since the implementation of the NYISO. This filing resulted in FERC's October 4, 2013 order accepting an uncontested settlement agreement establishing a new $175.5 million revenue requirement.

Recharge New York Power Program

Chapter 60 (Part CC) of the Laws of 2011 (Chapter 60) established the "Recharge New York Power Program" (RNYPP), administered by the Authority, which has as its central benefit up to 910 MW of low cost power comprised of up to 455 MW of hydropower from the Niagara and St. Lawrence-FDR Projects and up to 455 MW of other power procured by the Authority from other sources. The 910 MW of power is available for allocation as provided by Chapter 60 to eligible new and existing businesses and not-for-profit corporations under contracts of up to seven years. RNYPP was effective beginning July 1, 2012.

The RNYPP replaced two other programs, the Power for Jobs (PFJ) and Energy Cost Savings Benefit (ECSB) Programs, which had extended benefits of low-cost power to certain businesses, small businesses and not-for-profit organizations. Those PFJ and ECSB Program customers who were in substantial compliance with contractual commitments under the PFJ and ECSB Programs and who applied but did not receive RNYPP allocations are eligible to apply for transitional electricity discounts, as provided for in Chapter 60. This transitional electricity discounts program provides for declining levels of discounts through June 30, 2016 when the program terminates, if payment of such discounts is deemed feasible and advisable by the Authority's Trustees. In June 2012, the Authority's Trustees authorized transitional electricity discount payments of up to $9 million for the year July 1, 2012 – June 30, 2013. As of December 31, 2014, approximately $3.9 million of such discounts have been paid with an additional $1.0 million in payments remaining to be made pursuant to the authorization. On February 26, 2015, the Authority's Trustees approved an additional $8 million to fund anticipated payments for the period from July 1, 2013 to June 30, 2015.

The hydropower used for the RNYPP was power formerly used to provide low-cost electricity to domestic and rural customers of the three private utilities that serve upstate New York. To mitigate the impacts from the redeployment of this hydropower for the RNYPP, Chapter 60 created a "Residential Consumer Discount Program" (RCDP). The RCDP authorizes the Authority, as deemed feasible and advisable by its Trustees, to provide annual funding of $100 million for the first three years following withdrawal of the hydropower from the residential and farm customers, $70 million for the fourth year, $50 million for the fifth year, and $30 million each year thereafter, for the purpose of funding a residential consumer discount program for those customers that had formerly received the hydropower that is utilized in the RNYPP. Chapter 60 further authorizes the Authority, as deemed feasible and advisable by the Trustees, to use revenues from the sales of hydroelectric power, and such other funds of the Authority, as deemed feasible and advisable by the Trustees, to fund the RCDP. The Authority's Trustees have authorized the release of a total $337.5 million through December 2014 in support of the RCDP. The Authority supplemented the market revenues through the use of internal funds, from the August 2011 start of the program through December 31, 2014, totaling cumulatively $110 million. Operations and maintenance expenses included $88 million and $100 million of residential consumer discounts in the years ended December 31, 2014 and 2013. On February 26, 2015, the Authority's Trustees approved up to an additional $63 million to fund the RCDP payments anticipated to be made in 2015.

Western New York Power Proceeds Allocation Act

The Authority participates in the Western New York Power Proceeds Act (WNYPPA) created by Chapter 58 (Part GG) of the Laws of 2012 (Chapter 58), The WNYPPA authorizes the Authority, as deemed feasible and advisable by the Trustees, to deposit net earnings from the sale of unallocated Expansion Power and Replacement Power from the Authority's Niagara project into an account administered by the Authority known as the Western New York Economic Development Fund (Fund). Net earnings are defined as any excess revenues earned from such power sold into the wholesale market over the revenues that would have been received had the power been sold at the Expansion Power and Replacement Power rates. Proceeds from the Fund may be used to support eligible projects undertaken within a 30-mile radius of the Niagara power project that satisfy applicable criteria. The Authority's Trustees have approved the release of up to $50 million in net earnings, calculated for the period August 30, 2010 through December 31, 2014 as provided in the legislation, for deposit into the Fund. As of December 31, 2014, $38 million has been deposited into the Fund. As of December 31, 2014, the Authority has approved awards of Fund money totaling approximately $21 million to businesses that have proposed eligible projects and has made payments totaling $5 million to such businesses. Payment of these awards is contingent upon the execution of acceptable contracts between the Authority and individual awardees.

Northern New York Power Proceeds Allocation Act

Chapter 545 of the Laws of 2014 enacted the "Northern New York Power Proceeds Act" (NNYPPA). The NNYPPA authorizes the Authority, as deemed feasible and advisable by the Trustees, to deposit "net earnings" from the sale of unallocated St. Lawrence County Economic Development Power (SLCEDP) by the Authority in the wholesale energy market into an account the Authority would administer known as the Northern New York Economic Development Fund (NNY Fund), and to make awards to eligible applicants that propose eligible projects that satisfy applicable criteria. The NNYPPA also establishes a five-member Northern New York Power Allocations Board appointed by the Governor to review applications seeking NNY Fund benefits and to make recommendations to the Authority concerning benefits awards.

SLCEDP consists of up to 20 MW of hydropower from the Authority's St. Lawrence-FDR Power Project which the Authority has made available for sale to the Town of Massena Electric Department ("MED") for MED to sub-allocate for economic development purposes in accordance with a contract between the parties entered into in 2012 (Authority-MED Contract). The NNYPPA defines "net earnings" as the aggregate excess of revenues received by the Authority from the sale

of energy associated with SLCEDP by the Authority in the wholesale energy market over what revenues would have been received had such energy been sold to MED on a firm basis under the terms of the Authority-MED contract. For the first 5 years after enactment, the amount of SLCEDP the Authority could use to generate net earnings may not exceed the lesser of 20 MW or the amount of SLCEDP that has not been allocated by the Authority pursuant to the Authority-MED contract. Thereafter, the amount of SLCEDP that the Authority could use for such purpose may not exceed the lesser of 10 MW or the amount of SLCEDP that has not been allocated. On February 26, 2015, the Authority's Trustees approved the release of funds, of up to $3 million, into the Northern New York Economic Development Fund representing "net earnings" from the sale of unallocated SLCEDP into the wholesale energy market for the period December 29, 2014 through December 31, 2015.

New York State Budget and Other Matters

The Authority is requested, from time to time, to make financial contributions or transfers of funds to the State. Any such contribution or transfer of funds must (i) be authorized by law (typically, legislation enacted in connection with the State budget), 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) such withdrawal 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.

In May 2011, the Authority's Trustees adopted a policy statement (Policy Statement) which relates to, among other things, voluntary contributions, transfers, or other payments to the State by the Authority after that date. The Policy Statement provides, among other things, that in deciding whether to make such contributions, transfers, or payments, the Authority shall use as a reference point the maintenance of a debt service coverage ratio of at least 2.0, in addition to making the other determinations required by the Bond Resolution. The Policy Statement may at any time be modified or eliminated at the discretion of the Authority's Trustees.

Legislation enacted into law, as part of the 2000-2001 State budget, as amended up to the present time, has authorized the Authority as deemed feasible and advisable by the trustees, to make a series of voluntary contributions into the State treasury in connection with the PFJ Program and for other purposes as well. The PFJ Program, which had been extended to June 30, 2012, has ended and was replaced by the RNYPP, as discussed above in note 11(a) "Recharge New York Power Program" of the notes to the financial statements. Cumulatively through December 31, 2012, the Authority has made voluntary contributions to the State totaling $475 million in connection with the ended PFJ Program.

In 2014 and 2013, the Authority made $90 million and $65 million, respectively, in contributions to the State that are not related to the PFJ Program and which were recorded as nonoperating expenses in the year ended December 31, 2014 and 2013 statements of revenues, expenses and changes in net position. These contributions were authorized by the Authority's Trustees and were consistent with the related State fiscal year budgets. The 2014 contributions totaling $90 million were transferred directly to ESD in furtherance of ESD's statewide economic development initiatives. The 2013 contributions of $65 million include $45 million that was paid to Empire State Development (ESD) to support the New York State Open for Business economic development initiative in lieu of the voluntary contributions to the State's General Fund for the State fiscal year 2013-2014. Cumulatively, between January 2008 and December 31, 2014, the Authority has made voluntary contributions to the State totaling $582 million unrelated to the PFJ program. The Authority made a contribution of $42 million to ESD on February 26, 2015 with an additional $23 million to be considered for payment by March 31, 2015.

The Governor's Executive Budget proposed for State Fiscal Year 2015-2016 contains language authorizing the Authority, as deemed feasible and advisable by its Trustees, to (i) make a contribution to the State treasury to the credit of the General Fund, or as otherwise directed in writing by the Director of the Budget, in an amount of up to $90 million for the State fiscal year commencing April 1, 2015, the proceeds of which will be utilized for to support energy-related initiatives of the State or for economic development purposes, and (ii) transfer up to $25 million of any such contribution by June 30, 2015 and the remainder of any such contribution by March 31, 2016.

Temporary Asset Transfers

In addition to the authorization for voluntary contributions, as a result of budget legislation enacted in February 2009, the Authority was requested to provide temporary asset transfers to the State of funds held in reserves. Pursuant to the terms of a Memorandum of Understanding dated February 2009 (MOU) between the State, acting by and through the State's Director of Budget, 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 had 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 (see note10(b) "Nuclear Fuel Disposal". 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. In February 2009, the Authority's Trustees 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 approval.

The MOU provides that 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 is 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 moneys 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 lieu of interest payments, the State has waived 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 is 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 and St. Lawrence power plants is 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 approximates the present value of the forgone interest income.

On April 24, 2014, the Authority and the State executed an Amendment to the MOU which provides that the State shall, subject to appropriation by the State Legislature, return the $103 million (Asset A) in five installments in the following amounts and by no later than September 30 of each of the following State fiscal years: (1) $18 million for State Fiscal Year 2014-2015; (2) $21 million for State Fiscal Year 2015-2016; (3) $21 million for State Fiscal Year 2016-2017; (4) $21 million for State Fiscal Year 2017-2018; and (5) $22 million for State Fiscal Year 2018-2019. By its terms, the Amendment to the MOU became effective when it was approved and ratified by the Authority's Board of Trustees on July 29, 2014. The Authority received the first $18 million installment on October 1, 2014. The Assets A and B transfers are reported in miscellaneous receivable and other ($21 million at December 31, 2014) and in other noncurrent assets ($279 million and $318 million at December 31, 2014 and December 31, 2013, respectively) in the statements of net position.

NEW YORK POWER AUTHORITY
Management's Discussion and Analysis
December 31, 2014 and 2013
(Unaudited)

New York Energy Highway

In January 2012, the Governor of New York announced the New York Energy Highway initiative, which is envisioned as a public-private partnership to upgrade and modernize the State's electric power system. The Governor formed a task force comprised of various State officials to oversee implementation of the initiative (Task Force) which is co-chaired by the Authority's President and Chief Executive Officer. In April 2012, the Task Force issued a request for information seeking ideas and proposals in furtherance of the initiative. Approximately 85 organizations responded to the Task Force's request for information and the responses included a large number of different generation and transmission project proposals. Based on the response of all these organizations, the Energy Highway Task Force issued an action plan in October 2012. The resulting Energy Highway Blueprint, calling for public and private investments in the State's energy system of about $5.7 billion over the next five to 10 years, proposed 13 specific actions, divided among four major categories: Expand and Strengthen the System, Accelerate Construction and Repair, Support Clean Energy and Technology Innovation.

In November 2012, the New York Public Service Commission (NYPSC) announced new proceedings addressing various actions described in the Blueprint including (i) the initiation of electric transmission upgrades to move excess power from upstate to downstate ("AC Transmission"), (ii) the creation of a contingency plan to prepare for a large generator retirement ("Generation Retirement Contingency Plan") and (iii) the expansion of natural gas delivery to homeowners and businesses in New York State.

In response to the request for information and the Generation Retirement Contingency Plan and AC Transmission proceedings, the New York Transmission Owners (NYTOs), comprised of the State's largest private utilities, the Long Island Power Authority (LIPA), and the Authority, indicated that they were exploring the creation of a new Statewide transmission entity (NY Transco) to pursue development, construction, operation, and ownership of new transmission projects. The NYTOs proposed to the Task Force and to the NYPSC several transmission projects that could be undertaken by a NY Transco entity. Participation of the Authority in the NY Transco would be contingent on the enactment of legislation by the State that enables the Authority to participate. As of the 2014 legislative session, which ended in June 2014, such enabling legislation has not been passed. On November 24, 2014, affiliates of the NYTOs formed a transmission entity (Four-Party Transco) that does not include LIPA or the Authority but would permit their participation should the necessary enabling legislation be passed.

In its November 4, 2013 Generation Retirement Contingency Plan Order, the NYPSC selected three transmission projects (TOTS projects) to be built by Consolidated Edison, New York State Electric and Gas (NYSEG) and the Authority. The NYPSC also requested that the NYTOs seek FERC approval for the three TOTS projects. On December 4, 2014, the NYTOs on behalf of themselves and the Four-Party Transco filed applications at FERC to permit the transfer of certain transmission assets to the Four-Party Transco. The Four-Party Transco also filed an application for cost allocation and recovery for five projects, including the three TOTS projects. On January 16, 2015, the Authority filed at FERC in opposition of the cost allocation methodology proposed by the Four-Party Transco. The Authority is co-developing one of the TOTS projects with NYSEG and plans to make a filing at FERC to recover the costs of its portion of that project.

