MINUTES OF THE REGULAR MEETING OF THE POWER AUTHORITY OF THE STATE OF NEW YORK

January 30, 2007

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Minutes of the Regular Meeting of the Power Authority of the State of New York held via video conference at the following participating locations at 11:25 a.m.:

1) New York Power Authority, 123 Main Street, White Plains, NY
2) New York Power Authority, Niagara Power Project, 5777 Lewiston Road, Lewiston, NY

The following Members of the Board were present at the following locations:

Present: Frank S. McCullough, Jr., Chairman (White Plains, NY)
Michael J. Townsend, Vice Chairman (White Plains, NY
Elise M. Cusack, Trustee (Lewiston, NY)
Robert E. Moses, Trustee (White Plains, NY)
Thomas W. Scozzafava, Trustee (White Plains, NY)
Joseph J. Seymour, Trustee (White Plains, NY)
Leonard N. Spano, Trustee (White Plains, NY)

Timothy S. Carey	President and Chief Executive Officer, NYPA
Joseph Del Sindaco	Executive Vice President and Chief Financial Officer, NYPA
Thomas J. Kelly	Executive Vice President and General Counsel, NYPA
Vincent C. Vesce	Executive Vice President – Corporate Services and Administration
Steven J. DeCarlo	Senior Vice President – Transmission, NYPA
Angelo S. Esposito	Senior Vice President – Energy Services and Technology, NYPA
Louise M. Morman	Senior Vice President – Marketing and Economic Development, NYPA
William J. Nadeau	Senior Vice President – Energy Resource Management and Strategic Planning, NYPA
Brian Vattimo	Senior Vice President – Public and Governmental Affairs, NYPA
Edward A. Welz	Senior Vice President and Chief Engineer – Power Generation, NYPA
Thomas P. Antenucci	Vice President – Project Management, NYPA
Arnold M. Bellis	Vice President – Controller, NYPA
Arthur M. Brennan	Vice President – Internal Audit and Compliance, NYPA
John M. Hoff	Vice President – Procurement and Real Estate, NYPA
Donald A. Russak	Vice President – Finance, NYPA
Thomas H. Warmath	Vice President and Chief Risk Officer, NYPA
Anne B. Cahill	Corporate Secretary, NYPA
Angela D. Graves	Deputy Corporate Secretary, NYPA
Dennis T. Eccleston	Chief Information Officer, NYPA
Brian C. McElroy	Treasurer, NYPA
Lisa Cole	Deputy Treasurer, NYPA
Joseph J. Carline	Assistant General Counsel – Power and Transmission, NYPA
Albert Swansen	First Deputy Inspector General, NYPA
Paul F. Finnegan	Executive Director – Public and Governmental Affairs, NYPA
James F. Pasquale	Director – Business Power Allocations, Compliance and Municipal and Cooperative Marketing, NYPA
Michael A. Saltzman	Director – Medial Relations, NYPA
Marilyn J. Brown	Manager – Market and Pricing Analysis, NYPA
John M. Kahabka	Manager – Environmental Operations, NYPA
Joanne Wilmott	Manager – Community Relations, Niagara, NYPA
Benjamin C. Wong	Project Manager, NYPA
Michael E. Carey	Senior Energy Markets and Hedging Specialist, NYPA
Oksana U. Karaczewsky	Senior Procurement Compliance Coordinator, NYPA
Jeffrey Carey	Special Assistant to President and Chief Executive Officer, NYPA
Jack Murphy	Temporary PR Counsel, NYPA
Lynnette J. Taylor	Senior Legal Secretary, NYPA
Steven A. Mitnick	Assistant Secretary for Energy and Telecommunications, Governor Eliot Spitzer's Office

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Chairman McCullough presided over the meeting. Secretary Cahill kept the Minutes.

1. <u>Opening Remarks</u>

Chairman McCullough welcomed Steven Mitnick, who serves as the Assistant Secretary for Energy and Telecommunications in Governor Spitzer's Office, to the meeting.

2. Approval of the Minutes

The Minutes of the Regular Meeting of December 31, 2006 were unanimously adopted.

3. **Financial Reports for the Twelve Months Ending December 31, 2006**

Mr. Bellis provided the Financial Reports for the twelve months ending December 31, 2006.

Exhibit "3-A"
January 30, 2007

NEW YORK POWER AUTHORITY

FINANCIAL REPORTS

FOR THE YEAR ENDED DECEMBER 31, 2005
(PRELIMINARY)

Financial Reports
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NEW YORK POWER AUTHORITY
FINANCIAL REPORT
FOR THE YEAR ENDED DECEMBER 31, 2006

($ in millions)

Financial Summary	2006 YTD PRELIMINARY* Actual	2006 YTD PRELIMINARY* Budget	December 2006 Actual	December 2006 Budget
Net operating revenues (loss)	$173.8	$ 139.0	(20.0)	$8.8
Net revenues (loss)	137.6	85.9	(22.9)	4.7
O&M (incl. administrative)	263.6	260.0	23.8	23.5
Generation (gwh's)	26,918	24,648	2,518	2,220

	Current	Prior Month	December 2005
Reserves	$348	$444	$233

Net revenues for the year ended December 31, 2006 were $137.6 which was $51.7 higher than budgeted including higher net operating revenues ($34.8) and higher non-operating income ($16.9). Higher net operating revenues at the hydro facilities ($96.8), the SCPP's ($20.5) and the MSP market area ($16.3) were partially offset by a negative variance at SENY ($53.2) and an estimated potential voluntary contribution of $40.0 to N.Y. State for the 2006/7 fiscal year. The positive results at the hydro facilities were due to higher than expected water flows resulting in 10% higher production. Higher capacity prices contributed to the positive variance at the SCPP's. The MSP market area showed better than anticipated operating results due to lower prices on ISO purchases and lower Power for Jobs rebates. The negative variance at SENY was due primarily to lower than expected prices on sales to the ISO. Non-operating income included higher investment earnings and lower costs on variable rate debt.

During the month of December the Authority experienced a loss of $22.9 primarily due to the recognition of an estimated potential 2006/7 voluntary contribution of $40.0 to N.Y. State. Net revenues for the month, before this charge, were $17.1 which was $12.4 higher than budgeted. This positive variance was attributable to higher net operating revenues ($11.1) and higher non-operating income ($1.3). Net operating revenues were higher primarily at the hydro facilities ($14.8) due to 16% higher generation. Production for December (2,518 gwh) was 13% higher than anticipated (2,220 gwh) resulting from higher generation at the hydro (268 gwh) and fossil (30 gwh) facilities. Non-operating income was higher than anticipated as a result of higher earnings on the Authority's investment portfolio due to higher balances (partially offset by a mark-to-market loss) and lower costs on variable rate debt. The reserve balance decreased by $96.0 during the month primarily due to the designation of $100.0 for the future establishment of a trust for the payment of post-employment health benefits.

Subject to adjustments resulting from the external audit and a true-up of estimates to actual amounts.

NYPA
Net Revenues
For The Year ended December 31, 2006
($ in 000'S)

PRELIMINARY

	Actual	Budget	Variance Favorable/ (Unfavorable)
Operating Revenues			
Customer	$1,729,782	$1,829,029	($99,247)
ISO-Energy	764,775	947,271	(182,496)
Ancillary Services	82,412	64,654	17,758
NTAC and Other	82,957	80,134	2,823
Total ISO	930,144	1,092,059	(161,915)
	2,659,926	**2,921,088**	**(261,162)**
Operating Expenses			
Purchased Power:			
Entergy	164,369	158,785	(5,584)
Other	813,929	1,048,271	234,342
Ancillary Services	82,469	83,746	1,277
Fuel Consumed - Oil & Gas	523,053	623,649	100,596
Wheeling	295,510	302,119	6,609
Operations & Maintenance	263,632	259,965	(3,667)
Other expenses	177,422	137,904	(39,518)
Depreciation & Amortization	173,365	176,402	3,037
Allocation to Capital	(7,668)	(8,794)	(1,126)
	2,486,081	**2,782,047**	**295,966**
Net Operating Revenues	**173,845**	**139,041**	**34,804**
Interest Income and Realized Gains	72,044	63,763	8,281
Mark to Market Adjustment	310	(2,000)	2,310
Investment Income	72,354	61,763	10,591
Interest and Other Expenses	108,591	114,874	6,283
Net Revenues	**137,608**	**85,930**	**51,678**

New York Power Authority
Net Revenues by Facility
For the Year ended December 31, 2006
($ in 000's)
PRELIMINARY

	Niagara/ St. Lawrence	B-G	SENY	SCPP	Market Supply Power	Flynn	Transmission	Eliminations & Adjmts	Total
Operating Revenues									
Customer	$ 383,535	$ 21,531	$ 996,958	$ 12,496	$ 254,019	$ 120,700	$ 86,345	$ (145,802)	$ 1,729,782
ISO-Energy	55,423	67,640	490,895	110,235	51,080			(10,498)	764,775
Ancillary Services	65,775	5,770	9,017	877				973	82,412
NTAC and Other							82,957		82,957
Total ISO	121,198	73,410	499,912	111,112	51,080	-	82,957	(9,525)	930,144
	504,733	**94,941**	**1,496,870**	**123,608**	**305,099**	**120,700**	**169,302**	**(155,327)**	**2,659,926**
Operating Expenses									
Purchased Power:									
Entergy			164,369						164,369
Other	75,845	51,836	551,251	6,546	279,991		42	(151,582)	813,929
Ancillary Services	24,705	298	47,697	93	9,678			(2)	82,469
Fuel Consumed - Oil & Gas			388,025	50,580		84,448			523,053
Wheeling	9,577		274,926		10,621	386			295,510
Operations & Maintenance	99,812	27,898	47,920	13,135	1,635	8,369	64,863		263,632
Other expenses	20,395	3,219	12,387	868	47,770	715	12,647	79,421	177,422
Depreciation & Amortization	33,691	5,961	59,182	29,288	849	5,236	39,158		173,365
Allocation to Capital	(3,302)	(928)	(1,299)	(34)		(254)	(1,851)		(7,668)
	260,723	**88,284**	**1,544,458**	**100,476**	**350,544**	**98,900**	**114,859**	**(72,163)**	**2,486,081**
Net Operating Revenues	**244,010**	**6,657**	**(47,588)**	**23,132**	**(45,445)**	**21,800**	**54,443**	**(83,164)**	**173,845**
Investment and Other Income	2		7,868	1,717			8	62,759	72,354
Interest and Other Expenses	(15,586)	333	(38,497)	(36)	(72)	(3,854)	(30,900)	(19,979)	(108,591)
Net Revenues (loss)	228,426	6,990	(78,217) *	24,813	(45,517)	17,946	23,551	(40,384)	137,608
Budget	129,385	(4,779)	(26,860)	2,578	(57,824)	15,561	23,102	4,767	85,930
Variance	$ 99,041	$ 11,769	$ (51,357)	$ 22,235	$ 12,307	$ 2,385	$ 449	$ (45,151)	$ 51,678

*** Reflects loss of $108.2 milion partially offset by $30.0 million anticipated recovery from NYC Govt. customers (based on sharing plan elected for 2006 under LT Supplemental Energy Supply Agreement).**

NEW YORK POWER AUTHORITY
VARIANCE FROM BUDGET
MAJOR FACTORS
For the Year Ended December 31, 2006
(Millions)
PRELIMINARY

		Better/(Worse) than budget	
Niagara/St. Lawrence	o Lower customer & ISO energy revenues (lower prices)	$ (61.8)	
	o Higher ancillary service revenues (primarily higher prices for regulation & reserves)	9.6	
	o Lower purchased power costs (lower volumes & prices)	144.3	
	o Lower O&M (primarily lower contractor services at Niagara)	4.9	
	o Other (lower interest costs)	2.0	
			$ 99.0
Blenheim-Gilboa	o Higher customer & ISO revenues (higher capacity prices)	18.3	
	o Higher purchased power costs (higher volumes)	(4.4)	
	o Higher site O&M (thrust bearing repair)	(1.2)	
	o Higher allocated administrative expenses	(0.9)	11.8
SENY	o Lower revenues (primarily lower prices on sales to the ISO)	(122.0)	
	o Lower purchased power costs (lower prices)	37.7	
	o Lower fuel costs (primarily lower prices)	30.1	
	o Other (including lower interest costs)	2.9	(51.3)
SCPP	o Lower ISO energy revenues (lower prices) partially offset by higher capacity revenues	(7.7)	
	o Lower fuel costs (lower prices)	30.3	
	o Higher site O&M (Kent turbine blade repair)	(1.5)	
	o Other (mainly insurance recovery-Harlem River turbine repair)	1.1	22.2
Market Supply Power	o Lower revenues (primarily lower prices on sales to the ISO)	(33.3)	
	o Lower purchased power costs (lower prices)	32.0	
	o Other (primarily lower PFJ customer rebates)	13.6	12.3
Flynn	o Lower revenues (lower prices on Long Island)	(37.7)	
	o Lower fuel costs (primarily lower prices)	40.2	
	o Other	(0.1)	2.4
Transmission	o Higher revenues (NTAC)	1.9	
	o Higher O&M (right-of-way maintenance)	(0.8)	
	o Other	(0.7)	0.4
Consolidating adjustments	(includes estimated potential voluntary contribution of $40.0 to NY State for the 2006/7 fiscal year)		(45.1)
Net Revenues			$ 51.7