Build Smart NY Initiative

On December 28, 2012, the Governor of New York issued Executive Order No. 88 (EO 88) directing state agencies collectively to reduce energy consumption in state-owned and managed buildings by 20 percent within seven years – an initiative designed to produce significant savings for New York taxpayers, generate jobs, and significantly reduce greenhouse gas emissions. To meet this initiative, the Governor launched Build Smart NY, a plan to strategically implement EO 88 by accelerating priority improvements in energy performance. The Authority has offered to provide $450 million in low-cost financing for this initiative for state owned buildings and an additional $350 million for towns and municipalities. Such low-cost financing would be funded by proceeds of the Authority's commercial paper or another form of debt. The Authority's costs of financing would be recovered from the energy efficiency customers in this program. In addition, as provided for in EO 88, the Authority has established a central management and implementation team to carry out the Build Smart NY plan. In 2014, the Authority has in aggregate provided approximately $150 million in financing for energy efficiency projects at State agencies and authorities covered by EO 88.

Energy Efficiency Market Acceleration Program

In June 2012, the Authority's Trustees authorized up to $30 million in funding over five years for an energy efficiency market acceleration program involving energy efficiency research, demonstration projects, and market development. As of December 31, 2014, the Authority's Trustees have approved the award of contracts with a cumulative value of up to approximately $26 million.

Contacting the Authority

This financial report is designed to provide our customers and other interested 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.

Statements of Net Position

(In millions)

	December 31, 2014	December 31, 2013
Assets and Deferred Outflows		
Current Assets:		
Cash and cash equivalents	$ 78	$ 8
Investment in securities	1,258	1,287
Receivables - customers	188	238
Materials and supplies, at average cost:		
Plant and general	91	88
Fuel	49	22
Miscellaneous receivables and other	261	181
Total current assets	1,925	1,824
Noncurrent Assets:		
Restricted funds:		
Cash and cash equivalents	18	18
Investment in securities	1,486	1,365
Total restricted assets	1,504	1,383
Capital funds:		
Cash and cash equivalents	1	7
Investment in securities	36	43
Total capital funds	37	50
Capital Assets:		
Capital assets not being depreciated	421	379
Capital assets, net of accumulated depreciation	4,310	4,392
Total capital assets	4,731	4,771
Other Noncurrent Assets:		
Receivable - New York State	279	318
Notes receivable - nuclear plant sale	–	19
Other long-term assets	1,031	924
Total other noncurrent assets	1,310	1,261
Total noncurrent assets	7,582	7,465
Total assets	9,507	9,289
Deferred outflows:		
Accumulated decrease in fair value of hedging derivatives	17	42
Total assets and deferred outflows	$ 9,524	$ 9,331

(Continued)

NEW YORK POWER AUTHORITY

Statements of Net Position

(In millions)

Liabilities, Deferred Inflows and Net Position	December 31, 2014	2013
Current liabilities:		
Accounts payable and accrued liabilities	$ 334	$ 410
Short-term debt	466	452
Long-term debt due within one year	90	93
Capital lease obligation due within one year	16	12
Risk management activities - derivatives	21	45
Total current liabilities	927	1,012
Noncurrent liabilities:		
Long-term debt:		
Senior:		
Revenue bonds	902	958
Adjustable rate tender notes	86	96
Subordinated:		
Subordinated Notes, Series 2012	23	24
Commercial paper	44	70
Total long-term debt	1,055	1,148
Other noncurrent liabilities:		
Capital lease obligation	1,189	1,205
Liability to decommission divested nuclear facilities	1,415	1,300
Disposal of spent nuclear fuel	217	216
Relicensing	279	277
Risk management activities - derivatives	16	24
Other long-term liabilities	149	150
Total other noncurrent liabilities	3,265	3,172
Total noncurrent liabilities	4,320	4,320
Total liabilities	5,247	5,332
Deferred inflows:		
Cost of removal obligation	286	280
Net position:		
Net investment in capital assets	1,992	1,949
Restricted	25	24
Unrestricted	1,974	1,746
Total net position	3,991	3,719
Total liabilities, deferred inflows and net position	$ 9,524	$ 9,331

See accompanying notes to the financial statements.

NEW YORK POWER AUTHORITY

Statements of Revenues, Expenses and Changes in Net Position

(In millions)

	Year Ended December 31, 2014	2013
Operating revenues:		
Power sales	$ 2,396	$ 2,264
Transmission charges	165	163
Wheeling charges	614	603
Total operating revenues	3,175	3,030
Operating Expenses:		
Purchased power	996	934
Fuel oil and gas	361	324
Wheeling	614	603
Operations	442	451
Maintenance	120	115
Depreciation	232	228
Total operating expenses	2,765	2,655
Operating income	410	375
Nonoperating revenues and expenses:		
Nonoperating revenues:		
Investment income	21	5
Other	94	85
Total nonoperating revenues	115	90
Nonoperating expenses		
Contribution to New York State	90	65
Interest on long-term debt	59	63
Interest - other	116	119
Interest capitalized	(9)	(7)
Amortization of debt premium	(3)	(3)
Total nonoperating expenses	253	237
Net income before contributed capital	272	228
Contributed capital – Wind farm transmission assets	–	21
Change in net position	272	249
Net position, January 1	3,719	3,470
Net position, December 31	$ 3,991	$ 3,719

See accompanying notes to the financial statements.

Statements of Cash Flows

(In millions)

	Year Ended December 31, 2014	Year Ended December 31, 2013
Cash flows from operating activities:		
Received from customers for the sale of power, transmission and wheeling	$ 3,143	$ 2,972
Disbursements for:		
Purchased power	(981)	(950)
Fuel, oil and gas	(419)	(325)
Wheeling of power by other utilities	(616)	(605)
Operations and maintenance	(615)	(579)
Net cash provided by operating activities	512	513
Cash flows from capital and related financing activities:		
Gross additions to capital assets	(186)	(165)
Repayment of notes	(10)	(10)
Repayment of bonds	(51)	(49)
Repayment of commercial paper	(32)	(33)
Earnings received on construction fund investments	–	1
Interest paid, net	(58)	(63)
Net cash used in capital and related financing activities	(337)	(319)
Cash flows from noncapital–related financing activities:		
Energy conservation program payments received from participants	109	119
Energy conservation program costs	(185)	(208)
Issuance of commercial paper	139	143
Repayment of commercial paper	(124)	(122)
Interest paid on commercial paper	(3)	(4)
Transmission line interconnection costs	(73)	(173)
Contributions to OPEB trust fund	(17)	(22)
Contributions to New York State	(90)	(65)
Payment received from New York State	18	–
Payments received from value sharing agreement	72	72
Payments received from notes receivable	20	20
Payment for fuel reserve – NYS initiative	(10)	–
NYISO collateral	(14)	–
Net cash used in noncapital-related financing activities	(158)	(240)
Cash flows from investing activities:		
Earnings received on investments	21	23
Purchase of investment securities	(5,297)	(5,802)
Sale of investment securities	5,323	5,760
Net cash provided by (used in) investing activities	47	(19)
Net increase (decrease) in cash	64	(65)
Cash and cash equivalents, January 1	33	98
Cash and cash equivalents, December 31	$ 97	$ 33
Reconciliation to net cash provided by operating activities:		
Operating income	$ 410	$ 375
Adjustments to reconcile operating income to net cash provided by operating activities:		
Change in assets, deferred outflows, liabilities and deferred inflows:		
Provision for depreciation	232	228
Net increase in prepayments and other	(20)	(1)
Net increase in receivables and inventory	(57)	(78)
Net decrease in accounts payable and accrued liabilities	(53)	(11)
Net cash provided by operating activities	$ 512	$ 513

See accompanying notes to the financial statements.

Notes to the Financial Statements

December 31, 2014 and 2013

(1) General

The Power Authority of the State of New York (the 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’s mission is to power the economic growth and competitiveness of New York State by providing customers with low-cost, clean, reliable power and the innovative energy infrastructure and services they value. 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.

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 investor-owned utilities, rural electric cooperatives, high load factor industries and other businesses located throughout New York State, various public corporations located in Southeastern New York within the metropolitan area of New York City (SENY Governmental Customers), and certain out-of-state customers.

To provide electric service, the Authority owns and operates five major generating facilities, eleven small gas-fired electric generating facilities, and four small hydroelectric facilities in addition to a number of transmission lines, including major 765-kV and 345-kV transmission facilities. The Authority’s five major generating facilities consist of two large hydroelectric facilities (Niagara and St. Lawrence-FDR), a large pumped-storage hydroelectric facility (Blenheim-Gilboa), the combined cycle electric generating plant located in Queens, New York (500-MW Plant) and the Richard M. Flynn combined cycle plant located on Long Island (Flynn). To provide additional electric generation capacity to the Authority’s NYC Governmental Customers, the Authority entered into a long-term electricity supply agreement with Astoria Energy II LLC in 2008 for the purchase of the output of an Astoria, Queens based natural-gas fueled 550-MW generating plant, which entered service in the summer of 2011.

The Authority acts through a Board of Trustees. The Authority’s Trustees are appointed by the Governor of the State of New York, 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 a combination of internally generated funds and 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. Under the criteria set forth in Governmental Accounting Standards Board (GASB) 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 the Act 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.

The ‘‘Public Authorities Accountability Act of 2005’’ (‘‘PAAA’’) was signed into law in January 2006 and its various provisions address public authority reporting, governance, budgeting, oversight, and auditing matters, among other things. Additional public authority reforms were made by Chapter 506 of the Laws of 2009 (Chapter 506) which took effect on March 1, 2010. For example, Chapter 506 provided for (i) the creation of an “Authorities Budget Office” to provide oversight and other functions regarding public authorities, including the Authority; (ii) enhanced reporting requirements for public authorities, including the Authority; (iii) additional governance responsibilities for the boards of public authorities, including the Authority; (iv) New York State Comptroller review and approval of certain contracts of public authorities, including the Authority; (v) restrictions on property disposal by public authorities, including the Authority; and (vi) State Senate approval of certain authorities’ chief executive officers, including the Authority.

(2) Summary of Significant Accounting Policies

The Authority's significant accounting policies include the following:

(a) Basis of Reporting

The Authority complies with all applicable pronouncements of the Governmental Accounting Standards Board (GASB). In accordance with GAS No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements,* the Authority applies 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 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. Accordingly, revenues are recognized in the period in which they are earned and expenses are recognized in the period in which they are incurred.

(b) Regulatory Accounting

The Authority's Board of Trustees has broad rate setting authority for its power sales agreements with customers. The sale of transmission service over the Authority's facilities is provided pursuant to New York Independent System Operator (NYISO) tariffs and under contracts that pre-dated existence of the NYISO. The Authority files its transmission system revenue requirement with the Federal Energy Regulatory Commission (FERC) for inclusion in the NYISO's open access tariff.

The Authority accounts for the financial effects of the rate regulated portion of its operations in accordance with the provisions of ASC Topic 980, *Regulated Operations.* These provisions recognize the economic ability of regulators, through the ratemaking process, to create future economic benefits and obligations affecting rate-regulated entities. 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 amounts that are collected from customers through the ratemaking process associated with costs to be incurred in future periods. Based on the action of the Board of Trustees, the Authority believes the future collection of the costs held over through regulatory assets is probable. For regulatory assets and liabilities see note 2(l) "Other Long-Term Assets" of the notes to the financial statements.

(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.

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The related depreciation provisions at December 31, 2014 and 2013 expressed as a percentage of average depreciable capital assets on an annual basis are:

	Average depreciation rate 2014	Average depreciation rate 2013
Type of plant:		
Production:		
Hydro	2.0%	2.0%
Gas turbine/combined cycle	3.2	3.2
Transmission	2.4	2.5
General	3.5	3.6
	2.8%	2.8%

(e) Asset Retirement and Cost of Removal Obligations

The Authority applies the applicable provisions of ASC Topic 410, *Asset Retirement and Environmental 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 Small Clean Power Plants (SCPPs) in New York City and, accordingly, has recorded a liability for the retirement of this asset. In connection with these legal obligations, the Authority has also recognized a liability for the remediation of certain contaminated soils discovered during the construction process.

ASC Topic 410 does not apply to asset retirement obligations involving pollution remediation obligations that 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. The Authority had no liabilities recorded related to GAS No. 49 at December 31, 2014 or 2013.

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. During 2014, the Authority continued to review the financial reporting requirements of deferred inflows of resources and has determined that certain regulatory liabilities for cost of removal more closely reflected the criterion for deferred inflows of resources. Accordingly, the Authority reclassified $286 million and $280 million at December 31, 2014 and 2013, respectively, from other noncurrent liabilities to deferred inflows of resources. These reclassifications had no effect on net income and changes in net position or cash flows.

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

	ARO amounts	Cost of removal obligation
	(In millions)	
Balance – December 31, 2013	$ 52	$ 280
Depreciation Expense	–	6
Balance – December 31, 2014	$ 52	$ 286

(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 and capacity price and fuel cost changes on its earnings and cash flows. The Authority recognizes the fair value of all financial derivative instruments as either an asset or liability on its statements of net position with the offsetting gains or losses recognized in earnings or deferred charges. The Authority applies GAS No. 53, *Accounting and Financial Reporting for Derivative Instruments*, which establishes accounting and reporting requirements for derivative instruments (see note 8 "Risk Management and Hedging Activities" of the notes to the financial statements).

(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 weighted average cost and are charged to expense during the period in which the material or supplies are used.

(k) 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.*

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(l) Other Long- Term Assets

Other long-term assets at December 31, 2014 and 2013 consist of the following:

	December 31, 2014	December 31, 2013
Other long-term assets:		
Regulatory assets (a):		
Recoverable electricity supply market costs	$ 183	$ 132
Risk management activities	20	27
Other regulatory assets	32	26
Total regulatory assets	235	185
Energy efficiency program costs (b)	215	253
Other long-term receivables	245	223
Transmission line interconnection costs	233	190
Other	103	73
Total other long-term assets	$ 1,031	$ 924

(a) Regulatory assets reflect previously incurred costs that are expected to be recovered from customers through the ratemaking process.

(b) Energy efficiency program costs will be recovered from certain customers through the terms of contracts.

(m) Compensated Absences

The Authority accrues the cost of unused sick leave which is payable upon the retirement of its employees. The Authority has accrued $33 million and $30 million at December 31, 2014 and 2013 in other non-current liabilities on the statements of net position. The current year's cost is accounted for as a current operating expense in the statements of revenues, expenses, and changes in net position.

(n) Net Position

Net Position represents the difference between assets plus deferred outflows and liabilities plus deferred inflows and is classified into three components:

a. Net investment in capital assets – This consists of capital assets, net of depreciation reduced by related outstanding debt and accounts. This indicates that these assets are not accessible for other purposes.

b. Restricted – This represents restricted assets reduced by related liabilities and deferred inflows of resources that are not accessible for general use because their use is subject to restrictions enforceable by third parties.

c. Unrestricted – This represents the net amount of assets, deferred outflows of resources, liabilities and deferred inflows of resources that are not included in the components noted above and that are available for general use.

(o) New York Independent System Operator (NYISO)

The Authority is a member and a customer of the New York Independent System Operator (NYISO). The NYISO schedules the use of the bulk transmission system in the State, which normally includes all the Authority's transmission facilities, and collects ancillary services, losses and congestion fees from customers. In addition, 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.

Based upon the Authority's scheduled customer power needs and available electricity generated by the Authority's operating assets, the Authority buys and sells energy in an electricity market operated by the NYISO. A significant amount of the Authority's energy and capacity revenues result from sales of the Authority's generation into the NYISO market. A significant amount of the Authority's operating expenses consist of various NYISO purchased power charges in combination with generation related fuel expenses.

(p) Operating Revenues

The customers served by the Authority and the rates paid by such customers vary with the NYPA facilities designated to serve such loads. These customers are served under contracts and tariffs approved by the Trustees.

The principal operating revenues are generated from the sale, transmission, and wheeling of power. 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 the Authority incurred for the transmission and/or delivery of power and energy to customers over transmission lines owned by other utilities. Sales to the Authority's five (5) largest customers operating in the State accounted for approximately 48% and 47% of the Authority's operating revenues in 2014 and 2013, respectively.

In addition to contractual sales to customers, the Authority also sells power into an electricity market operated by the NYISO. These sales are affected by market prices and are not subject to rate regulation by the Authority's Board of Trustees or other regulatory bodies. Accordingly, the Authority does not apply the provisions of ASC Topic 980 to these transactions.

(q) Operating Expenses

The Authority's operating expenses include fuel, operations and maintenance, depreciation, purchased power costs, and other expenses related to the sale of power. Energy costs are charged to expense as incurred.

Purchased power costs include capacity, energy and ancillary service purchases made in the wholesale market on behalf of its customers (except for those made through previously approved purchased power agreements). Wheeling expenses are based on contractual and/or tariff rates of the service provider and are recovered through pass-through provisions in customer contracts.

(r) New Accounting Pronouncements

In 2012, GASB issued Statement of Governmental Accounting Standards No. 68 (Statement No. 68), *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*. Statement No. 68 is effective for fiscal years beginning after June 15, 2014. Statement No. 68 requires governments that provide defined benefit pension plans to their employees to recognize their long-term obligation for pension benefits as a liability for the first time and to more comprehensively and comparably measure the annual costs of pension benefits. Statement No. 68 also enhances accountability and transparency through revised and new note disclosures and required supplemental information. In 2013, GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date,* which is effective for fiscal years beginning after June 15, 2014 and should be applied simultaneously with Statement No. 68. This statement addresses the transition provisions of Statement No. 68, relating to amounts associated with contributions, if any, by a state or local government employer or non-employer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. The Authority is in the process of evaluating the impact of Statement No. 68 and Statement No. 71.

(s) Reclassifications

Certain prior year amounts have been reclassified to conform to the current year's presentation (see note 2 (e) of the notes to the financial statements). These reclassifications had no effect on net income and changes in net position or cash flows.

(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 therefor (including the anticipated receipt of proceeds of sale of Obligations, as defined in the Bond Resolution, issued under the Bond Resolution or other bonds, notes or other obligations or evidences of indebtedness of the Authority that will be used to pay the principal of Obligations issued under the Bond Resolution in anticipation of such receipt, but not including any anticipated or actual proceeds from the sale of any Project), to meet the financial requirements of the Bond Resolution. Revenues of the Authority (after deductions for operating expenses and reserves, including reserves for working capital, operating expenses or compliance purposes) are applied first to the payment of, or accumulation as a reserve for payment of, interest on and the principal or redemption price of Obligations issued under the Bond Resolution and the payment of Parity Debt issued under the Bond Resolution.

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

(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), AAA by Fitch Ratings (Fitch) and AA+ by Standard & Poor's (S&P).

(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, 2014, the Authority's total investment portfolio of $2,877 million included investments of $515 million (18%), $352 million (12%), $233 million (8%) and $69 million (2%) and $87 million (3%) in securities of FNMA, FHLMC, FHLB and FFCB and other various municipal debt securities, respectively.

At December 31, 2013, the Authority's total investment portfolio of $2,728 million included investments of $553 million (20%), $322 million (12%), $260 million (10%) and $86 million (3%) and $135 million (5%) in securities of FNMA, FHLMC, FHLB and FFCB and other various municipal debt securities, respectively.

(d) Decommissioning Fund

The Decommissioning Trust Fund is managed by external investment portfolio managers. Under the Decommissioning Agreements (see note 10(c) "Nuclear Plant Decommissioning" of notes to the financial statements), 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, 2014, the Authority had $70 million of investments in repurchase agreements. At December 31, 2013, the Authority had no investments in repurchase agreements. The bank balances at December 31, 2014 and 2013 were $34 million and $43 million, respectively, of which $33 million and $42 million, respectively, were uninsured, but were collateralized by assets held by the bank in the name of the Authority.

Cash and Investments of the Authority at December 31, 2014 and 2013 are as follows:

December 31, 2014	Total	Total restricted	Restricted: Decommiss-ioning Trust Fund	Restricted: WNYEDF, POCR and CAS projects and other	Restricted: ART note debt reserve	Capital fund	Unrestricted
			(In millions)				
Cash and investments:							
Cash and cash equivalents	$ 97	18	—	18	—	1	78
U.S. government:							
Treasury Notes	105	—	—	—	—	—	105
GNMA	4	—	—	—	—	—	4
	109	—	—	—	—	—	109
Other debt securities:							
FNMA	515	34	—	19	15	12	469
FHLMC	352	—	—	—	—	16	336
FHLB	233	33	—	33	—	5	195
FFCB	69	—	—	—	—	—	69
All other	87	4	—	—	4	3	80
	1,256	71	—	52	19	36	1,149
Portfolio Manager	1,415	1,415	1,415	—	—	—	—
Total investments	2,780	1,486	1,415	52	19	36	1,258
Total cash and investments	$ 2,877	1,504	1,415	70	19	37	1,336
Summary of maturities (years):							
0 – 1	$ 409	74	—	70	4	34	301
1 – 5	1,030	15	—	—	15	—	1,015
5 – 10	15	—	—	—	—	—	15
10+	8	—	—	—	—	3	5
Portfolio manager	1,415	1,415	1,415	—	—	—	—
	$ 2,877	1,504	1,415	70	19	37	1,336

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.

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, took place from 1996 to 2009. The POCR funds are included in restricted funds in the statements of net position. 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. As of December 31, 2014, the conversions to the schools have been completed and the Authority is in its program closeout process regarding the CAS projects.

As of December 31, 2014, restricted funds include the POCR fund ($11 million), the CAS Projects fund ($2 million), the Lower Manhattan Energy Independence Initiative fund ($6 million) and the Fish & Wildlife Habitat Enhancement fund related to the Niagara relicensing costs ($14 million), the Western New York Economic Development Fund ($33 million) – see note 11(a) "Recharge New York Power Program" – and other ($4 million).

			Restricted				
December 31, 2013	Total	Total restricted	Decommissioning Trust Fund	WNYEDF, POCR and CAS projects and other	ART note debt reserve	Capital fund	Unrestricted
			(In millions)				
Cash and investments:							
Cash and cash equivalents	$ 33	18	—	18	—	7	8
U.S. government:							
Treasury Bills	28	20	—	20	—	8	—
GNMA	11	—	—	—	—	—	11
	39	20	—	20	—	8	11
Other debt securities:							
FNMA	553	36	—	25	11	—	517
FHLMC	322	1	—	—	1	6	315
FHLB	260	4	—	—	4	22	234
FFCB	86	—	—	—	—	—	86
All other	135	4	—	—	4	7	124
	1,356	45	—	25	20	35	1,276
Portfolio Manager	1,300	1,300	1,300	—	—	—	—
Total investments	2,695	1,365	1,300	45	20	43	1,287
Total cash and investments	$ 2,728	1,383	1,300	63	20	50	1,295
Summary of maturities (years):							
0 – 1	$ 333	67	—	63	4	43	223
1 – 5	1,026	16	—	—	16	3	1,007
5 – 10	12	—	—	—	—	—	12
10+	57	—	—	—	—	4	53
Portfolio manager	1,300	1,300	1,300	—	—	—	—
	$ 2,728	1,383	1,300	63	20	50	1,295

As of December 31, 2013, restricted funds include the POCR fund ($11 million), the CAS Projects fund ($2 million), the Lower Manhattan Energy Independence Initiative fund ($7 million) and the Fish & Wildlife Habitat Enhancement fund related to the Niagara relicensing costs ($14 million), the Western New York Economic Development Fund ($25 million) – see note 11(a) "Recharge New York Power Program" – and other ($3 million).

(5) Capital Assets

The following schedule summarizes the capital assets activity of the Authority for the year ended December 31, 2014.

	Beginning balance	Additions	Retirements/ Transfers	Ending balance
	(Amounts in millions)			
Capital assets, not being depreciated:				
Land	$ 160	—	—	160
Construction in progress	219	158	(116)	261
Total capital assets not being depreciated	379	158	(116)	421
Capital assets, being depreciated:				
Production – Hydro	1,898	68	(3)	1,963
Production – Gas turbine/combined cycle	2,419	1	—	2,420
Transmission	1,962	23	—	1,985
General	1,156	52	(4)	1,204
Total capital assets being depreciated	7,435	144	(7)	7,572
Less accumulated depreciation for:				
Production – Hydro	710	33	(3)	740
Production – Gas turbine/combined cycle	778	103	—	881
Transmission	1,089	50	—	1,139
General	466	40	(4)	502
Total accumulated depreciation	3,043	226	(7)	3,262
Net value of capital assets, being depreciated	4,392	(82)	—	4,310
Net value of all capital assets	$ 4,771	76	(116)	4,731

The following schedule summarizes the capital assets activity of the Authority for the year ended December 31, 2013:

	Beginning balance	Additions	Retirements/ Transfers	Ending balance
	(Amounts in millions)			
Capital assets, not being depreciated:				
Land	$ 156	4	—	160
Construction in progress	178	148	(107)	219
Total capital assets not being depreciated	334	152	(107)	379
Capital assets, being depreciated:				
Production – Steam	437	—	(437)	—
Production – Hydro	1,830	72	(4)	1,898
Production – Gas turbine/combined cycle	2,418	1	—	2,419
Transmission	1,928	35	(1)	1,962
General	1,134	23	(1)	1,156
Total capital assets being depreciated	7,747	131	(443)	7,435
Less accumulated depreciation for:				
Production – Steam	436	1	(437)	—
Production – Hydro	684	30	(4)	710
Production – Gas turbine/combined cycle	675	103	—	778
Transmission	1,040	49	—	1,089
General	427	39	—	466
Total accumulated depreciation	3,262	222	(441)	3,043
Net value of capital assets, being depreciated	4,485	(91)	(2)	4,392
Net value of all capital assets	$ 4,819	61	(109)	4,771

Wind Farm Transmission Assets

The Authority has allowed three Wind Farm power facilities to interconnect to its bulk transmission system between the Willis and Plattsburgh 230 kV substations. In 2013, Marble River LLC, the wind farm developers, transferred title to one substation (valued at $21 million) to the Authority in order for the Authority to maintain reliability standards and control of its bulk transmission system. The transfer was accounted for as a capital contribution.