NYPA
Operations & Maintenance
For the Year Ended December 31, 2006
PRELIMINARY

	($'s in millions) Actual	Budget
Power Generation		
Headquarters Support	$10.8	$7.1
Blenheim-Gilboa	16.1	14.9
Charles Poletti	15.1	16.0
500 MW	9.5	8.7
R.M. Flynn	5.4	5.2
SCPP	11.9	10.5
Small Hydros	3.1	3.8
Niagara	42.2	45.5
St. Lawrence	16.0	17.5
	130.1	129.2
Transmission		
ECC/Headquarters	8.6	9.1
Transmission Facilities	39.5	38.8
	48.1	47.9
Corporate Support		
Executive Office	11.0	10.3
Business Services	32.8	30.8
HR & Corporate Support	23.1	23.2
Marketing & Econ. Devel.	6.6	7.0
Energy Services	3.1	2.8
	76.6	74.1
Research & Development & Other	8.8	8.8
Total	$263.6	$260.0

For 2006, O&M expenses were $3.6 million over budget. Power Generation expenditures were $0.9 million higher than budgeted. The Power Generation HQ overrun ($3.7 million) reflected greater than anticipated work on recurring and non recurring O&M projects rather than capital (mainly in Environmental). The SCPP's were over budget by $1.4 million due to the unanticipated turbine blade repair at the Kent unit. The overspending for Blenheim-Gilboa ($1.2 million) was due to emergency repair work on the Unit 4 thrust bearings. The $0.8 million overrun at the 500 MW plant was due to unbudgeted heat tracing modification work. These negatives were substantially offset by underruns at the hydro facilities. Niagara spending was $3.3 million under budget primarily due to lower than expected direct charges for contractor services for the Robert Moses 480/508 Elevated Drain Rehabilitation project due to the implementing a lower cost alternate solution. The positive variance at St. Lawrence ($1.5 million) reflected lower labor charges to O&M resulting from higher than anticipated activity on the capital LEM work. HQ Corporate Support expenses were collectively $2.5 million over budget due mainly to overruns in legal and risk consultant support , IT communications expenses and less than anticipated payroll charged to capital projects (Billing System).

NEW YORK POWER AUTHORITY
COMPARATIVE STATEMENT OF NET ASSETS
(IN THOUSANDS)

PRELIMINARY

	DECEMBER 2006	DECEMBER 2005	NET CHANGE
ASSETS:			
Electric Plant In Service, Less Accumulated Depreciation	$3,078,361	$3,145,208	(66,847)
Construction Work In Progress	161,247	121,217	40,030
Net Utility Plant	$3,239,608	$3,266,425	(26,817)
Restricted Funds	67,247	79,258	(12,011)
Construction Funds	105,588	147,415	(41,827)
Investment In Decommissioning Trust Fund	923,622	851,346	72,276
Current Assets:			
Cash	72	72	-
Investments In Government Securities	749,988	572,457	177,531
Interest Receivable On Investments	15,114	12,069	3,045
Receivables-Customers	165,002	210,196	(45,194)
Materials & Supplies-Plant & General	66,297	63,352	2,945
-Fuel	32,800	26,442	6,358
Prepayments And Other	62,056	45,401	16,655
Notes Receivable-Nuclear Sale	192,001	257,349	(65,348)
Deferred Charges And Other Assets	529,406	681,305	(151,899)
TOTAL ASSETS	**$6,148,801**	**$6,213,087**	**($64,286)**
LIABILITIES AND OTHER CREDITS:			
Long-Term Debt - Bonds	$1,735,262	$1,935,378	(200,116)
Notes	156,145	161,835	(5,690)
Short-Term Notes Payable	272,282	218,241	54,041
Accounts Payable And Accrued Liabilities	629,083	539,219	89,864
Spent Nuclear Fuel Disposal	201,575	192,374	9,201
Decommissioning Of Nuclear Plants	923,622	851,346	72,276
Deferred Revenue	196,676	418,155	(221,479)
TOTAL LIABILITIES AND OTHER CREDITS	**4,114,645**	**4,316,548**	**(201,903)**
ACCUMULATED NET REVENUES-JANUARY 1	1,896,548	1,838,026	58,522
NET REVENUES	137,608	58,513	79,095
TOTAL LIABILITIES AND CAPITAL	**$6,148,801**	**$6,213,087**	**($64,286)**

NYPA
SUMMARY OF NET GENERATION (MWH'S)
FOR THE YEAR ENDED DECEMBER 31, 2006 - PRELIMINARY

	Year-to-date December				Month of December 2006			
Facility	Actual	Budget	Variance (Actual vs Budget)	% Variance from Budget	Actual	Budget	Variance (Actual vs Budget)	% Variance from Budget
Niagara	13,533,003	12,190,000	1,343,003	11.02%	1,381,368	1,200,000	181,368	15.11%
St. Lawrence	6,797,312	6,270,000	527,312	8.41%	619,781	520,000	99,781	19.19%
Combined	20,330,315	18,460,000	1,870,315	10.13%	2,001,149	1,720,000	281,149	16.35%
Poletti	1,885,370 (1)	2,275,999	(390,629)	-17.16%	148,915	190,029	(41,114)	-21.64%
500MW	3,052,375	2,275,662	776,713	34.13%	253,735	183,120	70,615	38.56%
SCPP	587,430	590,493	(3,063)	-0.52%	26,999	25,307	1,692	6.69%
Blenheim Gilboa	(365,857) (3)	(277,809)	(88,048)	31.69%	(43,337)	(22,034)	(21,303)	96.68%
Small Hydro	215,704	145,619	70,085	48.13%	20,592	12,367	8,225	66.51%
R. M. Flynn	1,212,595 (2)	1,177,765	34,830	2.96%	109,584	111,148	(1,564)	-1.41%
Total	26,917,932	24,647,729	2,270,203	9.21%	2,517,637	2,219,937	297,700	13.41%

(1) Scheduled maintenance outage April 1 ot April 10, 2006. Continued on reserve shutdown through April 13, 2006 .

(2) Scheduled maintenance outage April 24 - May 4, 2006.

(3) Scheduled outage (10/06) to facilitate the Life Extension and Modernization (LEM) project.

NYPA
Capital Expenditures
For the Year Ended December 31, 2006

PRELIMINARY

($'s in millions)

	Actual	Budget
New Generation	$13.9	$14.8
Energy Services	117.7	102.8
Existing Facilities	89.6	103.7
Transmission	17.4	23.4
Headquarters	12.6	30.3
General Plant and Minor Additions	8.4	8.2
	$259.6	$283.2

Capital expenditures for 2006 were 8.3% lower than the budget. **New Generation** was under budget by $0.9 million with underruns in the SCPP projects due to a delay in starting various community improvement projects. **Energy Services** was $14.9 million over budget primarily due to accelerated construction activity for the NYC governmental customers under the Long Term Agreement Programs. Expenditures for **Existing Facilities** improvements were $14.1 million under budget due to less than anticipated usage of consultants for the Niagara Relicensing project and underruns in the Niagara Upgrade, Robert Moses Stator Rewind, Niagara Gantry Crane and B-G LEM projects. This underrun was partially offset by a payment of $10.0 million, to establish the Seaway Private Equity Corporation, not included in the budget. Since NYPA has withdrawn from the agreement with the St. Lawrence Aquarium and Ecological Center, NYPA has agreed to establish this fund for new economic development in the North Country. The underrun in **Transmission** of $6.0 million was due to a lag in procurement related to the Static Var Compensator and Tri Lake Transmission project. **Headquarters** was underrunning the budget by $17.7 million due to delays in choosing the system implementation consultant for the Billing System Replacement project and delays in finalizing the scope for security improvement projects at various facilities.

Under the Expenditure Authorization Procedure, the President has authorized new expenditures on budgeted capital projects of $2.5 million for 2006. There were no new expenditures this month.

Demand Side Management
Cost Summary (Inception to Date)
December 31, 2006
($ in 000's)

(A) DSM Projects

Authorized	Program	Prog	(A) Projects In-Progress	(B) Completed Projects	(C) Cumulative Cost	(D) Recoveries to Date	(E) Net Investment (C-D)
$13,000	Distributed Generation	ES-DGN	$1,787		$1,787	$330	$1,457
183,050	Electrotechnologies LTEPA	ES-EPN	8,520	74,534	83,054	47,562	35,492
433,000	NYPA Energy Services Program	ES-ESN	57,060	90,196	147,256	44,382	102,874
530,000	SENY Govt Cust Energy Serv	ES-GSN	47,751	9,274	57,025	4,981	52,044
26,000	Landfill Gases Program	ES-LFN	662		662		662
130,000	SENY HELP LTEPA	ES-LTN	9,611	78,007	87,618	62,010	25,608
1,200	MUNI Vehicle Program	ES-MVN	-	458	458	206	252
140,000	Non-Elect End Use LTEPA	ES-NEN	28,868	57,634	86,502	26,353	60,149
35,000	Peak Load Mgmt	ES-PLN	1,386	165	1,551		1,551
	Completed Programs						
5,000	Coal Conversion LTEPA	ES-CCN		5,000	5,000	3,466	1,534
5,000	County & Muni's	ES-CMN		1,919	1,919	1,820	99
14,600	Industrial	ES-IPN		6,875	6,875	6,635	240
51,000	LI HELP	ES-LIN		47,505	47,505	47,058	447
15,000	SENY New Constr	ES-NCN		2,992	2,992	2,992	0
75,000	Public Housing LTEPA	ES-PHN		72,081	72,081	72,081	0
40,000	Public Schools	ES-PSN		38,941	38,941	38,756	185
130,000	SENY HELP	ES-SEN		134,305	134,305	134,305	0
60,000	Statewide	ES-SWN		56,733	56,733	54,645	2,088
4,085	Other			746	746	746	0
7,500	Wattbusters			5,441	5,441	5,441	0
$1,898,435			$155,645	$682,806	$838,451	$553,769	$284,682

(B) POCR Funding

LOANS

Authorized	Program	Loans Issued	Repayments	Outstanding Balance
$ 16,390	Colleges & Universities	$ 16,390	$ 15,933 (1)	$ 457

GRANTS

Authorized	Program	Issued
$9,105	Coal Conversion Pilot	$9,105
4,558	Hybrid Bus Program	4,558
663	Solar Grants	663
3,000	NYSERDA	3,000
23,449 (1)	Energy Services Programs	14,448
29,834 (1)	POCR Grants	12,599
$ 70,609		$ 44,373

(C) CASP Funding

Authorized	Program	Issued
$132,541 (2)	Coal Conversion	$118,819

(D) Board of Ed Funding

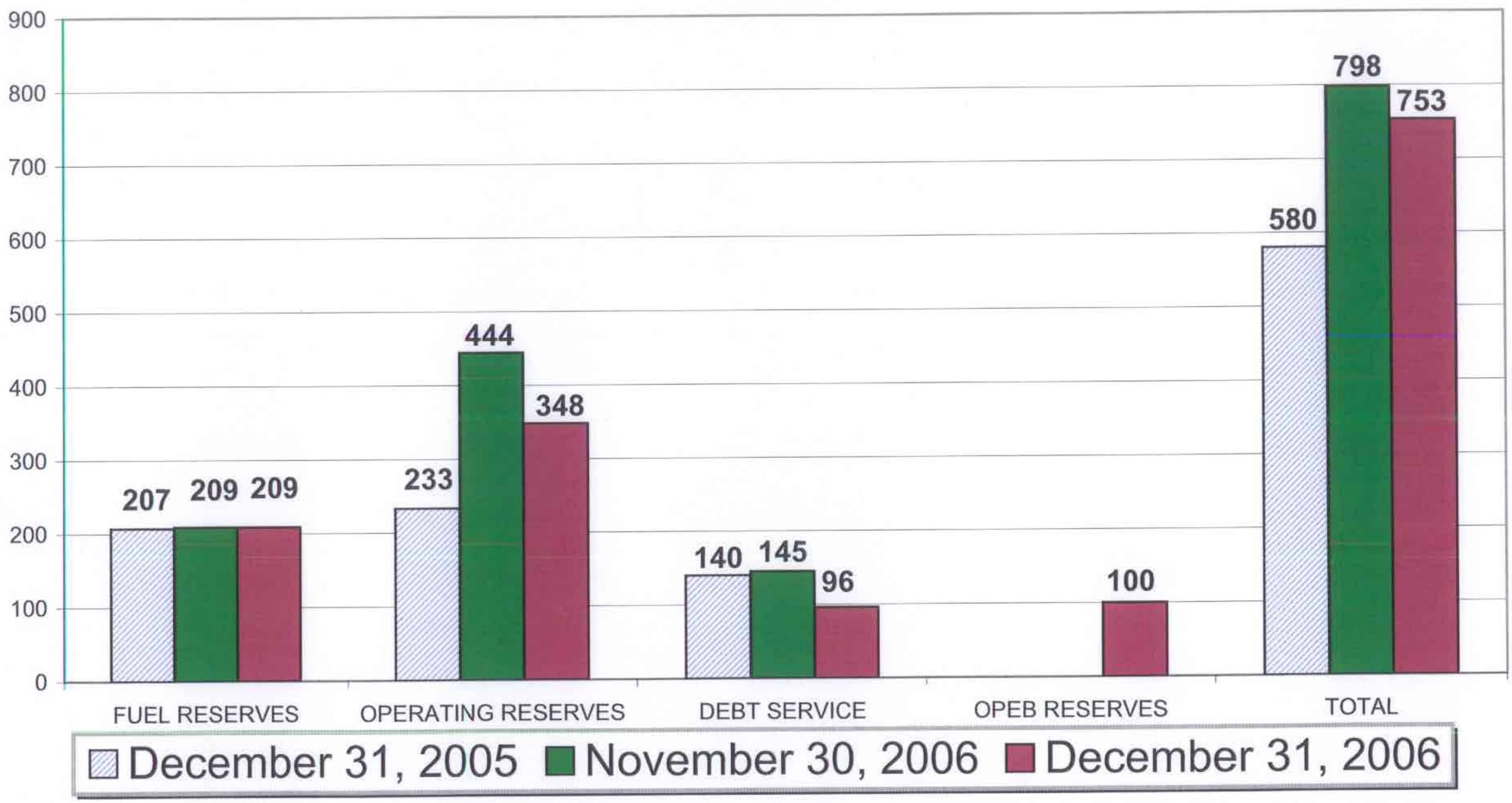
Authorized	Program	Issued
$38,798 (2)	Climate Controls (NYC BOE)	$34,677

(D) NYC Housing Auth Funding

Authorized	Program	Issued
$12,833 (2)	NYCHA Hot Water Heaters	$10,838

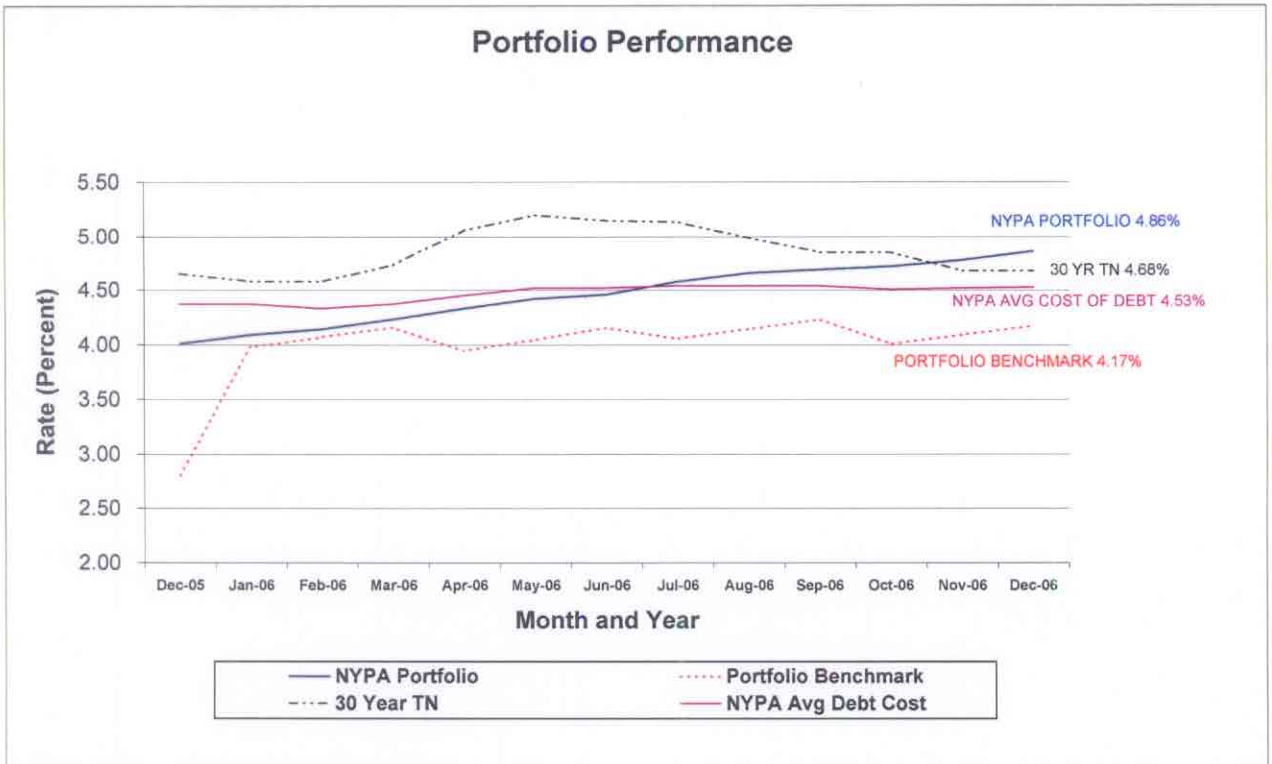
(1) Funds recovered via loan repayments are available and assigned to be used as grants in the Energy Services Program and for POCR Grant Program.
(2) Authorized funds reflect both principal received and the interest earned on such principal.

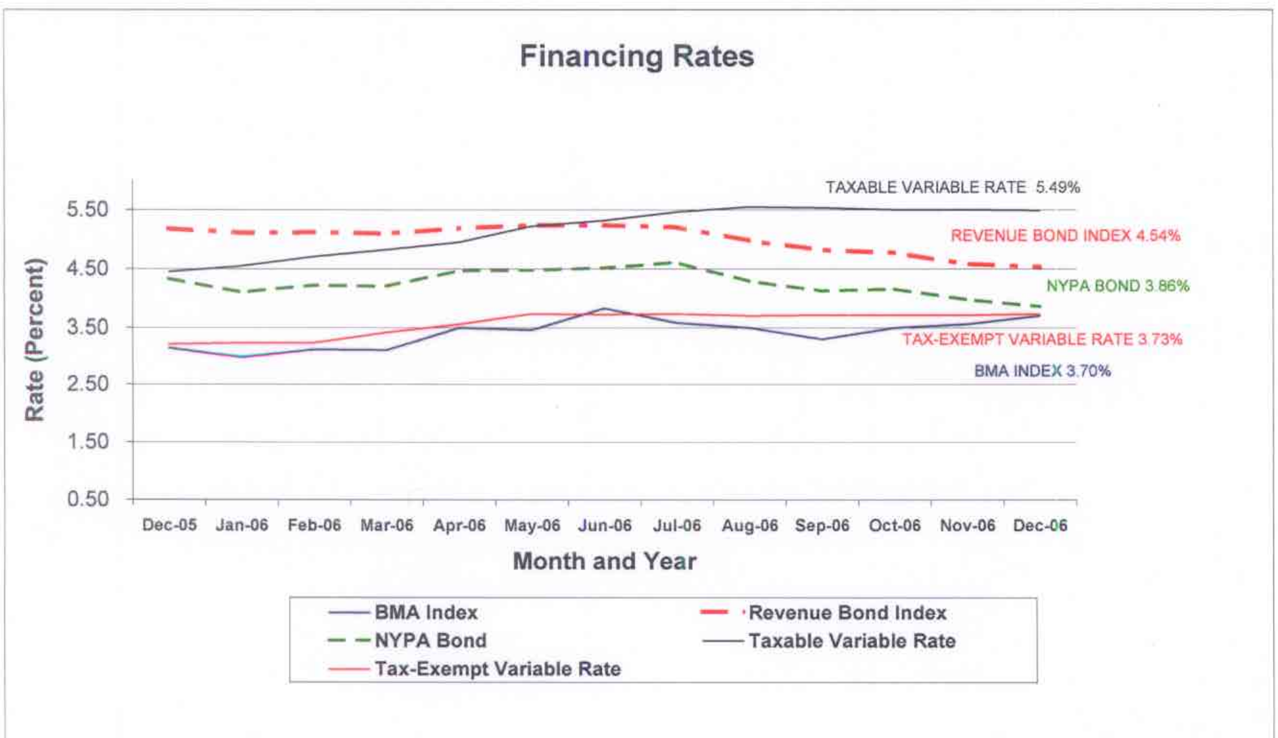
NEW YORK POWER AUTHORITY
OPERATING FUND
($ MILLIONS)



Fuel Reserves include $202 million for Nuclear Spent Fuel and $7 million for Energy Hedging Reserve Fund.

OPEB (Other Post Employment Benefits): The Authority's Trustees have authorized staff to initiate the establishment of a trust for its OPEB obligations and have designated $100 million as a reserve within the Operating fund for this purpose.


Portfolio Performance
5.50
5.00
4.50
4.00
3.50
3.00
2.50
2.00
Rate (Percent)
NYPA PORTFOLIO 4.86%
30 YR TN 4.68%
NYPA AVG COST OF DEBT 4.53%
PORTFOLIO BENCHMARK 4.17%
Dec-05 Jan-06 Feb-06 Mar-06 Apr-06 May-06 Jun-06 Jul-06 Aug-06 Sep-06 Oct-06 Nov-06 Dec-06
Month and Year
NYPA Portfolio
Portfolio Benchmark
30 Year TN
NYPA Avg Debt Cost


Financing Rates
5.50
4.50
3.50
2.50
1.50
0.50
Rate (Percent)
TAXABLE VARIABLE RATE 5.49%
REVENUE BOND INDEX 4.54%
NYPA BOND 3.86%
TAX-EXEMPT VARIABLE RATE 3.73%
BMA INDEX 3.70%
Dec-05 Jan-06 Feb-06 Mar-06 Apr-06 May-06 Jun-06 Jul-06 Aug-06 Sep-06 Oct-06 Nov-06 Dec-06
Month and Year
BMA Index
Revenue Bond Index
NYPA Bond
Taxable Variable Rate
Tax-Exempt Variable Rate

4. Report from the President and Chief Executive Officer

President Carey requested an Executive Session at the end of the meeting.

President Carey asked Mr. Del Sindaco to introduce the new Treasurer, Brian McElroy, and the new Deputy Treasurer, Lisa Cole. Mr. Del Sindaco said that Mr. McElroy and Ms. Cole each have nearly 20 years of outstanding service with the Authority. Chairman McCullough acknowledged that Mr. McElroy and Ms. Cole both have a great deal of support within the organization.

5. <u>Allocation of 2,800 kW of Hydro Power</u>

The President and Chief Executive Officer submitted the following report:

SUMMARY

"The Trustees are requested to approve two allocations of available Replacement Power ('RP') totaling 2,800 kW to two industrial companies.

BACKGROUND

"Under the RP Settlement Agreement, National Grid ('Grid') (formerly Niagara Mohawk Power Corporation), with the approval of the Authority, identifies and selects certain qualified industrial companies to receive delivery of RP. Qualified companies are current or future industrial customers of Grid that have or propose to have manufacturing facilities for the receipt of RP within 30 miles of the Authority's Niagara Switchyard. RP is up to 445,000 kW of firm hydro power generated by the Authority at its Niagara Power Project that has been made available to Grid, pursuant to the Niagara Redevelopment Act (through December 2005) and Chapter 313 of the 2005 Laws of the State of New York ('Chapter 313').

"Under Section 1005 (13) of the Power Authority Act, as amended by Chapter 313, the Authority may contract to allocate or reallocate directly, or by sale for resale, 250 MW of firm hydroelectric power as Expansion Power and up to 445 MW of RP to businesses in the State located within 30 miles of the Niagara Power Project, provided that the amount of power allocated to businesses in Chautauqua County on January 1, 1987 shall continue to be allocated in such county.

DISCUSSION

"On October 22, 2003, the Authority, Grid, Empire State Development Corporation and the Buffalo Niagara Enterprise signed a Memorandum of Understanding ('MOU') that outlines the process to coordinate marketing and allocating Authority hydro power. The entities noted above have formed the Western New York Advisory Group ('Advisory Group') with the intent of better using the value of this resource to improve the economy of Western New York and the State of New York. Nothing in the MOU changes the legal requirements applicable to the allocation of hydro power.