(6) Long-Term Debt

(a) Components

	Amount 2014	Amount 2013	Interest rate	Maturity		Earliest redemption date prior to maturity
	(In millions)					
Senior debt:						
Revenue Bonds (Tax-Exempt):						
Series 2006 A Revenue Bonds:						
Serial Bonds	$ 88	$ 100	3.80% to 5.0%	11/15/2015 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 C Revenue Bonds:						
Serial Bonds	237	264	4.0% to 5.0%	11/15/2015 to 2021		11/15/2017
Series 2011 A Revenue Bonds:						
Serial Bonds	65	68	3.0% to 5.0%	11/15/2015 to 2031	*	11/15/2021
Term Bonds	39	39	4.0% to 5.0%	11/15/2038	**	11/15/2021
Revenue Bonds (Taxable):						
Series 2003 A Revenue Bonds:						
Term Bonds	180	186	5.230% to 5.749%	11/15/2018 to 2033	**	Any date
Series 2007 B Revenue Bonds:						
Serial Bonds	11	14	5.503% to 5.603%	11/15/2015 to 2017		Any date
Term Bonds	239	239	5.905% to 5.985%	11/15/2037 and 2043	**	Any date
	941	992				
Plus unamortized premium and discount	22	26				
Less deferred refinancing costs	8	9				
	955	1,009				
Less due in one year	53	51				
	$ 902	$ 958				

* $26.4 million due 2022 is non-callable.
** Bonds are subject to sinking fund provisions.

	Amount 2014	Amount 2013	Interest rate	Maturity		Earliest redemption date prior to maturity
	(In millions)					
Adjustable Rate Tender Notes:						
2016 Notes	$ 21	$ 31	0.15%	3/1/2016	**	Any adjustment date
2020 Notes	75	75	0.15%	3/1/2020		Same as above
	96	106				
Less due in one year	10	10				
	86	96				
Subordinate debt:						
Subordinated Notes, Series 2012	24	24	0.83% to 4.05%	2015 to 2037		N/A
Commercial Paper:						
EMCP (Series 1)	53	62	0.09%	2015 to 2023		
CP (Series 2)	17	40	0.08%	2015		
	94	126				
Less due within one year	27	32				
	67	94				
Total Long-term debt	1,145	1,241				
Less due within one year	90	93				
Long-term debt, net of due in one year	$ 1,055	$ 1,148				

** Notes are subject to sinking fund provisions.

Interest on Series 2003 A and 2007 B Revenue Bonds and Subordinated Notes, Series 2012 is not excluded from gross income for bondholders' Federal income tax purposes.

Senior Debt

As indicated in note 3 of notes to the financial statements, "Bond Resolution," the Authority has pledged future revenues to service the Obligations and Parity Debt (Senior Debt) issued under the Bond Resolution. The total principal and interest remaining to be paid on the Senior Debt is $1.692 billion as of December 31, 2014. Principal and interest paid for 2014 and operating income plus depreciation were $113 million and $642 million, respectively. Principal and interest paid for 2013 and operating income plus depreciation were $112 million and $603 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 in the table above, at principal amount or at various redemption prices according to the date of redemption, together with accrued interest to the redemption date.

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. As of December 31, 2014 and 2013, there were no bonds outstanding that 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 a revolving credit agreement (Agreement) with The Bank of Nova Scotia, which terminates on September 1, 2015, to provide a supporting line of credit for the purpose of repaying, redeeming or purchasing the Adjustable Rate Tender Notes. Under the Agreement, the Authority may borrow up to the outstanding principle of the ART Notes, which at December 31, 2014 was $96 million. The Agreement provides for interest on outstanding borrowings 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. As of December 31, 2014 and 2013, there were no outstanding borrowings under this Agreement. 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 8 of notes to the financial statements for the Authority's risk management program relating to interest rates.

At December 31, 2014 and 2013, the current market value of the senior debt was approximately $1.187 billion and $1.175 billion, respectively. Market values were obtained from a third party that utilized a matrix-pricing model.

Subordinate Debt:

Subordinate Notes – In November 2012, the Authority's Trustees authorized the issuance of Subordinated Notes, Series 2012 (Subordinated Notes), in a principal amount not to exceed $30 million for the purpose of accelerating the funding for the State Parks Greenway Fund, which was established pursuant to the Niagara Relicensing Settlement entered into by the Authority and the New York State Office of Parks, Recreation & Historic Preservation. The Authority issued the Subordinated Notes on December 18, 2012 in the amount of $25 million. These Subordinated Notes are subordinate to the Series 2003 A Revenue Bonds, the Series 2006 A Revenue Bonds, the Series 2007 A, B, and C Revenue Bonds, the Series 2011 A Revenue Bonds and the Adjustable Rate Tender Notes.

Commercial Paper – Under the Extendible Municipal Commercial Paper (EMCP) Note Resolution, adopted December 17, 2002, and as subsequently amended and restated, the Authority may issue a series of notes, designated EMCP Notes, Series 1, maturing not more than 270 days from the date of issue, up to a maximum amount outstanding at any time of $200 million (EMCP Notes). It is the Authority's intent to remarket the EMCP Notes as they mature with their ultimate retirement to range from 2015 to 2023. 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 Notes.

Under the Commercial Paper Note Resolution adopted June 28, 1994, as subsequently amended and restated, the Authority may issue from time to time a separate series of notes maturing not more than 270 days from the date of issue, up to a maximum amount outstanding at any time of $400 million (Series 1 CP Notes), $450 million (Series 2 CP Notes), $350 million (Series 3 CP Notes) and $220 million (Series 4 CP Notes). See note 7 of the notes to the financial statements for Series 1, and certain Series 2 and Series 3 CP Notes designated as short-term debt. There were no Series 4 CP Notes outstanding at December 31, 2014.

The proceeds of certain Series 2 and 3 Commercial Paper Notes (CP Notes) were used to refund General Purpose Bonds and 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 2015 to 2023, as indicated in the table above.

The Authority has a line of credit under a 2015 revolving credit agreement, as amended, (the 2015 RCA) with a syndicate of banks, to provide liquidity support for the Series 1-3 CP Notes, under which the Authority may borrow up to $600 million in aggregate principal amount outstanding at any time for certain purposes, including the repayment of the Series 1–3 CP Notes. The 2015 RCA terminates January 15, 2017, unless mutually extended by the banks and the Authority. The 2015 RCA succeeded the 2011 revolving credit agreement (2011 RCA) which expired January 20, 2015. There are no outstanding borrowings under the 2015 RCA or the 2011 RCA.

CP Notes and EMCP Notes are subordinate to the Series 2003 A Revenue Bonds, the Series 2006 A Revenue Bonds, the Series 2007 A, B, and C Revenue Bonds, the Series 2011 A Revenue Bonds and the Adjustable Rate Tender Notes.

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

Maturities and Interest Expense:	Long-Term Debt (In millions)				Capitalized Lease Obligations (In millions)		
	Principal	Interest	Hedging Derivative Instruments, Net	Total	Principal	Interest	Total
Year:							
2015	$ 90	51	3	144	$ 16	96	112
2016	77	48	2	127	20	94	114
2017	85	45	—	130	25	93	118
2018	85	42	—	127	31	90	121
2019	89	39	—	128	37	88	125
2020 – 2024	234	152	—	386	293	380	673
2025 – 2029	106	119	—	225	550	216	766
2030 – 2034	135	84	—	219	233	15	248
2035 – 2039	87	52	—	139	—	—	—
2040 – 2044	82	29	—	111	—	—	—
2045 – 2049	61	6	—	67	—	—	—
	1,131	667	5	1,803	1,205	1,072	2,277
Plus unamortized bond premium	22	—	—	22	—	—	—
Less deferred refinancing cost	8	—	—	8	—	—	—
	$ 1,145	667	5	1,817	$ 1,205	1,072	2,277

The interest rate used to calculate future interest expense on variable rate debt is the interest rate at December 31, 2014.

(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 Authority and the remarketing agent appointed under the Note Resolution determine the rate for each rate period which, in the agent's opinion, is the minimum rate necessary to remarket the notes at par.

CP Notes and EMCP Notes (Long-Term Portion)

The Authority determines the rate for each rate period which is the minimum rate necessary to remarket the notes at par in the Dealer's opinion. If the Authority exercises its option to extend the maturity of the EMCP Notes, the reset rate will be 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 subject to a cap rate of 12%. As of December 31, 2014, the reset rate would have been 7.0%.

(c) Changes in Noncurrent Liabilities

Changes in the Authority's noncurrent liabilities for the year ended December 31, 2014 are comprised of the following:

	Beginning balance	Additions	Maturities/ refundings and other	Ending balance	Due within one year
			(In millions)		
Senior debt:					
Revenue bonds	$ 992	—	51	941	53
Adjustable rate tender notes	106	—	10	96	10
Subtotal	1,098	—	61	1,037	63
Subordinate debt:					
Subordinated Notes, Series 2012	24	—	—	24	1
Commercial paper	102	—	32	70	26
Subtotal	126	—	32	94	27
Net unamortized discounts/ premiums and deferred losses	17	—	3	14	—
Total debt, net of unamortized discounts/ premiums/ deferred losses	$ 1,241	—	96	1,145	90
Other noncurrent liabilities:					
Capitalized lease obligation	$ 1,205	—	16	1,189	16
Nuclear decommissioning	1,300	115	—	1,415	—
Disposal of nuclear fuel	216	1	—	217	—
Relicensing	277	45	43	279	—
Other	174	37	46	165	—
Total other noncurrent liabilities	$ 3,172	198	105	3,265	16

Changes in the Authority's long-term liabilities for the year ended December 31, 2013 are comprised of the following:

	Beginning balance	Additions	Maturities/ refundings and other	Ending balance	Due within one year
			(In millions)		
Senior debt:					
Revenue bonds	$ 1,040	—	48	992	51
Adjustable rate tender bonds	115	—	9	106	10
Subtotal	1,155	—	57	1,098	61
Subordinate debt:					
Subordinated Notes, Series 2012	25	—	1	24	1
Commercial paper	135	—	33	102	31
Subtotal	160	—	34	126	32
Net unamortized discounts/ premiums and deferred losses	20	—	3	17	—
Total debt, net of unamortized discounts/ premiums/ deferred losses	$ 1,335	—	94	1,241	93
Other noncurrent liabilities:					
Capitalized lease obligation	$ 1,217	—	12	1,205	12
Nuclear decommissioning	1,186	114	—	1,300	—
Disposal of nuclear fuel	216	—	—	216	—
Relicensing	303	18	44	277	—
Other	214	38	78	174	—
Total other noncurrent liabilities	$ 3,136	170	134	3,172	12

(7) Short-Term Debt

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

	December 31,			
	2014		2013	
	Availability	Outstanding	Availability	Outstanding
	(In millions)			
CP Notes (Series 1)	$ 92	$ 308	$ 53	$ 347
CP Notes (Series 2) (a)	290	143	332	78
CP Notes (Series 3)	335	15	323	27

(a) Availability includes long-term CP Notes (Series 2) of $17 million and $40 million outstanding at December 31, 2014 and 2013, respectively (see note 6 of notes to the financial statements).

Under the Commercial Paper Note Resolution adopted June 28, 1994, as subsequently amended and restated, the Authority may issue from time to time a separate series of notes maturing not more than 270 days from the date of issue, up to a maximum amount outstanding at any time of $400 million (Series 1 CP Notes), $450 million (Series 2 CP Notes), $350 million (Series 3 CP Notes) and $220 million (Series 4 CP Notes). See note 6 "Long-term Debt – Subordinated Debt–Commercial Paper" of notes to the financial statements for Series 2 CP Notes designated as long-term debt. It had been and shall be the intent of the Authority to use the proceeds of the Series 1 CP Notes and certain Series 2 and Series 3 CP Notes to finance the Authority's current and future energy efficiency programs and for other corporate purposes.

The changes in short-term debt are as follows:

	Beginning balance	Increases	Decreases	Ending balance
	($ in millions)			
Year:				
2014	$ 452	138	124	466
2013	$ 431	143	122	452

(8) Risk Management and Hedging Activities

Overview

The Authority purchases insurance coverage for its operations, and in certain instances, is self-insured. Property insurance 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 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 four 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 portions of its medical, dental and workers' compensation insurance programs. The Authority pursues subrogation claims as appropriate against any entities that cause damage to its property.

Another aspect of the Authority's risk management program is to manage risk and related volatility on its earnings and cash flows associated with electric energy prices, fuel prices, electric capacity prices and interest rates.

Through its participation in the NYISO and other commodity markets, the Authority is subject to electric energy price, fuel price and electric capacity price risks that impact the revenue and purchased power streams of its facilities and customer market areas. Such volatility can potentially have adverse effects on the Authority's financial condition. To mitigate potential adverse effects and to moderate cost impacts to its customers (many of the Authority's customer contracts provide for the complete or partial pass-through of these costs), the Authority hedges market risks through the use of financial derivative instruments and/or physical forward contracts. Hedges are transacted by the Authority to mitigate volatility in the cost of energy or related products needed to meet customer needs; to mitigate risk related to the price of energy and related products sold by the Authority; to mitigate risk related to margins (electric sales versus fuel use) where the Authority owns generation or other capacity; and mitigation of geographic cost differentials of energy procured or sold for transmission or transportation to an ultimate location. Commodities to be hedged include, but are not limited to, natural gas, natural gas basis, electric energy, electric capacity and congestion costs associated with the transmission of electricity.

To achieve the Authority's risk management program objectives, the Authority's Trustees have authorized the use of various interest rate, energy, and fuel derivative instruments for hedging purposes that are considered derivatives under GAS No. 53, *Accounting and Financial Reporting for Derivative Instruments* (GAS No. 53).

The fair values of all Authority derivative instruments, as defined by GAS No. 53, are reported in current and noncurrent assets or liabilities on the statements of net position as risk management activities. For designated hedging derivative instruments, changes in the fair values are deferred and classified as deferred outflows or deferred inflows on the statements of net position. In cases where commodity options are used as hedging derivative instruments the change in fair value is applied to interest expense and related commodity revenue or expense in the period incurred. For renewable energy derivative instruments, designated as investment derivative instruments, changes in fair value are deferred as regulatory assets or liabilities, as they are recoverable from customers by contractual agreements. The fair value of interest rate swaps take into consideration the prevailing interest rate environment and the specific terms and conditions of each swap. The fair values were estimated using the zero-coupon discounting method. The fair value for over-the-counter and exchange-traded energy, renewable energy natural gas, natural gas transportation and capacity derivative instruments are determined by the latest end-of-trading-month forward prices over the lifetime of each outstanding derivative instrument using the prices published by Platts or internal pricing models or derived from pricing models for option and/or option-based derivative instruments using the underlying price, time to expiry and observed volatilities based upon Platts published prices and other variables.

Derivative Instruments

The following table shows the fair value of outstanding derivatives instruments for 2014 and 2013:

Derivative instrument description	Fair value balance December 31, 2013	Net change in fair value	Fair value balance December 31, 2014	Type of hedge or transaction	Financial statement classification for changes in fair value	Notional amount December 31, 2014	Volume
	($ in millions)						
Interest rate swaps	$ (9)	$ 4	$ (5)	Cash Flow	Deferred outflow	113.7	USD
Energy/Electric:							
Swaps	(37)	29	(8)	Cash Flow	Deferred outflow	146,829	MWh
Call option	2	(2)	—	Cash Flow	Deferred inflow	—	MWh
Renewable energy swaps	(27)	7	(20)	Investment	Regulatory Asset	545,643	MWh
Energy capacity swaps/futures	—	5	5	Cash Flow	Deferred outflow	(4,500,000)	MWh
Fuel swaps	2	(11)	(9)	Cash Flow	Deferred outflow	5,650,000	MMBtu
Totals	$ (69)	$ 32	$ (37)				

Interest rate swaps – The Authority has outstanding forward interest rate swaps intended to fix rates on long-term obligations initially issued to refinance revenue bonds that were required to be tendered in the year 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 5.123% to the counterparties through February 15, 2015. In return, the counterparties would pay interest to the Authority based upon the Securities Industry and Financial Markets Association municipal swap index (SIFMA Index) on the established reset dates. The 2002 swaps are scheduled to terminate on February 15, 2015. Net settlement payments were $1.0 million and $2.2 million in 2014 and 2013, respectively.

In addition, the Authority has outstanding a forward interest rate swap intended to fix 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 outstanding notional amount. 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. Net settlement payments were $3.5 and $3.7 million in 2014 and 2013, respectively.

Energy/Electric swaps – The Authority had outstanding a medium-term forward energy swap intended to fix its exposure for the cost of energy purchases in the NYISO electric market in meeting certain governmental customer load requirements through 2014. Net settlement payments were $19.4 million and $35.7 million in 2014 and 2013, respectively. The Authority also has outstanding short-term forward energy swaps and had options to manage the cost of forecasted purchased power requirements and transmission congestion for certain business customers in 2013, 2014 and 2015. Net settlement receipts were $3.9 million and $0.3 million in 2014 and 2013, respectively.

Renewable energy swaps – The Authority has outstanding long-term forward energy swaps and purchase agreements based upon a portion of the generation of the counterparties' wind-farm-power-generating facilities through 2017. The fixed price ranges from $74 to $75 per MWh and includes the purchase of the related environmental attributes. The intent of the swaps and purchase agreements is to assist certain customers in acquiring and investing in wind power and related environmental attributes to satisfy certain New York State mandates to support renewable energy. Net settlement payments were $4.7 million and $6.7 million in 2014 and 2013, respectively. The Authority anticipates the recovery of any net settlements through specific contractual agreements with customers.

Energy capacity swaps/futures – The Authority sold forward installed capacity swaps and futures intended to mitigate the volatility of market prices for sales into the NYISO markets in 2013, 2014 and 2015. Net settlement payments were $0.5 million in each year of 2014 and 2013.

Fuel swaps and futures –The Authority purchased forward natural gas swaps and natural gas futures intended to mitigate the volatility of market prices for fuel to operate certain electrical generating facilities in 2013, 2014 and 2015 for the benefit of certain of the Authority's customers. Net settlement receipts were $15 million and $1 million in 2014 and 2013, respectively. In connection with the purchase of fuel swaps and futures and for the benefit of the Authority's customers, the Authority purchased natural gas transportation basis swaps to mitigate the volatility of market prices for pipeline transportation to New York City in 2013, 2014 and 2015. There were no settlements in 2014 or 2013.

Other – The Authority from time to time enters into certain derivative instruments that may become ineffective as hedging instruments due to changes in the hedged item. The change in fair value of such derivative instruments is recognized as other nonoperating charges or credits in the statements of revenues, expenses and changes in net position. The fair value of these derivative instruments was insignificant to the Authority's 2014 financial statements.

Counterparty Credit Risk

The Authority's policy regarding the creditworthiness of counterparties for interest rate derivative instruments is defined in the Bond Resolution. The policy requires that such counterparties be rated in at least the third highest rating category for each appropriate rating agency maintaining a rating for qualified swap providers at the time the derivative instrument is executed or have a guarantee from another appropriate entity or an opinion from the rating agencies that the underlying bonds or notes will not be downgraded on the derivative instrument alone. The Authority's Board of Trustees has adopted a Policy for the Use of Interest Rate Exchange Agreements which provides

the overall framework for delegation of authority; allowable interest rate hedging instruments; counterparty qualifications and diversification as well as reporting standards.

The Authority also imposes thresholds, based upon agency-published credit ratings, for unsecured credit that can be extended to counterparties to the Authority's commodity derivative transactions. The thresholds are established in bilateral credit support agreements with counterparties and require collateralization of mark-to-market values in excess of the thresholds. In addition, the Authority regularly monitors each counterparty's market-implied credit ratings and financial ratios and the Authority can restrict transactions with counterparties on the basis of that monitoring, even if the applicable unsecured credit threshold is not exceeded.

Based upon the fair values as of December 31, 2014, the Authority's individual or aggregate exposure to derivative instrument counterparty credit risk is not significant.

Other Considerations

The Authority from time to time may be exposed to any of the following risks:

Basis risk – The Authority is exposed to basis risk on its pay-fixed interest rate swaps since it receives variable-rate payments on these hedging derivative instruments based upon indexes which differ from the actual interest rates the Authority pays on its variable-rate debt. The Authority remarkets its Notes at rates that approximate SIFMA and LIBOR after considering other factors such as the Authority's creditworthiness.

The Authority is exposed to other basis risk in a portion of its electrical commodity-based swaps where the electrical commodity swap payments received are based upon a reference price in a NYISO Market Zone that differs from the Zone in which the hedged electric energy load is forecasted. If the correlation between these Zones' prices should fall, the Authority may incur costs as a result of the hedging derivative instrument's inability to offset the delivery price of the related energy.

Tax risk – The Authority is at risk that a change in Federal tax rates will alter the relationship between the interest rates incurred on its ART Notes and LIBOR Index used in the pay-fixed receive-variable interest rate swap transaction.

Rollover risk – The Authority is exposed to rollover risk on the hedging derivative instrument that terminate prior to the maturity of the Authority's ART Notes, which this derivative instrument hedges. When the derivative instrument terminates the Authority will be re-exposed to the variable interest rate risk being hedged by the derivative instruments. The termination of the interest rate swaps on September 1, 2016 exposes the Authority to rollover risk since the hedged debt matures on March 1, 2020.

Certain electrical commodity-based derivative instruments are based upon projected future customer loads or facility operations. Beyond the terms of these derivative instruments (varying from one month to 48 months) the Authority is subject to the corresponding market volatilities.

Termination risk – The Authority or its counterparties may terminate a derivative instrument agreement if the either party fails to perform under the terms of the agreement. The risk that such termination may occur at a time which may be disadvantageous to the Authority has been mitigated by including certain terms in these agreements by which the counterparty has the right to terminate only as a result of certain events, which includes a payment default by the Authority; other Authority defaults which remain uncured within a defined time-frame after notice; bankruptcy or insolvency of the Authority (or similar events); or a downgrade of the Authority's credit rating below investment grade. If at the time of termination the Authority has a liability position, related to its hedging derivative instruments, the Authority would be liable to the counterparty for a payment equal to the liability, subject to netting arrangements.

Market access risk – The Authority remarkets its CP Notes on a continuous basis and its ART Notes every March 1 and September 1. Should the market experience a disruption or dislocation, the Authority may be unable to remarket its Notes for a period of time. To mitigate this risk, the Authority has entered into liquidity facilities with highly rated banks to provide loans to support both the CP Note and ART Note programs. See note 6 of the notes to the financial statements.

Dodd Frank Act

On July 21, 2010, President Obama signed into law the Dodd-Frank Wall Street Reform and Consumer Protection Act (DF Act) which addresses, among other things, interest rate and energy related commodity swap transactions of the type in which the Authority engages. The requirements and processes are set forth in regulations promulgated by the Commodities Futures Trading Commission (CFTC). Pursuant to CFTC rules thus far, the Authority, as a public entity and electric utility which uses swaps solely to manage its risk, will be exempted from posting collateral beyond that of any existing credit support annexes in support of its open over-the-counter hedge positions. These CFTC rules are not anticipated to have significant impact on the Authority's liquidity and/or future risk mitigation activities. CFTC DF Act rules are still being promulgated, and the Authority will continue to monitor their potential impact on the Authority's liquidity and/or future risk mitigation activities.

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

(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 contributory except for employees who joined the ERS on or prior to July 27, 1976. Employees, who joined between July 28, 1976 and December 31, 2009 and have less than ten years of service, contribute 3% of their salary. Employees who joined the ERS on or after January 1, 2010 contribute 3% of their salary during their entire length of service. Employees who joined the ERS on or after April 1, 2012 contribute 3% of their salary through March 31, 2013 and up to 6% thereafter, based on their annual 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.

The Authority is required to contribute at an actuarially determined rate. The required contributions for 2014, 2013 and 2012 were $28 million, $29 million and $27 million, respectively. The Authority's contributions to the ERS were equal to 100% of the required contributions for each year.

A decline in financial markets could adversely impact state pension investment market values, including those of the ERS. If ERS's investment market values are adversely impacted, increases in the annual contributions to ERS in subsequent years may occur. The average contribution rate relative to payroll for the fiscal years ended March 31, 2014 was 19%. The average contribution rates relative to payroll for the fiscal years ended March 31, 2015 and 2016 have been set at approximately 18% and 17%, respectively.

(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 at least 10 years of service and retires or dies while working at the Authority. Approximately 4,400 participants, including 1,600 current employees and 2,800 retired employees and/or spouses and dependents of retired

employees, were eligible to receive these benefits at December 31, 2014. The Authority's post-retirement health care trust does not issue a stand-alone financial report.

Through 2006, other postemployment benefits (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 creation of a trust for OPEB obligations (OPEB Trust), with the trust fund to be held by an independent custodian. Prior to 2009, the Authority funded the OPEB Trust with contributions totaling $225 million. Plan members are not required to contribute to the OPEB Trust. The Authority did not make any contributions to the OPEB Trust in 2010. During 2011, the Authority's Trustees approved ongoing annual funding of the Trust in order to strengthen the Authority's financial position. Contributions of $17 million and $22 million were made to the OPEB Trust in 2014 and 2013, respectively.

The following table shows the 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.

	2014	2013	2012
		($ in millions)	
Annual OPEB cost:			
Annual required contribution (ARC):			
Normal cost	$ 13	$ 11	$ 10
Amortization payment	20	31	27
Total	33	42	37
ARC adjustment	10	4	9
Interest on net OPEB obligation	(5)	(5)	(5)
Annual OPEB cost	$ 38	$ 41	$ 41
Net OPEB obligation:			
Net OPEB (asset) obligation at beginning of fiscal year	$ (72)	$ (71)	$ (71)
Annual OPEB cost	38	41	41
Employer contribution:			
Benefit payments for retirees during the year	(22)	(20)	(19)
Trust fund contributions	(17)	(22)	(22)
Total employer contribution	(39)	(42)	(41)
Net OPEB (asset) obligation at end of fiscal year	$ (73)	$ (72)	$ (71)

The net OPEB asset of $73 million, which consists of $14 million current assets and $59 million noncurrent assets, is reported in miscellaneous receivables and other long-term assets, respectively, in the statements of net position at December 31, 2014.

The Authority's annual OPEB cost for 2014 was $38 million, which is reflected as an expense in the statements of revenues, expenses, and changes in net position. The Authority's annual 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 GAS No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. As indicated herein, the Authority uses a 20-year amortization period.

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 valuation was performed as of January 1, 2014 and resulted in an actuarial accrued liability of $575 million which was funded with assets totaling $422 million indicating that the Authority's retiree health plan was 73% funded as of the valuation date. As of December 31, 2014 and 2013, the balance in the OPEB Trust was $467 million and $422 million, respectively, and the actuarial accrued liability was $606 million and $575 million, respectively, resulting in the retirees' health plan being 77% funded in 2014 and 73% funded in 2013.

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 2014 actuarial valuation, the projected unit credit actuarial cost method was used with benefits attributed to full eligibility. The actuarial assumptions included a 7% investment rate of return (net of administrative expenses) and an annual healthcare cost trend rate of approximately 8% (net of administrative expenses), including inflation, declining approximately 1/4% each year to an ultimate trend rate of approximately 5%. Both the cost trend rate and the ultimate trend rate include a 3% inflation assumption. The Authority amortizes actuarial gains and losses over an open 20-year period while continuing to amortize its initial unfunded accrued liability over a closed 20-year period.