"Based on the Advisory Group's discussions, staff recommends that the available power be allocated to two companies as set forth in Exhibit '5-A.' The Exhibit shows, among other things, the amount of power requested, the recommended allocation and additional employment and capital investment information. These projects will help maintain and diversify the industrial base of Western New York and provide new employment opportunities.

RECOMMENDATION

"The Director – Business Power Allocations, Compliance and Municipal and Cooperative Marketing recommends that the Trustees approve the allocation of 2,800 kW of hydro power to the companies listed in Exhibit '5-A.'

"The Executive Vice President and General Counsel, the Senior Vice President – Marketing and Economic Development, the Vice President – Major Accounts Marketing and Economic Development and I concur in the recommendation."

The following resolution, as submitted by the President and Chief Executive Officer, was unanimously adopted.

RESOLVED, That the allocation of 2,800 kW of Replacement Power, as detailed in Exhibit "5-A," be, and hereby is, approved on the terms set forth in the foregoing report of the President and Chief Executive Officer; and be it further

RESOLVED, That the Chairman, the President and Chief Executive Officer and all other officers of the Authority are, and each of them hereby is, authorized on behalf of the Authority to do any and all things, take any and all actions and execute and deliver any and all agreements, certificates and other documents to effectuate the foregoing resolution, subject to the approval of the form thereof by the Executive Vice President and General Counsel.

New York Power Authority
Replacement Power
Recommendations for Allocations

Exhibit "5-A"
January 30, 2007

Exhibit Number	Company Name	City	County	Power Requested (kW)	New Jobs	Estimated Capital Investment	New Jobs Avg. Wage Benefits	Power Recommended (kW)	Contract Term (1)
A-1	Citigroup, Inc	Amherst	Erie	1,450	500	$8,000,000	$42,000	**1,400**	Until 8/31/07
A-2	Saint-Gobain Advanced Ceramics	Niagara Falls	Niagara	1,600	18	$2,800,000	$43,000	**1,400**	Until 8/31/07
	Total RP Recommended					**10,800,000**		**2,800**	

(1) If the Niagara Project license is extended and the delivery agreement is finalized, the full term of these contracts will be for five years.

Exhibit "5-A1"
January 30, 2007

APPLICATION SUMMARY

Replacement Power

Company:	Citigroup, Inc.
Location:	Amherst
County:	Erie County
IOU:	National Grid
Business Activity:	Leading international financial services company
Project Description:	The applicant will make tenant improvements and spend additional funds on furniture, fixtures and office equipment (primarily personal computers and networking and telecommunications equipment). In addition, a new three-story 155,000-square-foot office building will be constructed. The cost of constructing the building will be $26 million. The building will be constructed and owned by a third-party developer and leased to the applicant.
Prior Application:	No
Existing Allocation:	None
Power Request:	1,450 kW
Power Recommended:	1,400 kW
Job Commitment:	
Existing:	0 jobs
New:	500 jobs
New Jobs/Power Ratio:	357 jobs/MW
New Jobs – Avg. Wage and Benefits:	$42,000
Capital Investment:	$8 million
Capital Investment Per MW	$5.7 million /MW
Summary:	Citigroup is a leading international financial services company that offers consumer and business product offerings, including banking services, credit cards, loans and insurance. An increasing demand for its products and services prompted the consideration to add additional office space. The final location selected for this project will be based on a business analysis. Other locations under consideration include locations in Manila, the Philippines; Mumbai, India and Jersey City, New Jersey.

Exhibit "5-A2"
January 30, 2007

APPLICATION SUMMARY

Replacement Power

Company:	Saint-Gobain Ceramics & Plastic, Inc.
Location:	Niagara Falls
County:	Niagara County
IOU:	National Grid
Business Activity:	Manufacturer of ceramic abrasive grain
Project Description:	Saint-Gobain will add additional capacity for both existing products and new products that have been developed by the company's R&D group. The company will purchase and install new equipment, including processing kilns, electrically heated dryers and other supporting equipment and machines.
Prior Application:	Yes
Existing Allocation:	2,200 kW of RP
Power Request:	1,270 kW
Power Recommended:	1,100 kW
Job Commitment:	
Existing:	57 jobs
New:	12 jobs
New Jobs/Power Ratio:	11 jobs/MW
New Jobs – Avg. Wage and Benefits:	$58,000
Capital Investment:	$4.6 million
Capital Investment Per MW	$4.2 million/MW
Summary:	This investment is crucial to the future viability of this operation, since it shifts the mix of products away from standard seeded gel abrasive, which is being replaced by new and more advanced products. Saint Gobain will add specialty products that have diversified markets. The project will also help the company's competitiveness in the worldwide markets that it serves, as well as help it compete with its sister plant in France that is in a position to develop and manufacture these products. In addition, Niagara County will support training grants for Saint Gobain.

6. Power for Jobs Program – Extended Benefits

The President and Chief Executive Officer submitted the following report:

SUMMARY

"The Trustees are requested to approve extended benefits for the 31 Power for Jobs ('PFJ') customers listed in Exhibit '6-A.' These customers have been recommended to receive such extended benefits by the Economic Development Power Allocation Board ('EDPAB').

BACKGROUND

"In July 1997, the New York State Legislature approved a program to provide low-cost power to businesses and not-for-profit corporations that agree to retain or create jobs in New York State. In return for commitments to create or retain jobs, successful applicants receive three-year contracts for PFJ electricity.

"The PFJ program originally made 400 megawatts ('MW') of power available. The program was to be phased in over three years, with approximately 133 MW made available each year. In July 1998, as a result of the initial success of the program, the Legislature amended the PFJ statute to accelerate the distribution of the power, making a total of 267 MW available in Year One. The 1998 amendments also increased the size of the program to 450 MW, with 50 MW to become available in Year Three.

"In May 2000, legislation was enacted that authorized another 300 MW of power to be allocated under the PFJ program. The additional MW were described in the statute as 'phase four' of the program. Customers that received allocations in Year One were authorized to apply for reallocations; more than 95% reapplied. The balance of the power was awarded to new applicants.

"In July 2002, legislation was signed into law that authorized another 183 MW of power to be allocated under the program. The additional MW were described in the statute as 'phase five' of the program. Customers that received allocations in Year Two or Year Three were given priority to reapply for the program. Any remaining power was made available to new applicants.

"Chapter 59 of the Laws of 2004 extended the benefits for PFJ customers whose contracts expired before the end of the program in 2005. Such customers had to choose to receive an 'electricity savings reimbursement' rebate and/or a power contract extension. The Authority was also authorized to voluntarily fund the rebates, if deemed feasible and advisable by the Trustees.

"PFJ customers whose contracts expired on or prior to November 30, 2004 were eligible for a rebate to the extent funded by the Authority from the date their contract expired through December 31, 2005. As an alternative, such customers could choose to receive a rebate to the extent funded by the Authority from the date their contract expired as a bridge to a new contract extension, with the contract extension commencing December 1, 2004. The new contract would be in effect from a period no earlier than December 1, 2004 through the end of the PFJ program on December 31, 2005.

"PFJ customers whose contracts expired after November 30, 2004 were eligible for rebate or contract extension, assuming funding by the Authority, from the date their contracts expired through December 31, 2005.

"Approved contract extensions entitled customers to receive the power from the Authority pursuant to a sale-for-resale agreement with the customer's local utility. Separate allocation contracts between customers and the Authority contained job commitments enforceable by the Authority.

"In 2005, provisions of the approved State budget extended the period PFJ customers could receive benefits until December 31, 2006. In 2006, a new law (Chapter 645 of the Laws of 2006) included provisions extending program benefits until June 30, 2007.

"Section 189 of the New York State Economic Development Law, which was amended by Chapter 59 of the Laws of 2004, provided the statutory authorization for the extended benefits that could be provided to PFJ customers. The statute stated that an applicant could receive extended benefits '*only if it is in compliance with and agrees to continue to meet the job retention and creation commitments set forth in its prior power for jobs contract.*'

"Chapter 313 of the Laws of 2005 amended the above language to allow EDPAB to consider continuation of benefits on such terms as it deems reasonable. The statutory language now reads as follows:

> *An applicant shall be eligible for such reimbursements and/or extensions only if it is in compliance with and agrees to continue to meet the job retention and creation commitments set forth in its prior power for jobs contract****, or such other commitments as the board deems reasonable***. (emphasis supplied)

"At its meeting of October 18, 2005, EDPAB approved criteria under which applicants whose extended benefits EDPAB had reduced for non-compliance with their job commitments could apply to have their PFJ benefits reinstated in whole or in part. EDPAB authorized staff to create a short-form application, notify customers of the process, send customers the application and evaluate reconsideration requests based on the approved criteria. To date, staff has mailed 200 applications, received 109 and completed review of 108.

DISCUSSION

"At its meeting on January 30, 2007, EDPAB recommended that the Authority's Trustees approve electricity savings reimbursement rebates to the 31 businesses listed in Exhibit '6-A.' Collectively, these organizations have agreed to retain more than 35,000 jobs in New York State in exchange for the rebates. The rebate program will be in effect until June 30, 2007, the program's sunset.

"The Trustees are requested to approve the payment and funding of rebates for the companies listed in Exhibit '6-A' in a total amount currently not expected to exceed $2,600,000. Staff recommends that the Trustees authorize a withdrawal of monies from the Operating Fund for the payment of such amount, provided that such amount is not needed at the time of withdrawal for any of the purposes specified in Section 503(1)(a)-(c) of the General Resolution Authorizing Revenue Obligations, as amended and supplemented. Staff expects to present the Trustees with requests for additional funding for rebates to the companies listed in the Exhibits in the future.

FISCAL INFORMATION

"Funding of rebates for the companies listed on Exhibit '6-A' is not expected to exceed $2.6 million. Payments will be made from the Operating Fund. To date, the Trustees have approved $64.4 million in rebates.

RECOMMENDATION

"The Executive Vice President and Chief Financial Officer and the Director – Business Power Allocations, Compliance and Municipal and Cooperative Marketing recommend that the Trustees approve the payment of electricity savings reimbursements to the Power for Jobs customers listed in Exhibit '6-A.'

"The Executive Vice President and General Counsel, the Senior Vice President – Marketing and Economic Development, the Senior Vice President – Public and Governmental Affairs, the Vice President – Major Account Marketing and Economic Development and I concur in the recommendation."

The following resolution, as submitted by the President and Chief Executive Officer, was unanimously adopted.

> **WHEREAS, the Economic Development Power Allocation Board has recommended that the Authority approve electricity savings reimbursements to the Power for Jobs customers listed in Exhibit "6-A";**

NOW THEREFORE BE IT RESOLVED, That to implement such Economic Development Power Allocation Board recommendations, the Authority hereby approves the payment of electricity savings reimbursements to the companies listed in Exhibit "6-A," and that the Authority finds that such payments for electricity savings reimbursements are in all respects reasonable, consistent with the requirements of the Power for Jobs program and in the public interest; and be it further

RESOLVED, That based on staff's recommendation, it is hereby authorized that payments be made for electricity savings reimbursements as described in the foregoing report of the President and Chief Executive Officer in the aggregate amount of up to $2.6 million, and it is hereby found that amounts may properly be withdrawn from the Operating Fund to fund such payments; and be it further

RESOLVED, That such monies may be withdrawn pursuant to the foregoing resolution upon the certification on the date of such withdrawal by the Vice President – Finance or the Treasurer that the amount to be withdrawn is not then needed for any of the purposes specified in Section 503 (1)(a)-(c) of the General Resolution Authorizing Revenue Obligations, as amended and supplemented; and be it further

RESOLVED, That the Senior Vice President – Marketing and Economic Development or her designee be, and hereby is, authorized to negotiate and execute any and all documents necessary or desirable to effectuate the foregoing, subject to the approval of the form thereof by the Executive Vice President and General Counsel; and be it further

RESOLVED, That the Chairman, the President and Chief Executive Officer and all other officers of the Authority are, and each of them hereby is, authorized on behalf of the Authority to do any and all things, take any and all actions and execute and deliver any and all certificates, agreements and other documents to effectuate the foregoing resolution, subject to the approval of the form thereof by the Executive Vice President and General Counsel.

New York Power Authority
Power for Jobs Extended Benefits
Recommendation for Electricity Savings Reimbursements

Exhibit "6-A"
January 30, 2007

Line	Company	City	County	IOU	KW	Jobs Committed	Jobs in Application	Over (under)	% Over (under)	Compliance	Recommended KW	Jobs/MW	Type	Service
1	AT&T	White Plains	Westchester	Con Ed	650	600	515	-85	-14%	No	560	920	Large	Telecommunications
2	Blythedale Children's Hospital	Valhalla	Westchester	CONED	150	356	369	13	4%	Yes	150	2,460	NFP	Children's hospital
3	International Business Machines - White Plains	White Plains	Westchester	Con Ed	4,400	1,989	1,748	-241	-12%	No	3,870	452	Large	Computer Manufacturer
4	Long Island Jewish Medical Center	Manhasset	Nassau	Con Ed	2,000	6,143	6,009	-134	-2%	Yes	2,000	3,005	NFP	Healthcare Center
5	New York Presbyterian Hospital	New York	New York	Con Ed	5,000	6,958	7,765	807	12%	Yes	5,000	1,553	NFP	Medical care
6	Norampac New York City, Inc.	Maspeth	Queens	Con Ed	600	267	195	-72	-27%	No	600	325	Large	Manufacturers' of corrugated paper packaging
7	NYU Medical Center	New York	New York	Con Ed	4,000	9,867	10,455	588	6%	Yes	4,000	2,614	NFP	Medical Center
8	Pepsi Cola Bottling Company	College Point	Queens	Con Ed	2,200	1,030	990	-40	-4%	Yes	2,200	450	Large	Manufacturer & distributes of soft drinks
	Total Con Ed		**Subtotal**	**8**	**19,000**	**27,210**	**28,046**				**18,380**			
9	Flag Poles, Inc.	East Setauket	Suffolk	LIPA	199	85	110	25	29%	Yes	199	553	Small	Manufactures' fabricated metal products
10	Kozy Shack, Inc.	Hicksville	Nassau	LIPA	1,000	209	265	56	27%	Yes	1,000	265	Large	Mfr. of puddings & snacks
11	Photocircuits	Glen Cove	Suffolk	LIPA	4,000	2,028	983	-1,045	-52%	No	4,000	246	Large	Manufacturer of printed circuit boards
12	Standard Microsystems Corp.	Hauppauge	Suffolk	LIPA	1,050	361	376	15	4%	Yes	1,050	358	Large	Maker and supplier of computer circuits
	Total LIPA		**Subtotal**	**4**	**6,249**	**2,683**	**1,734**				**6,249**			
13	Albany Molecular Research, Inc.	Albany	Albany	N. Grid	600	143	348	205	143%	Yes	600	580	Large	Pharmaceutical & organic research and manufacturing
14	Borg Warner Morse Tech Corp	Cortland	Cortland	N. Grid	1,500	266	242	-24	-9%	Yes	1,500	161	Large	Manufacturer of Auto Components
15	Cascades Tissue Group	Waterford	Saratoga	N. Grid	600	110	159	49	45%	Yes	600	265	Large	Large Industrial towel manufacturer
16	Dodge-Graphic Press Inc	Utica	Herkimer	N. Grid	300	100	66	-34	-34%	No	300	220	Small	Printing Company
17	Higbee Inc.	Syracuse	Onondaga	N. Grid	100	61	48	-13	-21%	No	100	480	Small	Mfr. of gaskets, and sealing products
18	Lydall Manning	Green Island	Albany	N. Grid	1,200	133	111	-22	-17%	No	1,100	101	Large	Specialty Paper Manufacturer
19	Natrium Products, Inc.	Cortland	Cortland	N. Grid	90	20	20	0	0%	Yes	90	222	Small	Manufacturer of sodium bicarbonate (baking soda)
20	Snyder Industries, Inc.	N. Tonawanda	Niagara	N. Grid	350	94	96	2	2%	Yes	350	274	Small	Machinery
21	Welch Allyn Data Collection Inc.	Skaneateles Falls	Onondaga	N. Grid	2,000	1,294	1,257	-37	-3%	Yes	2,000	629	Large	Medical and dental diagnostic equipment manufacturer
	Total National Grid		**Subtotal**	**9**	**6,740**	**2,221**	**2,347**				**6,640**			
22	Borg Warner Automotive Morse TEC	Ithaca	Tompkins	NYSEG	4,000	1360	1,416	56	4%	Yes	4,000	354	Large	Manufacture of automotive components
23	Candlelight Cabinetry, Inc.	Lockport	Niagara	NYSEG	400	200	185	-15	-8%	Yes	400	463	Large	Manufacture custom cabinets
24	Consumers Beverages, Inc.	Buffalo	Erie	NYSEG	240	60	69	9	15%	Yes	240	288	Small	Beverage Producer
25	Corning, Inc.- (Big Flats)	Big Flats	Chemung	NYSEG	500	143	131	-12	-8%	Yes	500	262	Large	Manufacturer of optical fiber, glass & ceramic products
26	Corning, Inc. (Costar Plant)	Oneonta	Otsego	NYSEG	900	200	188	-12	-6%	Yes	900	209	Large	Manufacturer of optical fiber, glass & ceramic products
27	Merritt Plywood Machinery, Inc.	Lockport	Niagara	NYSEG	75	19	19	0	0%	Yes	75	253	Small	Makes machinery for hardwood, veneer and plywood
28	Soucy USA	Champlain	Clinton	NYSEG	400	183	201	18	10%	Yes	400	503	Large	Storage & Warehouse facility
	Total NYSEG		**Subtotal**	**7**	**6,515**	**2,165**	**2,209**				**6,515**			
29	International Business Machines - Rochester	Rochester	Monroe	RGE	2,800	1,495	610	-885	-59%	No	1,150	530	Large	Computer Manufacturer
30	Jada Precision Plastics Co.	Rochester	Monroe	RGE	375	91	56	-35	-38%	No	300	187	Small	Custom injection molder of thermoplastic materials
31	Optical Gaging Products Inc	Rochester	Monroe	RGE	650	244	228	-16	-7%	Yes	650	351	Large	Manufactures custom measurement devices
	Total RGE		**Subtotal**	**3**	**3,825**	**1,830**	**894**				**2,100**			
			Total	**31**	**42,329**	**36,109**	**35,230**				**39,884**	**883**		

7. **Power for Jobs Program – Extended Benefits – 2007**

The President and Chief Executive Officer submitted the following report:

SUMMARY

"The Trustees are requested to approve extended benefits for two Power for Jobs ('PFJ') customers as listed in Exhibit '7-A' until June 30, 2007 to reflect recently enacted changes in law. These customers have been recommended to receive such extended benefits by the Economic Development Power Allocation Board ('EDPAB').

BACKGROUND

"In July 1997, the New York State Legislature approved a program to provide low-cost power to businesses and not-for-profit corporations that agree to retain or create jobs in New York State. In return for commitments to create or retain jobs, successful applicants receive three-year contracts for PFJ electricity.

"The PFJ program originally made 400 megawatts ('MW') of power available. The program was to be phased in over three years, with approximately 133 MW made available each year. In July 1998, as a result of the initial success of the program, the Legislature amended the PFJ statute to accelerate the distribution of the power, making a total of 267 MW available in Year One. The 1998 amendments also increased the size of the program to 450 MW, with 50 MW to become available in Year Three.

"In May 2000, legislation was enacted that authorized another 300 MW of power to be allocated under the PFJ program. The additional MW were described in the statute as 'phase four' of the program. Customers that received allocations in Year One were authorized to apply for reallocations; more than 95% reapplied. The balance of the power was awarded to new applicants.

"In July 2002, legislation was signed into law that authorized another 183 MW of power to be allocated under the program. The additional MW were described in the statute as 'phase five' of the program. Customers that received allocations in Year Two or Year Three were given priority to reapply for the program. Any remaining power was made available to new applicants.

"Chapter 59 of the Laws of 2004 extended the benefits for PFJ customers whose contracts expired before the end of the program in 2005. Such customers had to choose to receive an 'electricity savings reimbursement' rebate and/or a power contract extension. The Authority was also authorized to voluntarily fund the rebates, if deemed feasible and advisable by the Trustees.

"PFJ customers whose contracts expired on or prior to November 30, 2004 were eligible for a rebate to the extent funded by the Authority from the date their contract expired through December 31, 2005. As an alternative, such customers could choose to receive a rebate to the extent funded by the Authority from the date their contract expired as a bridge to a new contract extension, with the contract extension commencing December 1, 2004. The new contract would be in effect from a period no earlier than December 1, 2004 through the end of the PFJ program on December 31, 2005.

"PFJ customers whose contracts expired after November 30, 2004 were eligible for rebate or contract extension, assuming funding by the Authority, from the date their contracts expired through December 31, 2005.

"Approved contract extensions entitled customers to receive the power from the Authority pursuant to a sale-for-resale agreement with the customer's local utility. Separate allocation contracts between customers and the Authority contained job commitments enforceable by the Authority.

"In 2005, provisions of the approved State budget extended the period PFJ customers could receive benefits until December 31, 2006.

"Section 189 of the New York State Economic Development Law, which was amended by Chapter 59 of the Laws of 2004, provided the statutory authorization for the extended benefits that could be provided to PFJ customers. The statute stated that an applicant could receive extended benefits '*only if it is in compliance with and agrees to continue to meet the job retention and creation commitments set forth in its prior power for jobs contract.'*

"Chapter 313 of the Laws of 2005 amended the above language to allow EDPAB to consider continuation of benefits on such terms as it deems reasonable. The statutory language now reads as follows:

> *An applicant shall be eligible for such reimbursements and/or extensions only if it is in compliance with and agrees to continue to meet the job retention and creation commitments set forth in its prior power for jobs contract**, or such other commitments as the board deems reasonable***. (emphasis supplied)

"At its meeting of October 18, 2005, EDPAB approved criteria under which applicants whose extended benefits EDPAB had reduced for non-compliance with their job commitments could apply to have their PFJ benefits reinstated in whole or in part. EDPAB authorized staff to create a short-form application, notify customers of the process, send customers the application and evaluate reconsideration requests based on the approved criteria.

"In 2006, a new law (Chapter 645 of the Laws of 2006) included provisions extending program benefits until June 30, 2007.

DISCUSSION

"At its meeting on January 30, 2007, EDPAB recommended that the Authority's Trustees approve the extension of eligibility to continue to receive electricity savings reimbursement to the two businesses listed in Exhibit '7-A.' Collectively, these organizations have agreed to retain more than 224 jobs in New York State in exchange rebates. The rebate program will be in effect until June 30, 2007, the program's new sunset date. The power will be wheeled by the investor-owned utilities as indicated in the Exhibit.

FISCAL INFORMATION

"The cost of rebates to these customers will not be known until staff receives actual utility bills from customers later in 2007. Payments will be made from the Operating Fund. To date, the Trustees have approved $64.4 million in rebates.

RECOMMENDATION

"The Executive Vice President and Chief Financial Officer, the Director – Business Power Allocations, Compliance and Municipal and Cooperative Marketing and the Director – Business Power Allocations and Regulation recommend that the Trustees approve the extension of eligibility to receive electricity savings reimbursements to the Power for Jobs customers listed in Exhibit '7-A.'

"The Executive Vice President and General Counsel, the Senior Vice President – Marketing and Economic Development, the Senior Vice President – Public and Governmental Affairs, the Vice President – Major Account Marketing and Economic Development and I concur in the recommendation."

The following resolution, as submitted by the President and Chief Executive Officer, was unanimously adopted.

> **WHEREAS, the Economic Development Power Allocation Board has recommended that the Authority approve electricity savings reimbursements to the Power for Jobs customers listed in Exhibit "7-A";**
>
> **NOW THEREFORE BE IT RESOLVED, That to implement such Economic Development Power Allocation Board recommendations, the Authority hereby approves the extension of eligibility to receive electricity**

savings reimbursements to the companies listed in Exhibit "7-A"; and be it further

RESOLVED, That the Senior Vice President – Marketing and Economic Development or her designee be, and hereby is, authorized to negotiate and execute any and all documents necessary or desirable to effectuate the foregoing, subject to the approval of the form thereof by the Executive Vice President and General Counsel; and be it further

RESOLVED, That the Chairman, the President and Chief Executive Officer and all other officers of the Authority are, and each of them hereby is, authorized on behalf of the Authority to do any and all things, take any and all actions and execute and deliver any and all certificates, agreements and other documents to effectuate the foregoing resolution, subject to the approval of the form thereof by the Executive Vice President and General Counsel.

New York Power Authority

Exhibit "7-A"

Power for Jobs Extended Benefits 2007

January 30, 2007

Recommendation for Electricity Savings Reimbursements

Line	Company	City	County	IOU	KW	Jobs in Application 2006	Jobs/MW	Type	Service
1	Diller-Quaile School of Music	New York	New York	Con Ed	30	56	1,867	Small	Music education programs
2	Kruysman, Inc.	Long Island City	Queens	Con Ed	270	168	622	Small	Manufactuer of Filing Supplies

Total	**2**	**300**	**224**	**747**

8. Municipal and Rural Cooperative Economic Development Program Allocations to the City of Sherrill and Village of Tupper Lake

The President and Chief Executive Officer submitted the following report:

SUMMARY

"The Trustees are requested to approve allocations of power under the Municipal and Rural Cooperative Economic Development Program ('Program') to the City of Sherrill and the Village of Tupper Lake.