(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 up to limits specified in the plan. Such matching annual contributions were approximately $2.6 million and $2.5 million for 2014 and 2013, respectively.

Both the deferred compensation plan and the savings plan have a loan feature.

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.

(10) Nuclear Plant Divestiture and Related Matters

(a) Nuclear Plant Divestiture

In November 2000, 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, 2014 and 2013, the present value of the notes receivable were:

	2014	2013
	(In millions)	
Notes receivable – nuclear plant sale	$ 19	$ 37
Less due within one year	19	18
	$ —	$ 19

At December 31, 2014 and 2013, the current portion due within one year of this notes receivable is reported in miscellaneous receivables and other in the statements of net position and at December 31, 2013 the long-term portion of this notes receivable is reported in other noncurrent assets in the statements of net position.

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. These VSAs, as amended, provide for the Entergy Subsidiaries to pay the Authority a set price ($6.59 per MWh for IP3 and $3.91 per MWh for JAF) for all MWhs metered from each plant between 2007 and 2014, with the Authority being entitled to receive annual payments up to a maximum of $72 million. Nonoperating income, in the statements of revenues, expenses, and changes in net position, for the years ended December 31, 2014 and 2013 included $71 million and $72 million, respectively, relating to these agreements. The payments are subject to continued ownership of the facilities by the Entergy Subsidiaries or its affiliates. The final payment under the VSA was received on January 15, 2015 in the amount of $71 million.

If the license for IP3 or JAF is extended, an amount equal to $2.5 million (per plant) 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. The original licenses for JAF and IP3 expire in 2014 and 2015, respectively. In April 2007, the Nuclear Regulatory Commission (NRC) received a license renewal application (for an additional 20 years) for IP3. On September 9, 2008, the NRC renewed the operating license of JAF for 20 years to October 17, 2034.

(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(e)) "New York State Budget and Other Matters" relating to a temporary transfer of such funds to the State). As of December 31, 2014 and 2013, the liability to Entergy totaled $217 million and $216 million, respectively.

(c) *Nuclear Plant Decommissioning*

In connection with the Authority's sale of the nuclear plants, the Authority entered into a Decommissioning Agreement with each of the Entergy Subsidiaries relating to the responsibility for decommissioning the nuclear plants acquired (Decommissioning Agreements). The Decommissioning Agreements deal with the decommissioning funds (Decommissioning Funds), which are currently maintained by the Authority under a master decommissioning trust agreement. Under the Decommissioning Agreements, the Authority will make no further contributions to the Decommissioning Funds.

The Authority retains contractual decommissioning liability for IP3 and JAF 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, if any. 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 NRC minimum cost estimate amounts applicable to the plant. The Authority's decommissioning responsibility is limited to the lesser of the Inflation Adjusted Cost Amount or the amount of the plant's Decommissioning Fund.

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

If the 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 Decommissioning Fund amount.

Decommissioning Funds of $1,415 million and $1,300 million are included in restricted funds and other noncurrent liabilities in the statements of net position at December 31, 2014 and 2013, respectively.

(11) Commitments and Contingencies

(a) *Power Programs*

Recharge New York Power Program

Chapter 60 (Part CC) of the Laws of 2011 (Chapter 60) established the "Recharge New York Power Program" (RNYPP), administered by the Authority, which has as its central benefit up to 910 MW of low cost power comprised of up to 455 MW of hydropower from the Niagara and St. Lawrence-FDR Projects and up to 455 MW of other power procured by the Authority from other sources. The 910 MW of power is available for allocation as provided by Chapter 60 to eligible new and existing businesses and not-for-profit corporations under contracts of up to seven years. RNYPP was effective beginning July 1, 2012.

The RNYPP replaced two other programs, the Power for Jobs (PFJ) and Energy Cost Savings Benefit (ECSB) Programs, which had extended benefits of low-cost power to certain businesses, small businesses and not-for-profit organizations. Those PFJ and ECSB Program customers who were in substantial compliance with contractual commitments under the PFJ and ECSB Programs and who applied but did not receive RNYPP allocations are eligible to apply for transitional electricity discounts, as provided for in Chapter 60. This transitional electricity discounts program provides for declining levels of discounts through June 30, 2016 when the program terminates, if payment of such discounts is deemed feasible and advisable by the Authority's Trustees. In June 2012, the Authority's Trustees authorized transitional electricity discount payments of up to $9 million for the year July 1, 2012 – June 30, 2013. As of December 31, 2014, approximately $3.9 million of

such discounts have been paid with an additional $1.0 million in payments remaining to be made pursuant to the authorization. On February 26, 2015, the Authority's Trustees approved an additional $8 million to fund anticipated payments for the period from July 1, 2013 to June 30, 2015.

The hydropower used for the RNYPP was power formerly used to provide low-cost electricity to domestic and rural customers of the three private utilities that serve upstate New York. To mitigate the impacts from the redeployment of this hydropower for the RNYPP, Chapter 60 created a "Residential Consumer Discount Program" (RCDP). The RCDP authorizes the Authority, as deemed feasible and advisable by its Trustees, to provide annual funding of $100 million for the first three years following withdrawal of the hydropower from the residential and farm customers, $70 million for the fourth year, $50 million for the fifth year, and $30 million each year thereafter, for the purpose of funding a residential consumer discount program for those customers that had formerly received the hydropower that is utilized in the RNYPP. Chapter 60 further authorizes the Authority, as deemed feasible and advisable by the Trustees, to use revenues from the sales of hydroelectric power, and such other funds of the Authority, as deemed feasible and advisable by the Trustees, to fund the RCDP. The Authority's Trustees have authorized the release of a total $337.5 million through January 2014 in support of the RCDP. The Authority supplemented the market revenues through the use of internal funds, from the August 2011 start of the program through December 31, 2014, totaling cumulatively $110 million. Operations and maintenance expenses included $88 million and $100 million of residential consumer discounts in the years ended December 31, 2014 and 2013. On February 26, 2015, the Authority's Trustees approved up to an additional $63 million to fund the RCDP payments anticipated to be made in 2015.

Western New York Power Proceeds Allocation Act

Effective March 30, 2012, Chapter 58 (Part GG) of the Laws of 2012 (Chapter 58) created the Western New York Power Proceeds Act (WNYPPA). The WNYPPA authorizes the Authority, as deemed feasible and advisable by the Trustees, to deposit net earnings from the sale of unallocated Expansion Power and Replacement Power from the Authority's Niagara project into an account administered by the Authority known as the Western New York Economic Development Fund (Fund). Net earnings are defined as any excess revenues earned from such power sold into the wholesale market over the revenues that would have been received had the power been sold at the Expansion Power and Replacement Power rates. Proceeds from the Fund may be used to support eligible projects undertaken within a 30-mile radius of the Niagara power project that satisfy applicable criteria. Chapter 58 also establishes a five-member Western New York Power Allocations Board, which is appointed by the Governor. Chapter 58 also repealed Chapter 436 of the Laws of 2010 which had created a similar program that could not be effectively implemented.

The Authority's Trustees have approved the release of up to $50 million in net earnings, calculated for the period August 30, 2010 through December 31, 2014 as provided in the legislation, for deposit into the Fund. As of December 31, 2014, $38 million has been deposited into the Fund. As of December 31, 2014, the Authority has approved awards of Fund money totaling approximately $21 million to businesses that have proposed eligible projects and has made payments totaling $5 million to such businesses. Payment of these awards is contingent upon the execution of acceptable contracts between the Authority and individual awardees.

Northern New York Power Proceeds Allocation Act

Chapter 545 of the Laws of 2014 enacted the "Northern New York Power Proceeds Act" (NNYPPA). The NNYPPA authorizes the Authority, as deemed feasible and advisable by the Trustees, to deposit "net earnings" from the sale of unallocated St. Lawrence County Economic Development Power (SLCEDP) by the Authority in the wholesale energy market into an account the Authority would administer known as the Northern New York Economic Development Fund (NNY Fund), and to make awards to eligible applicants that propose eligible projects that satisfy applicable criteria. The NNYPPA also establishes a five-member Northern New York Power Allocations Board appointed by the Governor to review applications seeking NNY Fund benefits and to make recommendations to the Authority concerning benefits awards.

SLCEDP consists of up to 20 MW of hydropower from the Authority's St. Lawrence-FDR Power Project which the Authority has made available for sale to the Town of Massena Electric Department ("MED") for MED to sub-allocate for economic development purposes in accordance with a contract between the parties entered into in 2012 (Authority-MED Contract). The NNYPPA defines "net earnings" as the aggregate excess of revenues received by the Authority from the sale of energy associated with SLCEDP by the Authority in the wholesale energy market over what revenues would have been received had such energy been sold to MED on a firm basis under the terms of the Authority-MED contract. For the first 5 years after enactment, the amount of SLCEDP the Authority could use to generate net earnings may not exceed the lesser of 20 MW or the amount of SLCEDP that has not been allocated by the Authority pursuant to the Authority-MED contract. Thereafter, the amount of SLCEDP that the Authority could use for such purpose may not exceed the lesser of 10 MW or the amount of SLCEDP that has not been allocated.

On February 26, 2015, the Authority's Trustees approved the release of funds, of up to $3 million, into the NNY Fund representing "net earnings" from the sale of unallocated SLCEDP into the wholesale energy market for the period December 29, 2014 through December 31, 2015.

(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 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 energy charge adjustment ("ECA") 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 2013 and 2014, the NYC Governmental Customers chose a market-risk hedging price option designated an "ECA with hedging" pricing option whereby actual cost variations in variable costs are passed through to the customers as specified above. Under the Agreements, the Authority committed to finance up to $100 million annually over the term of the Agreements for energy efficiency projects and initiatives at such governmental customers' facilities. Amounts financed may exceed $100 million if mutually agreed to by the customers and the Authority. The costs of such projects are recovered from such customers.

As a result of a Request for Proposals for Long-Term Supply issued in 2005 and subsequent negotiations, in 2011 the Trustees authorized Authority staff to enter into an agreement with Hudson Transmission Partners, LLC (HTP) for the purchase of capacity to meet the long-term requirements of the Authority's NYC Governmental Customers and to improve the transmission infrastructure serving New York City through the transmission rights associated with HTP's planned transmission line (the Line) extending from Bergen County, New Jersey, to Consolidated Edison's West 49th Street substation. Specifically, the Authority executed a Firm Transmission Capacity Purchase Agreement (FTCPA) with HTP which would provide the Authority with 75% of the Line's 660 MW capacity, or 495 MW, for 20 years. The Authority's capacity payment obligations under the FTCPA began upon the Line's commencement of commercial operation, which occurred on June 3, 2013.

Also upon commercial operation, the FTCPA obligates the Authority to reimburse HTP for the cost of interconnection and transmission upgrades in New York and New Jersey associated with the Line and to pay for all remaining upgrade costs as they are incurred. Under the FTCPA, the Authority is obligated to pay the costs of certain interconnection and transmission upgrades associated with the Line, which are estimated to total up to approximately $319 million. As of December 31, 2014, the Authority paid approximately $246 million of such costs related to the interconnection and transmission upgrades.

The Authority is currently in discussions with certain of its NYC Governmental Customers and other third parties regarding partial recovery of the costs of the Line. It is estimated that the revenues derived from the Authority's rights under the FTCPA will not be sufficient to fully cover the Authority's costs under the FTCPA during the initial 20-year term of the FTCPA. Depending on a number of variables, it is estimated that the Authority's under-recovery of costs under the FTCPA could be in the range of approximately $75 million to $90 million per year over the next five years of commercial operation. In April 2013, the Authority entered into a three-year contract with Con Edison Energy, Inc. (CEE), an affiliate of Consolidated Edison Company of New York, Inc. to manage the Authority's transmission capacity on the Line and make economical energy transactions.

In anticipation of the closure of the Authority's Poletti plant in 2010, the Authority, in 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. This process, which included approval of the NYC Governmental Customers, resulted in a long-term electricity supply contract in 2008 between the Authority and Astoria Energy II LLC for the purchase of the output of Astoria Energy II, a new 550-MW plant, which was constructed and entered into commercial operation on July 1, 2011 in Astoria, Queens. The costs associated with the contract will be borne by these customers for the life of the Astoria Energy II contract. The Authority is accounting for and reporting this lease transaction as a capital lease in the amount of $1.205 billion as of December 31, 2014, which reflects the present value of the monthly portion of lease payments allocated to real and personal property. The balance of the monthly lease payments represents the portion of the monthly lease payment allocated to operations and maintenance costs which are recorded monthly. Fuel for the plant is provided by the Authority and the costs thereof are being recovered from the NYC Governmental Customers.

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"). The Authority has entered a supplemental electricity supply agreement with all 103 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.

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

To meet capacity deficiencies and ongoing load requirements in the New York City metropolitan area that could also adversely affect the statewide electric pool, the Authority has in operation, 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, under certain conditions and if the Mayor of New York City directs such cessation. No such cessation has occurred.

(d) Legal and Related Matters

St. Regis Litigation

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 plaintiffs.

The parties agreed to a land claim settlement, dated February 1, 2005, 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.

The legislation required to effectuate the settlement was never enacted and the litigation was reactivated. In November 2006, all defendants moved to dismiss the three Mohawk complaints as well as the United States' complaint based on the lengthy delay in asserting the land claims (i.e., the laches defense).

On September 28, 2012, the U.S. Magistrate recommended dismissal of all land claims brought against the Authority by three St. Regis tribal factions as well as the Federal government. The Magistrate upheld the Authority's laches defense and also recommended dismissal on the same grounds of all claims by the same plaintiffs against the other defendants relating to all but one of the other challenged mainland parcels.

In orders dated July 2013, the Judge assigned to the case accepted the Magistrate's recommendation and granted the Authority judgment on the pleadings. The Judge accepted all but one of the Magistrate's other recommendations, which results in dismissal of all land claims against the other defendants except those relating to two mainland parcels. Barring an appeal by the plaintiffs, all claims against the Authority have been dismissed and the lawsuit against the Authority is concluded.

The State and the St. Regis Mohawk Tribe (Tribe) have been discussing a settlement of the land claims, as well as other issues between the State and the Tribe. On May 28, 2014, the State of New York, the Tribe, St. Lawrence County and the Authority executed a Memorandum of Understanding (St. Regis MOU) that outlined a framework for the possible settlement of all the St. Regis land claims. In the St. Regis MOU, the Authority endorses a negotiated settlement that, among other terms and conditions, would require the Authority to pay the Tribe $2 million a year for 35 years and provide up to 9 MW of its hydropower at preference power rates to serve the needs of the Tribe's Reservation. The St. Regis MOU would require an Act of Congress to forever extinguish all Mohawk land claims prior to such a settlement becoming effective.

Any settlement agreement, including the terms endorsed in the St. Regis MOU, would in the first instance need to be negotiated and agreed upon by all parties to the St. Regis litigation. In addition, on or before a final settlement of the litigation, all parties to the St. Regis litigation would have to agree to a settlement of all outstanding claims, including parties that did not execute the St. Regis MOU, such as the two other Mohawk groups, the federal government and Franklin County. Before any settlement becomes effective and the Authority is obligated to make any payments contemplated by the St. Regis MOU, however, federal and state legislation must be enacted which approves the settlement and extinguishes all Mohawk land claims.

Tropical Storm Irene

In August 2012, the County of Schoharie, eight towns and villages therein, and one school district ("Municipalities") initiated a lawsuit in Schoharie County Supreme Court against the Authority involving the heavy rains and widespread flooding resulting from Tropical Storm Irene's passage through the Northeast in August 2011. The Municipalities essentially alleged that they sustained property damage and lost tax revenues resulting from lowered assessed valuation of taxable real property due to the Authority's negligence in its operations at the Blenheim-Gilboa pumped-storage hydroelectric facility located on the Schoharie Creek in Schoharie County, New York. The Municipalities complaint seeks judgment "in an amount to be determined at trial with respect to each [of the ten plaintiffs] in the sum of at least $5,000,000, plus punitive damages in the sum of at least $5,000,000" as well as attorney fees. As of October 31, 2014, all of the Municipalities have discontinued their lawsuits against the Authority.

In February 2012, a private landowner filed a similar lawsuit in such court on behalf of a park campground and makes nearly the same allegations with the plaintiff seeking at least $5 million in damages, at least $5 million in punitive damages, as well as attorney's fees. In December 2012, the Authority was served with a third lawsuit by five plaintiffs arising out of Tropical Storm Irene and the Authority's operation of its Blenheim-Gilboa Pumped Storage Project. Plaintiffs previously filed timely notices of claim. The five plaintiffs include three individual landowners and two corporations. The three individual landowners own properties located in Schoharie, NY and Central Bridge, NY and are claiming damages in the aggregate amount of $1.55 million. The two corporations also own properties in Schoharie, NY and are claiming damages in the aggregate amount of $1.05 million. On October 27, 2014, the Court granted NYPA's motion to change the place of trial. The Court directed the Clerk of Court to transfer the proceedings to Albany County. Discovery is ongoing in these two remaining actions, which are joined for discovery.

While the Authority cannot presently predict the outcome of this or any related litigation, the Authority believes that it has meritorious defenses and positions with respect thereto. However, adverse decisions of a certain type in the matters discussed above could adversely affect Authority operations and revenues. While the Authority is unable to predict whether and to what extent any lawsuits will be initiated based on notices of claim or similar claims that may be filed in the future, or the outcome of any litigation, the Authority believes that it has meritorious defenses and positions with respect thereto. Conversely, adverse decisions of a certain type in the matters discussed above could adversely affect Authority operations and revenues.

Other Actions or Claims

In January 2014, one of the Sound Cable Project underwater cables was severely impacted by an anchor and /or anchor chain dropped by one or more vessels, causing the entire electrical circuit to fail and the circuit to trip. As a result of the impact to the cable, dielectric fluid was released into Long Island Sound. The Authority estimates it sustained damages of approximately $35 million. The Authority has incurred approximately $23 million for repairs and is recorded in other long-term assets in the statement of net position at December 31, 2014. The Authority believes that it will be able to recover the full amount of its damages through legal proceedings, insurance coverage and contractual obligations.

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) 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. Bills are periodically introduced into the State Legislature, which propose to limit or restrict the powers, rights and exemption from regulation that 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 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 that 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. Examples of such legislation affecting only the Authority include legislation, discussed below and elsewhere herein, relating to the Authority's voluntary contributions to the State, the Authority's temporary transfer of funds to the State, and contributions and transfers to fund temporary and permanent programs administered by the Authority and other State entities.

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 law (typically, legislation enacted in connection with the State budget), 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) such withdrawal 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.

In May 2011, the Authority's Trustees adopted a policy statement (Policy Statement) which relates to, among other things, voluntary contributions, transfers, or other payments to the State by the Authority after that date. The Policy Statement provides, among other things, that in deciding whether to make such contributions, transfers, or payments, the Authority shall use as a reference point the maintenance of a debt service coverage ratio of at least 2.0, in addition to making the other determinations required by the Bond Resolution. The Policy Statement may at any time be modified or eliminated at the discretion of the Authority's Trustees.

Legislation enacted into law, as part of the 2000-2001 State budget, as amended up to the present time, has authorized the Authority as deemed feasible and advisable by the trustees, to make a series of voluntary contributions into the State treasury in connection with the PFJ Program and for other purposes as well. The PFJ Program, which had been extended to June 30, 2012, has ended and was replaced by the RNYPP, as discussed above in note 11(a) "Recharge New York Power Program" of the notes to the financial statements. Cumulatively through December 31, 2012, the Authority has made voluntary contributions to the State totaling $475 million in connection with the ended PFJ Program.

In 2014 and 2013, the Authority made $90 million and $65 million, respectively, in contributions to the State that are not related to the PFJ Program and which were recorded as nonoperating expenses in the year ended December 31, 2014 and 2013 statements of revenues, expenses and changes in net position. These contributions were authorized by the Authority's Trustees and were consistent with the related State fiscal year budgets. The 2014 contributions totaling $90 million were transferred directly to ESD in furtherance of ESD's statewide economic development initiatives. The 2013 contributions of $65 million include $45 million that was paid to Empire State Development (ESD) to support the New York State Open for Business economic development initiative in lieu of the voluntary contributions to the State's General Fund for the State fiscal year 2013-2014. Cumulatively, between January 2008 and December 31, 2014, the Authority has made voluntary contributions to the State totaling $582 million unrelated to the PFJ program. The Authority made a contribution of $42 million to ESD on February 26, 2015 with an additional $23 million to be considered for payment by March 31, 2015.

The Governor's Executive Budget proposed for State Fiscal Year 2015-2016 contains language authorizing the Authority, as deemed feasible and advisable by its Trustees, to (i) make a contribution to the State treasury to the credit of the General Fund, or as otherwise directed in writing by the Director of the Budget, in an amount of up to $90 million for the State fiscal year commencing April 1, 2015, the proceeds of which will be utilized to support energy-related initiatives of the State or for economic development purposes, and (ii) transfer up to $25 million of any such contribution by June 30, 2015 and the remainder of any such contribution by March 31, 2016.

Temporary Asset Transfers

In addition to the authorization for voluntary contributions, as a result of budget legislation enacted in February 2009, the Authority was requested to provide temporary asset transfers to the State of funds held in reserves. Pursuant to the terms of a Memorandum of Understanding dated February 2009 (MOU) between the State, acting by and through the State's Director of Budget, 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 had 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 (see note10(b) "Nuclear Fuel Disposal". 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. In February 2009, the Authority's Trustees 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 approval.

The MOU provides that 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 is 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 moneys 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 lieu of interest payments, the State has waived 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 is 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 and St. Lawrence power plants is 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 approximates the present value of the forgone interest income.

On April 24, 2014, the Authority and the State executed an Amendment to the MOU which provides that the State shall, subject to appropriation by the State Legislature, return the $103 million (Asset A) in five installments in the following amounts and by no later than September 30 of each of the following State fiscal years: (1) $18 million for State Fiscal Year 2014-2015; (2) $21 million for State Fiscal Year 2015-2016; (3) $21 million for State Fiscal Year 2016-2017; (4) $21 million for State Fiscal Year 2017-2018; and (5) $22 million for State Fiscal Year 2018-2019. By its terms, the Amendment to the MOU became effective when it was approved and ratified by the Authority's Board of Trustees on July 29, 2014. The Authority received the first $18 million installment on October 1, 2014. The Assets A and B transfers are reported in miscellaneous receivable and other ($21 million at December 31, 2014) and in other noncurrent assets ($279 million and $318 million at December 31, 2014 and December 31, 2013, respectively) in the statements of net position.

New York State-Upstate Fuel Reserve Initiative

In response to significant storm events that damaged fuel terminals and shut down gasoline suppliers and stations, creating gaps in the supply of gasoline for use by first responders and utility repair crews, and hampered rescue and recovery efforts, the State, in 2013, commenced a strategic fuel reserve initiative, consisting of a Downstate Strategic Gasoline Reserve and an Upstate Strategic Fuel Reserve (USFR), which are being administered by the New York State Research and Development Authority (NYSERDA). The Authority supplies power to hundreds of public and private entities throughout Upstate NY, and has an interest in seeing that safe and reliable electric service is restored and maintained in the event of a storm or other emergency, and that first responders and utility crews, including personnel who would perform repair work on Authority and other utility assets that are necessary for the transmission of power to Authority customers, can access fuels needed for rescue, recovery and restoration of utility restoration efforts. Accordingly, in October 2014, the Authority transferred $10 million to NYSERDA to support the USFR initiative.

(f) Relicensing of Niagara

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. By decision dated March 13, 2009, the U.S. Court of Appeals for the District of Columbia Circuit denied a petition for review of FERC's order filed by certain entities, thereby concluding all litigation involving FERC's issuance of the new license. In 2007, the Authority estimated that the capital cost associated with the relicensing of the Niagara project would be approximately $495 million. This estimate 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. As of December 31, 2014, the balance in the recorded liability associated with the relicensing on the statement of net position is $301 million ($22 million in current and $279 million in other noncurrent liabilities). As of December 31, 2013, the balance in the liability associated with the relicensing on the statement of net position is $277 million ($31 million in current and $246 million in noncurrent liabilities).

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.

(g) Regional Greenhouse Gas Initiative and Air Pollution Rule

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 plant, SCPPs, and 500-MW Plant are subject to the RGGI requirements as is AEII. The Authority has participated in

program auctions commencing in September 2008 and expects to recover RGGI costs through its power sales revenues. For 2014, the number of allowances offered in the auction by RGGI cap and trade program was reduced (from allowances covering 165 million tons of carbon dioxide emissions in 2013 to 91 million tons in 2014), and will continue to decline by 2.5% each year from 2015 through 2020. This reduction may well likely increase the price for carbon dioxide allowances, which NYPA acquires to cover operation of its fossil- fuelled power plants and the AEII plant. The Authority is monitoring federal legislation and proposed programs that would impact RGGI.

During 2011, the Environmental Protection Agency (EPA) issued a series of rulings to establish the Cross-State Air Pollution Rule ("CSAPR"). The CSAPR establishes emission allowance budgets for sulfur dioxide and nitrogen oxides for eastern states, including New York, and requires power plants in those states to hold allowances to cover their emissions. Certain trading of allowances is authorized under the CSAPR. Following decisions by the U.S. Court of Appeals (D.C. Circuit) and the U.S. Supreme Court, the EPA issued an interim final rule on November 21, 2014 to amend the compliance deadline from 2012 and 2013 to 2015 and 2016 for CSAPR's Phase 1 emissions budgets, and from 2014 to 2017 for Phase 2 emissions budgets and assurance provisions. The Authority continues to operate its fossil-fueled plants within the allocated allowances and anticipates that operation of its fossil fueled power plants will not be impacted by CSAPR.

In 2013, President Obama sent a memorandum to EPA on "Power Sector Carbon Pollution Standards" (Presidential Memorandum) as part of the President's Climate Action Plan. The Presidential Memorandum requires the EPA to propose carbon pollution standards for power plants. In 2013, the EPA met the first milestone in the Presidential Memorandum by proposing stringent new carbon pollution standards affecting new large and small gas-fired and coal-fired generating units. On June 2, 2014, the EPA met another milestone by releasing its Clean Power Plant Proposed Rule for existing power plants. The objective of the proposed rule is to cut by 2030 carbon pollution (carbon dioxide emissions) from the power sector by 30% from 2005 levels. Also on June 2, 2014, the EPA proposed related carbon pollution standards for modified and reconstructed power plants. The Authority continues to monitor developments in this area.