BACKGROUND

"The 1991 amendment to the power sales agreement between the Authority and the Municipal and Rural Cooperative Systems reserved 108,000 kW of power for economic development in the systems' service territories. As of October 24, 2006, 35,330 kW have been allocated.

"Power from this block can be allocated to individual systems to meet the increased electric load resulting from eligible new or expanding businesses in their service area. The recommended allocations under the Program comprise half hydropower and half incremental power. Under the guidelines established for the Program, an allocation to a system should meet a target number of new jobs per MW. The guidelines provide that for businesses new to a system, the jobs-per-MW ratios are considered on a case-by-case basis. For projects involving existing businesses, the number of jobs per MW is the number of new jobs as compared to the level of employment prior to the expansion. Specifically, for companies employing 100 or less, the target ratio is 25 jobs per MW; for companies employing between 101 and 250, the ratio is 50; for companies employing between 251 and 500, the ratio is 75 and for companies employing more than 500, the ratio is 100 jobs per MW.

"The City of Sherrill and the Village of Tupper Lake have submitted applications for power under the Program for consideration by the Trustees.

DISCUSSION

City of Sherrill

"An application has been submitted by the City of Sherrill on behalf of International Wire Group, Incorporated ('International Wire'). International Wire's bare-wire division started in 1973 and has continued to grow over the years with the subsequent acquisitions of eight wire-manufacturing corporations. The company is considered the market leader and principal supplier of bare wire to the aerospace, medical devices, electronics, data communications, automotive, appliance and energy industries in the U. S. and Europe. International Wire considered opening a new manufacturing facility in either Inman, South Carolina, or Trenton, Georgia, but the potential advantages of reduced power costs and the strategic location of Sherrill will allow the company to compete more efficiently. The Sherrill facility will include new product lines and bring much-needed additional jobs to the community.

"International Wire is planning to invest approximately $23 million to improve and renovate the old Oneida Ltd. knife plant in Sherill, as well as purchase new manufacturing equipment. The new facility will provide for approximately 37 full-time jobs over the next three years, adding revenue to the local economy and resulting in 26 jobs per MW of hydropower. The estimated electrical monthly peak load for the facility is 2,700 kW. It is recommended that the Trustees approve an allocation of 2,700 kW, of which half is hydropower, for the City of Sherrill on behalf of International Wire.

Village of Tupper Lake

"The Village of Tupper Lake has submitted an application for expansion on behalf of Jarden Plastic Solution, Incorporated ('Jarden Plastic'). The company purchased the Tupper Lake facility, which has been in Tupper Lake since 1970, from OWD Incorporated in 2003, and will be expanding the facility in the near future.

Jarden Plastic is considered the largest manufacturer and supplier of plastic cutlery, straws and other plastic products using the injection molding and extrusion processes in the U.S.

"The proposed expansion project entails internal building modifications, installation of new chilled water and electric lines and purchase of eight new injection molding machines and other auxiliary equipment, for a total investment of approximately $350,000. Jarden Plastics currently employs 83 people on a full-time basis. The expansion will provide for 21 new jobs over the next three years, adding revenue to the local economy and resulting in 69 jobs per MW of hydropower. The existing electrical load is approximately 940 kW and is expected to increase to 1,550 kW after the expansion is completed. It is recommended that the Trustees approve an allocation of 610 kW, of which half is hydropower, for the Village of Tupper Lake on behalf of Jarden Plastic.

"The Municipal Electric Utilities Association Executive Committee supports the recommended allocations to the City of Sherrill and the Village of Tupper Lake.

"The recommended allocations under the Program comprise half hydropower and half incremental power. In accordance with the Authority's marketing arrangement with the municipal and cooperative customers, the hydropower will be added to the recipient system's contract demand at the time a project becomes operational. The hydropower earmarked for this Program is presently sold to the municipal and cooperative customers on a withdrawable basis.

RECOMMENDATION

"The Director – Business Power Allocations, Compliance and Municipal and Cooperative Marketing recommends that the Trustees approve the allocations of power under the Municipal and Rural Cooperative Economic Development Program to the City of Sherrill and the Village of Tupper Lake in accordance with the above.

"The Executive Vice President and General Counsel, the Senior Vice President – Marketing and Economic Development and I concur in the recommendation."

The following resolution, as submitted by the President and Chief Executive Officer, was unanimously adopted.

RESOLVED, That allocations of power to the City of Sherrill and the Village of Tupper Lake under the Municipal and Rural Cooperative Economic Development Program are hereby approved as set forth in the foregoing report of the President and Chief Executive Officer; and be it further

RESOLVED, That the Senior Vice President – Marketing and Economic Development or her designee be, and hereby is, authorized to execute any and all documents necessary or desirable to effectuate these allocations; and be it further

RESOLVED, That the Chairman, the President and Chief Executive Officer and all other officers of the Authority are, and each of them hereby is, authorized on behalf of the Authority to do any and all things, take any and all actions and execute and deliver any and all agreements, certificates and other documents to effectuate the foregoing resolution, subject to the approval of the form thereof by the Executive Vice President and General Counsel.

9. Increase in Hydroelectric Preference Power Rates – Notice of Proposed Rule Making

The President and Chief Executive Officer submitted the following report:

SUMMARY

"The Trustees are requested to approve a Notice of Proposed Rule Making ('NOPR') to increase the hydroelectric rates supplied from the Niagara and St. Lawrence/FDR Hydroelectric Projects (individually, 'Niagara Project' and 'St. Lawrence Project,' and collectively, the 'Hydro Projects'). Such rates apply to the Authority's sales of Preference Power to, among others, the municipal and rural electric cooperative customers, the neighboring state customers, plus the upstate utilities that purchase Preference Power from the Hydro Projects for resale to their residential customers. The proposed hydroelectric rates are for the 2007 and 2008 rate years, which extend from May 1, 2007 to April 30, 2008 and from May 1, 2008 to April 30, 2009, respectively. The proposed action would increase rates for a typical preference power customer by 7.1% in the first year of the plan and by 5.8% in the second. In accordance with the requirements of the State Administrative Procedure Act ('SAPA'), the Trustees are requested to direct the Corporate Secretary to publish a NOPR in the *New York State Register*.

"Second, consistent with Authority ratemaking policy, the Trustees are requested to authorize the Corporate Secretary to schedule a public forum for obtaining the views of interested parties. After the 45-day comment period required under SAPA, Authority staff will address any filed comments, including any comments raised at the public forum, and return to the Trustees at their meeting on April 24, 2007, to seek final adoption of this proposal.

BACKGROUND

"The current preference rates and ratemaking methodology were approved by the Trustees at the April 29, 2003 meeting. At that time, the Trustees authorized the refund of $4.5 million and adopted a four-year rate plan based on a Cost of Service ('CoS') study for the CY 2003-2006 period. The final rate year under this plan terminates on April 30, 2007.

"In April and May of 2003, the Authority entered into 'global' settlements with its in-state municipal and rural electric cooperative Preference Power customers that established, among numerous other matters, that these customers would not object to the use of certain ratemaking methodologies adopted by the Trustees in their April 2003 rate action.

DISCUSSION

"The attached 'Preliminary Staff Report, Hydroelectric Production Rates' ('Report') to the Trustees sets forth in detail how the Hydro Projects' CoS study was performed and the findings of that study. The Report continues the ratemaking methodologies adopted by the Trustees at their April 29, 2003 meeting. Exhibit '9-A' of the Report shows the results of the CoS and resulting proposed rates. The key points are summarized below.

1) Operations and Maintenance ('O&M') and Administrative and General ('A&G') Costs

"The site O&M and A&G expenses for the Hydro Project include the day-to-day operations of the projects and on-going expenses associated with major maintenance programs and non-capital modifications. In addition, staff has included the amortization of roadwork of $51.3 million incurred from 1991 to 1996. The 15-year amortization ends in 2010.

"Also included in the O&M/A&G category of the CoS are payments reflecting the Authority's assumption from the New York State Office of Parks, Recreation and Historic Preservation ('OPRHP') of responsibility for the annual cost of operations at the Robert Moses and Coles Creek State parks. Funding for these parks is part of the Federal Energy Regulatory Commission ('FERC')-approved recreation plan for the St. Lawrence Project and the Authority has the ultimate responsibility for these costs under the terms of its FERC license for this Project.

"Most recently, in May 2006, the Trustees authorized a payment to OPRHP. Included in the payment was $0.8 million related to Robert Moses and Coles Creek State Parks. These payments are also expected to be made for SFY 2007-08. The Trustees have annually authorized similar payments for SFY 2003-04, SFY 2004-05 and SFY 2005-06, and payments were subsequently made in conformance with such authorizations. It is proposed that these costs be included in the base hydroelectric rates.

2) Indirect Overheads

"The costs of overheads include shared services, R&D and indirect debt service used to support the Hydro Projects.

3) Relicensing Costs

"Included in current rates are relicensing costs, primarily related to the St. Lawrence Project. On August 18, 2005, the Authority filed with FERC its Application for a new license for the Niagara Project. On August 19, 2005, the Authority filed its Offer of Settlement with FERC, which consisted of four separate agreements, including the Relicensing Settlement Agreement Addressing New License Terms and Conditions along with the Host Community and Tuscarora Settlements. The total cost of compliance and implementing the new license and settlement agreements is estimated to be $210 million. Of the $210 million, $173.2 million is capitalized and will be recovered over the 50-year license.

"The Niagara Project license expires on August 31, 2007. At their June 28, 2005 meeting, the Trustees authorized the filing of a relicensing application with FERC. In August 2005, the Application and its Offer of Settlement which contained four agreements, was filed with FERC. Since its filing, the Offer of Settlement has been supplemented twice with the Niagara University Relicensing Settlement Agreement and the Erie County/City of Buffalo Relicensing Settlement Agreement ($2 million per year for projects related to the Niagara River Greenway within Buffalo and Erie County and $3.5 million per year to the Erie Canal Harbor Development Corporation for waterfront development). At their October 24, 2006 meeting, the Trustees authorized capital expenditures for costs related to compliance with the anticipated new License for the Niagara Project and for costs associated with implementing settlement obligations associated with relicensing the Project for the period 2007-2057.

"The costs of a new license and the associated settlement agreements are estimated to be nearly $494 million in constant (or 2007) dollars. Of this, $182.0 million represents capital costs that will be recovered over the 50-year term of the new license. As part of the Offer of Settlement, the Authority is committed to providing grants of $18.5 million/year to the surrounding communities. Of the $18.5 million, $12 million will come from the Authority's Operating Fund and is reflected as an annual expense in the CoS. The remaining $6.5 million will be funded through the monetization of 29 MW of Niagara Project power.

4) Accrual Accounting of Other Post-Employment Benefits ('OPEBs')[1]

"The proposed rates reflect the continuation of accrual accounting treatment of OPEBs, which mainly include retiree health benefit costs. The Authority switched to accrual accounting in 2002. The charge is $12.9 million and $13.6 million for 2007 and 2008, respectively.

5) Capital Cost Issues

"In the April 2003 rate proceeding, the Trustees adopted a 'hybrid' approach to capital cost recovery, reflecting the use of the Trended Original Cost method for that portion of the Hydro Projects' capital cost funded with equity and the more conventional debt service method that applies to the portion funded with debt. The hybrid method, developed by the Brattle Group in 2003, is carried forward in the current CoS. The total capital costs of the Hydro Projects, including both debt- and equity-funded investments, are $68.5 million and $78.3 million for 2007 and 2008, respectively. As noted below, these costs include the capital costs of the St. Lawrence Project and Niagara Project relicensing.

[1] Staff's 2003 memoranda and Staff Reports on preference power rates referred to this cost item as Post-Employment Benefits Other than Pensions or PBOPs.

6) Credits for Ancillary Services

"The Hydro Projects perform certain ancillary service functions, primarily Regulation and Operating Reserves. These are sold to the New York Independent System Operator ('NYISO'). Consistent with the ratemaking methodologies adopted in the April 2003 final rate action, the Authority has included a reduction in the CoS that represents the embedded costs of producing these services. The 2007-08 credits to the CoS are about $13.0 million and $13.7 million, respectively.

7) Rate Design

"Because the majority of the costs identified in the CoS do not vary with the energy production, but are in the nature of fixed costs, it was determined in the 2003 rate plan that the increased revenue requirement should be collected in the hydroelectric demand (or 'fixed') charge. The demand charge was increased for the rate year beginning May 2003, and each year thereafter, while the energy rate was held constant at $4.92/MWh. The current rate of $2.38/kW ends April 30, 2007. It is proposed that this rate design policy be continued for the 2007-08 periods, and that costs not collected in the current $4.92/MWh energy charge be recovered through the demand charge.