(h) Wind and Solar Initiatives

The Long-Island-New York City Offshore Wind Collaborative (Collaborative), which consists of the Authority, Consolidated Edison of New York, and the Long Island Power Authority (LIPA), is evaluating the potential development of between 350 MW and 700 MW of offshore wind. The Collaborative is currently planning the next steps in project evaluation. On September 15, 2011, the Authority, on behalf of the Collaborative, submitted an application to the BOEM for a commercial lease on the Outer Continental Shelf approximately 13 nautical miles off the south shore of Long Island. Pursuant to federal regulations, the federal Bureau of Ocean Energy Management (BOEM) issued a request in January 2013 to determine whether there is competitive interest in wind power development in federal waters off the coast of the Rockaway Peninsula and Long Island. Two potential competitors indicated interest in obtaining a commercial lease for possible offshore wind projects situated in the Collaborative's proposed lease site. At this time, BOEM is currently considering whether competitive interest for the lease site exists. If BOEM determines that competitive interest exists, it may result in an auction to determine an award of the commercial lease site.

In March 2012, the Authority's Trustees authorized up to $30 million in funding over five years for a solar market acceleration program involving solar research, training, and demonstration projects. As of December 31, 2014, the Authority has approved the award of contracts with cumulative value of up to approximately $19 million.

(i) Construction Contracts and Net Operating Leases

Estimated costs to be incurred on outstanding contracts in connection with the Authority's construction programs aggregated approximately $500 million at December 31, 2014.

Noncancelable operating leases primarily include leases on real property (office and warehousing facilities and land) utilized in the Authority's operations. Rental expense for years ended December 31, 2014 and 2013 was $1.6 million and $2 million, respectively. Commitments under noncancelable operating leases are as follows:

	Total	2015	2016	2017	2018	2019	Thereafter
	(In millions)						
Operating leases	$ 1.4	0.5	0.3	0.2	0.2	0.2	—

(j) Other Developments

New York Energy Highway

In January 2012, the Governor of New York announced the New York Energy Highway initiative, which is envisioned as a public-private partnership to upgrade and modernize the State's electric power system. The Governor formed a task force comprised of various State officials to oversee implementation of the initiative (Task Force) which is co-chaired by the Authority's President and Chief Executive Officer. In April 2012, the Task Force issued a request for information seeking ideas and proposals in furtherance of the initiative. Approximately 85 organizations responded to the Task Force's request for information and the responses included a large number of different generation and transmission project proposals. Based on the response of all these organizations, the Energy Highway Task Force issued an action plan in October 2012. The resulting Energy Highway Blueprint, calling for public and private investments in the State's energy system of about $5.7 billion over the next five to 10 years, proposed 13 specific actions, divided among four major categories: Expand and Strengthen the System, Accelerate Construction and Repair, Support Clean Energy and Technology Innovation.

In November 2012, the New York Public Service Commission (NYPSC) announced new proceedings addressing various actions described in the Blueprint including (i) the initiation of electric transmission upgrades to move excess power from upstate to downstate (AC Transmission), (ii) the creation of a contingency plan to prepare for a large generator retirement (Generation Retirement Contingency Plan) and (iii) the expansion of natural gas delivery to homeowners and businesses in New York State.

In response to the request for information and the Generation Retirement Contingency Plan and AC Transmission proceedings, the New York Transmission Owners (NYTOs), comprised of the State's largest private utilities, LIPA, and the Authority, indicated that they were exploring the creation of a new Statewide transmission entity (NY Transco) to pursue development, construction, operation, and ownership of new transmission projects. The NYTOs proposed to the Task Force and to the NYPSC several transmission projects that could be undertaken by a NY Transco entity. Participation of the Authority in the NY Transco would be contingent on the enactment of legislation by the State that enables the Authority to participate. As of the 2014 legislative session, which ended in June 2014, such enabling legislation has not been passed. On November 24, 2014, affiliates of the NYTOs formed a transmission entity (Four-Party Transco) that does not include LIPA or the Authority but would permit their participation should the necessary enabling legislation be passed.

In its November 4, 2013 Generation Retirement Contingency Plan Order, the NYPSC selected three transmission projects (TOTS projects) to be built by Consolidated Edison, New York State Electric and Gas (NYSEG) and the Authority. The NYPSC also requested that the NYTOs seek Federal Energy Regulatory Commission (FERC) approval for the three TOTS projects. On December 4, 2014, the NYTOs on behalf of themselves and the Four-Party Transco filed applications at FERC to permit the transfer of certain transmission

assets to the Four-Party Transco. The Four-Party Transco also filed an application for cost allocation and recovery for five projects, including the three TOTS projects. On January 16, 2015, the Authority filed at FERC in opposition of the cost allocation methodology proposed by the Four-Party Transco. The Authority is co-developing one of the TOTS projects with NYSEG and plans to make a filing at FERC to recover the costs of its portion of that project in the first half of 2015.

Build Smart NY Initiative

On December 28, 2012, the Governor of New York issued Executive Order No. 88 (EO 88) directing state agencies collectively to reduce energy consumption in state-owned and managed buildings by 20 percent within seven years – an initiative designed to produce significant savings for New York taxpayers, generate jobs, and significantly reduce greenhouse gas emissions. To meet this initiative, the Governor launched Build Smart NY, a plan to strategically implement EO 88 by accelerating priority improvements in energy performance. The Authority has offered to provide $450 million in low-cost financing for this initiative for state owned buildings and an additional $350 million for towns and municipalities. Such low-cost financing would be funded by proceeds of the Authority's commercial paper or another form of debt. The Authority's costs of financing would be recovered from the energy efficiency customers in this program. In addition, as provided for in EO 88, the Authority has established a central management and implementation team to carry out the Build Smart NY plan. In 2014, the Authority has in aggregate provided approximately $150 million in financing for energy efficiency projects at State agencies and authorities covered by EO 88.

Energy Efficiency Market Acceleration Program

In June 2012, the Authority's Trustees authorized up to $30 million in funding over five years for an energy efficiency market acceleration program involving energy efficiency research, demonstration projects, and market development. As of December 31, 2014, the Authority's Trustees have approved the award of contracts with a cumulative value of up to approximately $26 million.

REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)

New York Power Authority

Required Supplementary Information
(Unaudited)

Schedule of Funding Progress for the Retiree Health Plan

(In millions)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL)--- Projected Unit Credit Method (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
January 1, 2014	$ 422	$ 575	$ 153	73%	$ 145	105%
January 1, 2012	283	517	234	55	143	163
January 1, 2010	218	400	182	55	141	129
January 1, 2008*	100	337	237	30	133	178

* During 2007, a trust for the Authority's OPEB obligations was funded with an initial amount of $100 million. This amount is reflected in the table above as of the 1/1/08 Actuarial Valuation Date.

Global Reporting Initiative

The Global Reporting Initiative (GRI) is an international network established to help companies and organizations measure and report on their sustainability performance in terms of economic, environmental and social impacts. Its reporting framework provides consistency for the thousands of entities that are working toward more sustainable operations worldwide.

These Sustainability Reporting Guidelines are the foundation of GRI's framework. They feature sustainability disclosures that participating companies and organizations can adopt flexibly and incrementally, enabling them to be transparent about their performance in key sustainability areas.

As part of NYPA's sustainability efforts, select GRI indicators have been chosen for their materiality and relevance to operations. The index provided on this page allows readers to easily locate items of interest.

Additional details about the GRI network are available at: www.globalreporting.org. For questions about NYPA's sustainability activities, email: **GeneratingSustainability@nypa.gov.**

Environmental Performance Indicators

Number and Volume of Significant Spills . . . . 11 spills totaling 142 gallons of oil

Total Weight of Waste Recycled . . . . 15.098 tons

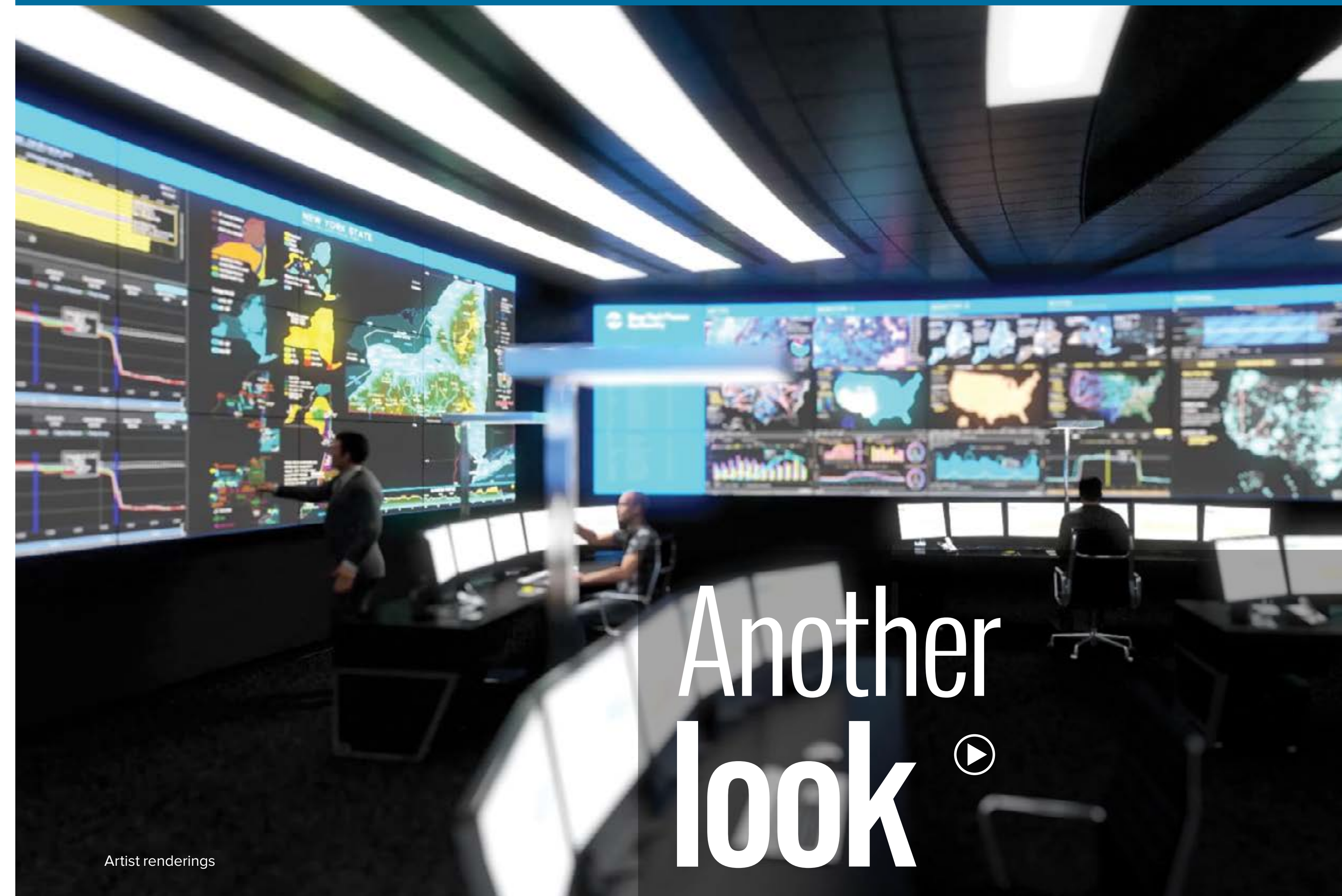
2014 Generating Facility Emissions (Combustion Byproducts)

Carbon dioxide (CO_2)	2.24 million tons
Nitrogen dioxide (NO_x)	275.1 tons
Sulfur dioxide (SO_2)	22.7 tons
Particulate matter (PM_{10})	46.7 tons

Index of Select GRI Indicators

*Partial Reporting

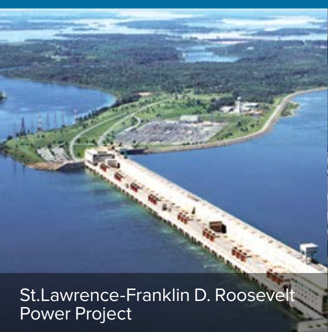
^2014 data



Artist renderings

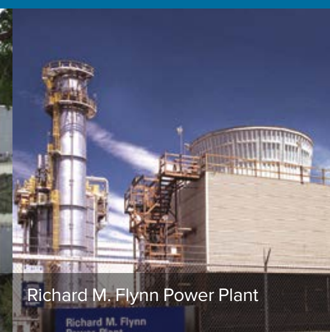
Another look

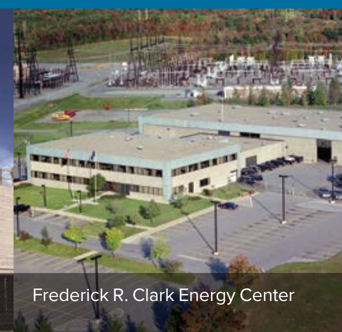
In fall 2014, the New York Power Authority introduced New York State's first energy management network operations center—NY Energy Manager (NYEM)—which provides public facilities with real-time data on their energy use. Take a tour of what NYEM's future home will look like by visiting https://www.youtube.com/watch?v=_kpz56OW4Js and see Page 15 for more information on NYEM.

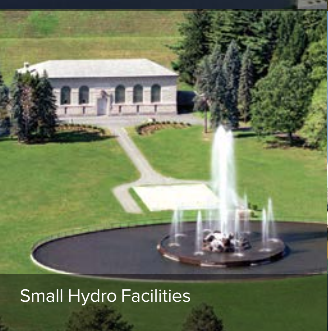

St.Lawrence-Franklin D. Roosevelt Power Project


Niagara Power Project


Blenheim-Gilboa Pumped Storage Power Project


Richard M. Flynn Power Plant


Frederick R. Clark Energy Center


Small Hydro Facilities


Small Clean Power Plants


500-MW Combined-Cycle Power Plant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