"The total Hydro Projects' costs, net of the ancillary service credits, are $198.5 million and $209.0 million for the 2007 and 2008 calendar years. Consistent with past ratemaking practice, the rate year beginning May 1, 2007 will be based on the calendar year 2007 costs. Similarly, the rate year beginning May 1, 2008 is based on calendar year 2008 costs. The proposed demand and energy rates and overall rate at the 70% load factor are shown below. Exhibit '9-A' shows the production and end-use impact on the municipal and rural electric cooperative customers and residential ratepayers of the upstate investor-owned utilities.

Rate Year Beginning	Demand Rate $/kW-month	Energy Rate $/MWh	$/MWh Rate at 70% LF	% Increase
Current	2.38	4.92	9.58	
5/1/07	2.73	4.92	10.26	7.1
5/1/08	3.03	4.92	10.85	5.8

FISCAL INFOMATION

"Implementation of the proposed schedule of rate increases would allow the Authority to recover its increased costs associated with serving the preference power customers. For the rate years 2007 and 2008, the estimated cumulative revenue increases would be $22.2 million.

RECOMMENDATION

"The Manager – Market and Pricing Analysis recommends that the Trustees authorize the Corporate Secretary to: (1) file notice for publication in the *New York State Register* of the proposed Authority action to adjust the hydroelectric preference power rates and (2) schedule a public forum for the purpose of gathering the views of interested persons.

"It is also recommended that the Senior Vice President – Marketing and Economic Development, or her designee, be authorized to issue written notice of the proposed action to the affected customers.

"The Executive Vice President and General Counsel, the Executive Vice President and Chief Financial Officer, the Vice President – Controller, the Vice President – Finance, the Director – Business Power Allocations, Compliance and Municipal and Cooperative Marketing and I concur in the recommendation."

Ms. Brown presented the highlights of staff's recommendations to the Trustees. In response to a question from Chairman McCullough, Ms. Brown said the public forum would be held in Albany on March 22. Ms. Brown explained that both energy and demand costs are passed on to the customers but that only demand costs are being affected by this increase. In response to a question from Trustee Cusack as to why the public forum will be held in Albany and not Niagara Falls, Ms. Morman explained that Albany is centrally located because these are preference power customers located throughout New York State, not hydro business customers that are primarily in Western New York.

The following resolution, as submitted by the President and Chief Executive Officer, was unanimously adopted.

RESOLVED, That the Corporate Secretary of the Authority be, and hereby is, directed to file such notices as may be required with the Secretary of State for publication in the New York State Register and to submit such other notice as may be required by statute or regulation concerning the proposed rate increase; and be it further

RESOLVED, That the Corporate Secretary of the Authority be, and hereby is, directed to schedule a public forum for the purpose of obtaining the views of interested persons concerning the Authority's proposed action to adjust the hydroelectric preference power rates, as set forth in the foregoing report of the President and Chief Executive Officer; and be it further

RESOLVED, That the Senior Vice President – Marketing and Economic Development or her designee be, and hereby is, authorized to issue written notice to affected customers of this proposed hydroelectric preference power rate action; and be it further

RESOLVED, That the Chairman, the President and Chief Executive Officer and all other officers of the Authority are, and each of them hereby is, authorized on behalf of the Authority to do any and all things, take any and all actions and execute and deliver any and all agreements, certificates and other documents to effectuate the foregoing resolution subject to the approval of the form thereof by the Executive Vice President and General Counsel.

EXHIBIT "9-A"
JANUARY 30, 2007

NEW YORK POWER AUTHORITY
ESTIMATED AVERAGE ANNUAL CUSTOMER IMPACTS
Prices ($/MWh) include demand and energy components

		Current	2007	2008
MUNIS/COOPS FULL REQUIREMENTS				
HYDRO PRODUCTION RATES	$/MWh	9.55	10.23	10.78
INCREASES FROM CURRENT	percent		7%	13%
	$/MWh		0.68	1.24
END USE RESIDENTIAL IMPACTS				
SYSTEM RESIDENTIAL RATE	$/MWh	51.79	52.39	52.91
INCREASES FROM CURRENT	$/MWh		0.61	1.13
	$/customer month		0.73	1.35
MUNIS/COOPS PARTIAL REQUIREMENTS				
HYDRO PRODUCTION RATES	$/MWh	9.40	10.06	10.60
INCREASES FROM CURRENT	percent		7%	13%
	$/MWh		0.66	1.20
END USE RESIDENTIAL IMPACTS				
SYSTEM RATE	$/MWh	56.68	57.28	57.81
INCREASES FROM CURRENT	$/MWh		0.61	1.13
	$/customer month		0.63	1.17
RESIDENTIAL UTILITY CUSTOMERS				
HYDRO PRODUCTION RATES	$/MWh	11.57	12.55	13.57
INCREASES FROM CURRENT	percent		8%	17%
	$/MWh		0.98	2.00
END USE RESIDENTIAL IMPACTS				
SYSTEM RATE	$/MWh	119.82	119.99	120.12
INCREASES FROM CURRENT	$/MWh		0.17	0.31
	$/customer month		0.12	0.21

Exhibit "9-A"
January 30, 2007

New York Power Authority

Preliminary Staff Report

Hydroelectric Production Rates

Rate Modification Plan – 2007 and 2008 Rate Years

Including:

Cost-of-Service

January 2007

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New York Power Authority
2007 Preliminary Staff Report

Executive Summary

At the April 2003 meeting, the Trustees approved a four-year (2003, 2004, 2005 and 2006 rate year) rate plan applicable to the Authority's preference power customers. The final rate year under this plan terminates on April 30, 2007. The current rates in effect consist of a demand charge of $2.38/kW and an energy charge of $4.92/MWh.

Staff is proposing a two-year rate plan for the 2007 and 2008 rate years covering the periods May 1, 2007 to April 30, 2008 and May 1, 2008 to April 30, 2009, respectively. A preliminary Cost of Service ("CoS") has been completed to determine the adequacy of the current rates. This analysis has resulted in a projected increase in hydroelectric rates of 7.1% and 5.8% for the 2007 and 2008 rate years, respectively. The main cost drivers responsible for the increase are (1) the relicensing costs for the St. Lawrence-FDR ($210 million) and Niagara ($494 million) Hydroelectric Projects (individually, "Niagara Project" and "St. Lawrence Project." and collectively, the "Hydro Projects"); (2) the modernization and upgrades for both the St. Lawrence-FDR and Niagara Hydroelectric Projects. The upgrade of the Niagara Project was completed in 2006 at a cost of $298 million. The life extension and modernization program at the St. Lawrence Project, which began in 1998, is expected to be completed in 2013. This program is currently budgeted at $281 million; as of year-end 2006 $139 million had been spent.

The proposed rate plan incorporates continuation of the ratemaking and cost of service methodologies adopted in the April 2003 final rate action approved by the Trustees and agreed to by the preference power customers as part of the "global" settlement agreements.

Discussion

The attached preliminary CoS sets forth in detail the estimated costs required to serve the Rural & Domestic ("R&D") customers from the Authority's St. Lawrence and Niagara Projects. The R&D customer class consists of residential customers of three upstate Investor-Owned Utilities, 47 municipal electric systems and four rural electric cooperatives ("M&C" customers), and Neighboring State customers.

Ratemaking methodologies incorporated in this CoS were adopted in the April 2003 final rate action approved by the Trustees and agreed to by preference power customers who were active parties to the 2003 rate proceeding as part of the "global" settlement agreements. These methodologies and principles include:

(a) The labor/labor method adopted by NYPA's Trustees on December 18, 2001 and incorporated into the January 2003 Report on Hydroelectric Production Rates for the allocation of Indirect Overheads ("Report").

(b) A capital cost recovery method as described in the Report reflecting the equity investment in and new debt issued on the Hydro Projects.

(c) Melding of Niagara and St. Lawrence Project costs for ratemaking purposes.

(d) Recovery in rates of all prudent Hydro Project relicensing, life extension and modernization costs incurred by NYPA in the exercise of its broad discretion.

(e) Amortization over 20 years by NYPA of its actuarial estimate of its Other Postemployment Benefits ("OPEBs") liability as described in its January 2003 Report (as PBOPs) on Hydroelectric Production Rates.

(f) Use of the Rate Stabilization Reserve for any under- or over-collection of NYPA's hydroelectric CoS. The RSR calculations will be done in a manner consistent with the 2003 Hydroelectric CoS study.

(g) NYPA will continue to credit the cost-based revenues from hydro energy sales in the Hydroelectric CoS in the same manner as in the 2003 Hydroelectric CoS study. The credit will be based on the Systems' tariff energy charge, as it changes from time to time.

Cost of Service Components

The major categories and significant drivers of the proposed rate action are summarized below. The CoS is detailed in the attached Exhibits "A" through "D" and Tables 1 to 5.

Operations & Maintenance (O&M) / Administrative & General (A&G) Expenses

Operations & Maintenance/A&G (Exhibit "A", Page 1 Lines 1-3) - The site and direct O&M as well as the A&G expenses for the Hydro Projects which include the day-to-day operations of the projects and ongoing expenses associated with major maintenance programs and non-capital modifications. The 2007 amount, based on the Trustee approved budget and the 2008 estimate, based on a projected work plan, are lower than the 2006 projection which was included in the 2003 CoS and was, at that time, a very preliminary estimate of the 2006 projected expenses. Added to the O&M – for ratemaking purposes only – Exhibit "A", Page 1 Line 2 is the amortization of the $51.3 million of Niagara roadwork incurred from 1991 to 1996. Each year's expense was amortized over 15 years. These expenses will decline from 2007 to 2010, the last year for recovery of these costs.

Also included in the Operations & Maintenance/A&G category of the CoS are payments reflecting the Authority's assumption of responsibility for operations at the New York State Robert Moses and Coles Creek parks.

The Authority developed Robert Moses and Coles Creek State Parks as part of the St. Lawrence Project, and through a series of agreements assigned operation and maintenance responsibilities for these parks to the New York State Office of Parks, Recreation and Historic Preservation

(OPRHP). The October 23, 2003 FERC license incorporates these facilities as project recreational facilities and under the terms of the license the Authority has the ultimate responsibility to fund the operation and maintenance costs of both parks.

In May 2006, the Trustees authorized payments, which have averaged $800,000 annually, to the State in relation to the above parks in the New York State fiscal year ("SFY") 2006-07. These payments are also expected to be made for SFY 2007-08. The Trustees have annually authorized payments, which have averaged $800,000 annually for SFY 2003-04, SFY 2004-05 and SFY 2005-06, and payments were subsequently made in conformance with such authorizations. It is proposed that these costs be included in the base hydroelectric rates. Of the total $800,000 some $384,000 will be recovered from the preference rate customers for each year.

Indirect Overheads

Indirect Overheads (Exhibit "A", Page 1 Lines 5-8) consists of Shared Services, the allocated share of headquarters costs associated with providing support for the St. Lawrence and Niagara Projects based on labor ratios consistent with the methodology adopted in the April 2003 final rate action; the cost of Research & Development initiatives; and debt service associated with the White Plains Office and Project Study initiatives. Included in the CoS is 42% of the total projected Shared Services for the 2007 and 2008 rate years. The 2006 amount as stated in the 2003 CoS was, at that time, a very preliminary estimate of the 2006 projected expenses.

St. Lawrence & Niagara Relicensing

Included in current rates are certain relicensing costs, primarily related to the St. Lawrence Project (Exhibit "A", Page 1 Lines 10-11). At their meeting of November 25, 2003, the Trustees formally accepted the new license issued by the FERC. The total cost of compliance and implementing the provisions of a new license and associated settlement agreements is estimated to be $210 million including relicensing process costs, the expenses associated with relicensing studies, support for settlement discussions and the public outreach. Of this amount, $173.2 million is capitalized and will be recovered over the 50-year term of the new license and will be included in the rate base in each year the funds are disbursed. Part of the compliance cost is a $2 million annual payment to local communities, as shown as an expense in Exhibit "A" (page 1, line 10).

The Niagara Project license expires on August 31, 2007. At their June 28, 2005 meeting, the Trustees authorized the filing of a relicensing application with the FERC. On August 18, 2005 the Authority filed the Application with FERC. On August 19, 2005, the Authority filed its Offer of Settlement with FERC, which consisted of four separate agreements:

- Relicensing Settlement Agreement Addressing New License Terms and Conditions;
- Host Community Relicensing Settlement Agreement Addressing Non-License Terms and Conditions;
- Relicensing Settlement Agreement Among the Power Authority of the State of New York, the State of Connecticut, the Commonwealth of Massachusetts, the State of New Jersey, the State of Ohio, the Commonwealth of Pennsylvania, the State of Rhode Island and the State of Vermont; and
- Relicensing Settlement Agreement between the Power Authority of the State of New York and the Tuscarora Nation.

Since its filing, the Offer of Settlement has been supplemented twice with the Niagara University Relicensing Settlement Agreement and the Erie County/City of Buffalo Relicensing Settlement Agreement ($2 million per year for projects related to the Niagara River Greenway within Buffalo and Erie County and $3.5 million per year to the Erie Canal Harbor Development Corporation for waterfront development). These Agreements were filed with FERC on May 26, 2006 and June 30, 2006, respectively, after being approved by the Trustees at their meetings of May 23, 2006 and June 27, 2006, respectively. At the October 24, 2006 meeting, the Trustees authorized capital expenditures for costs related to compliance with the anticipated new license for the Niagara Project and for costs associated with implementing settlement obligations associated with relicensing the Project for the period 2007-2057.

The costs of a new license and the associated settlement agreements are estimated to be approximately $494 million dollars, of which approximately $182 million will be capitalized and recovered over the 50-year term of the new license and will be included in the rate base in each year the funds are disbursed. As part of the Offer of Settlement, the Authority is committed to providing grants of $18.5 million/year to the surrounding communities. Of the $18.5 million annual amount, $12 million will be drawn from the Authority's Operating Fund and is shown as an expense in Exhibit "A" (page 1, line 11). The remaining $6.5 million will be funded through the monetization of 29 MW of Niagara Project power.

Other Postemployment Benefits ("OPEBs")

The existing rates reflect accrual treatment of OPEBs (referred to as PBOPs, Post Retirement Benefits Other than Pensions, in the April 2003 CoS), which mainly include retiree health benefit costs (Exhibit "A", Page 1 Line 12). Prior to the current ratemaking methodology the plan costs were treated on a cash basis. In anticipation of a change in accounting standards, the Authority switched to accrual accounting in 2002. The initial charge to the Hydro Projects' CoS approved in the April 2003 final rate action was $10.6 million/year. The liability has been updated since then. The revised charge is now $12.9 million and $13.6 million for 2007 and 2008, respectively, based on the 42% labor allocation ratio. (See Exhibit "A", Page 1, line 12).

Capital Costs

Since the retirement in 1981 of the original bonds issued to fund the Hydro Projects, cash (or "equity") funding was used to finance plant additions (Exhibit "A", Page 1 Lines 14-16). With the increased capital investments in the Hydro Projects related to plant modernization, upgrades and relicensing, beginning in 2000 the Authority has issued new debt associated with these facilities. As in past rate formulations, equity-type funding will be recovered using Trended Original Cost ("TOC"). Under TOC only the inflation component or return "of" the investments is captured. The return "on" the investment is foregone. The total capital costs, including both debt- and equity-funded investments, are $68.5 million and $78.3 million for 2007 and 2008, respectively. (See Exhibit "A", Page 1, line 17.). As noted above, these costs include the capital cost of the St. Lawrence-FDR and Niagara relicensing. In the April 2003 final rate action the Trustees adopted a "hybrid" approach to capital cost recovery, reflecting the use of the TOC method for that portion of the Hydro Projects' capital cost funded with equity and the more conventional debt-service method that applies to the portion funded with debt. This hybrid method, developed by The Brattle Group in 2003, is used in the CoS here.

Also included in this category of cost is the St. Lawrence & Niagara relicensing expense funded with debt.

<u>Credits For Ancillary Services</u>

The proposed hydroelectric rates exclude certain O&M and Capital costs associated with the production of ancillary services at the Hydro Projects, namely Regulation Service, Operating Reserves, Voltage Support and Black Start Service (Exhibit "A", Page 2 Lines 3-13). These services are sold to the New York Independent System Operator. Consistent with the ratemaking methodologies adopted in the April 2003 final rate action, the Authority has included a reduction in the CoS that represents the embedded costs of producing these services. The results of applying these methodologies to develop the 2007-08 cost-based credits are shown in Exhibit "A" (Page 2, line 13). Tables 1-5 include the detailed data supporting the estimated credits. The 2007-08 credits to the CoS are about $13.0 million and $13.7 million, respectively.

Rate Design

From the inception of the Hydro Project preference rates in 1958 through April 30, 2003, the demand charge was held constant at $1.00/kW. All costs above those captured by the $1.00/kW demand charge were recovered in the energy rate. Because the majority of the costs identified in the CoS do not vary with the energy production from the Hydro Projects, but are in the nature of fixed costs, it was determined in the April 2003 final rate action approved by the Trustees that the increased revenue requirement should be collected in the hydroelectric demand (or "fixed") charge. The demand charge was increased for the rate year beginning May 2003, and each year thereafter, while the energy rate was held constant at $4.92/MWh. Currently, for the last year of the plan, May 1, 2006 to April 30, 2007, the demand charge is $2.38/kW. It is proposed that this rate design policy be continued for the 2007-08 periods, and that costs not collected in the current $4.92/MWh energy charge be recovered through the demand charge. (See Exhibit "A" Page 2, line 17.)

As discussed in the January 2003 Hydroelectric Rates Report (which was utilized in the April 2003 final rate action approved by the Trustees), the cost structure for a hydroelectric plant is largely fixed in nature and does not vary by output in the short term. The vast majority of the total Hydro Projects' costs, including the majority of O&M, indirect costs (Shared Services, R&D, Indirect Debt Service), Relicensing, and Capital Costs, are fixed, and therefore, should appropriately be allocated to the demand charge. For the proposed rate design, the initial step is to allocate a portion of the total Hydro Projects' costs to the energy function by multiplying the current energy rate of $4.92/MWh times the generation. (See Exhibit "A", Page 2, line 20). The result is energy allocated costs of $99.5 million. The remaining Hydro Projects' costs to be recovered through the demand charge are $99.5 million (2007) and $109.5 million (2008). (See Exhibit "A", Page 2, line 16). Dividing the demand charge costs by the total Hydro Projects' billed demands of about 36,000 MW, yields the proposed demand charges of $2.73/kW (2007) and $3.03/kW (2008). The result of the cost allocation procedure allocates somewhat more costs to the demand function (52% in 2008) than to the energy function (48%).

The total Hydroelectric Projects' costs, net of the ancillary service credits, are $198.5 million and $209.0 million for the 2007 and 2008 calendar years, respectively. (Refer to Exhibit "A" Page 2, line 14). Consistent with past ratemaking practice, the rate year beginning May 1, 2007 will be based on the calendar year 2007 costs. Similarly, the rate year beginning May 1, 2008 will be based on calendar year 2008 costs. The proposed demand and energy rates for both rate years and the overall rates at the 70% load factor are shown below.

Rate Year[1]	Demand Rate $/kW-month	Energy Rate $/MW-hour	Effective Rate[2] $/MW-hour	% Increase
2007	2.73	4.92	10.26	7.1
2008	3.03	4.92	10.85	5.8

Rate Stabilization Reserve (RSR)

The RSR, established in 1987, was designed to capture the over- or under-recovery of costs relative to the costs collected in the fixed demand and energy charges, due to differences in net generation and actual cost incurrence. By design, if the RSR balance exceeds a range of +$25 million to -$25 million a surcharge or credit will be assessed against the R&D hydro rate. At calendar year end 2005, the last actual calculation, the RSR balance was -$17.9 million. The update for calendar 2006 is scheduled to be completed by the end of the first quarter of 2007.

Final Staff Report

A final report will be issued shortly after the April 2007 Trustee meeting. The final report will reflect public comments and staff analysis, as well as Trustee action, on the proposed rate plan.

1 Runs from May 1 of the calendar year indicated to April 30 of the following year.
2 Effective rate at 70% load factor.

NEW YORK POWER AUTHORITY
ESTIMATED AVERAGE ANNUAL CUSTOMER IMPACTS
Prices ($/MWh) include demand and energy components

		Current	2007	2008
MUNIS/COOPS FULL REQUIREMENTS				
HYDRO PRODUCTION RATES	$/MWh	9.55	10.23	10.78
INCREASES FROM CURRENT	percent		7%	13%
	$/MWh		0.68	1.24
END USE RESIDENTIAL IMPACTS				
SYSTEM RESIDENTIAL RATE	$/MWh	51.79	52.39	52.91
INCREASES FROM CURRENT	$/MWh		0.61	1.13
	$/customer month		0.73	1.35
MUNIS/COOPS PARTIAL REQUIREMENTS				
HYDRO PRODUCTION RATES	$/MWh	9.40	10.06	10.60
INCREASES FROM CURRENT	percent		7%	13%
	$/MWh		0.66	1.20
END USE RESIDENTIAL IMPACTS				
SYSTEM RATE	$/MWh	56.68	57.28	57.81
INCREASES FROM CURRENT	$/MWh		0.61	1.13
	$/customer month		0.63	1.17
RESIDENTIAL UTILITY CUSTOMERS				
HYDRO PRODUCTION RATES	$/MWh	11.57	12.55	13.57
INCREASES FROM CURRENT	percent		8%	17%
	$/MWh		0.98	2.00
END USE RESIDENTIAL IMPACTS				
SYSTEM RATE	$/MWh	119.82	119.99	120.12
INCREASES FROM CURRENT	$/MWh		0.17	0.31
	$/customer month		0.12	0.21

NEW YORK POWER AUTHORITY
HYDROELECTRIC PROJECTS
PROPOSED PRODUCTION COST OF SERVICE

($ 000)

Line	Description	(Per 2003 CoS) 2006	2007	2008	Difference 2007 vs 2006 *
	Operations & Maintenance/Administrative & General				
1	Operations & Maintenance/A&G	64,457	57,931	61,941	(6,526.0)
2	Amortized Roadwork	4,617	3,830	2,983	(787)
3	Subtotal O&M/A&G	69,074	61,761	64,924	(7,313.2)
	(line 1 + line 2)				
	Indirect Overheads				
5	Shared Services	36,229	45,714	44,256	9,485.2
6	Research & Development	4,417	3,682	3,780	(734.5)
7	Project Study Debt Service	2,012	1,497	846	(514.7)
8	White Plains Office Debt Service	4,305	3,454	2,874	(851)
9	Subtotal Indirect Overheads	46,963	54,348	51,756	7,384.6
	(sum lines 5-8)				
10	**St. Law. Relicensing, amortization**	2,000	2,000	2,000	
11	**Niagara Relicensing, amortization**		12,000	12,000	12,000.0
12	**Other Postemployment Benefits (OPEB)**	11,234	12,852	13,608	1,618.0
13	**O&M Cost of Service**	**129,271**	**142,960**	**144,288**	**13,689.4**
	(sum lines 3,9,10,11,12)				
	Capital Costs				
14	Total Depreciation	31,431	32,522	35,350	1,091.4
15	Interest on debt	19,871	15,333	21,453	(4,538.1)
16	Inflation Compensation	17,896	20,641	21,521	2,744.9
17	Subtotal Capital Costs	69,198	68,496	78,324	(701.8)
	(sum lines 14-16)				
18	**Total Cost of Service**	**198,469**	**211,457**	**222,612**	**12,987.6**
	(line 13 + 17)				

* 2006 data is from the 2003 CoS and was based on data and projections available at that time.

NEW YORK POWER AUTHORITY
HYDROELECTRIC PROJECTS
PROPOSED PRODUCTION COST OF SERVICE

Line	Description		(Per 2003 CoS) 2006	2007	2008	Difference 2007 vs 2006 *
1	**Total Cost of Service**	**($000)**	**198,469**	**211,457**	**222,612**	12,988
2	Credits for ancillary services	($000)				
3	Black Start, O&M		49	74	77	25
4	Voltage Control, O&M		161	322	332	161
5	Remaining O&M (page 1, line 13 - (line 3+line 4)		129,061	142,564	143,879	13,503
6	Operating Reserves, O&M		5.16%	4.89%	4.82%	
7	Regulation, O&M		0.73%	0.57%	0.57%	
8	Subtotal OR, Reg. O&M		5.89%	5.46%	5.39%	
9	Op. Res.+ Reg. O&M credit (line 8 * line 5)	($000)	7,602	7,784	7,755	182
10	Capital Reductions					
11	All ancillary services		7.33%	7.03%	7.01%	
12	Subtotal capital reductions (page 1, line 17 * line 11)	($000)	5,072	4,815	5,491	(257)
13	Total Ancillary Credits (sum lines 3,4,9,12)	($000)	12,884	12,995	13,655	111
14	**Adjusted Cost of Service** (line 1 - line 13)	**($000)**	**185,585**	**198,461**	**208,957**	**12,876**
15	Billing Demand	MW	36,073	36,210	36,137	137
16	Billing Demand Allocated Costs	($000)	86,176	98,974	109,470	12,798
17	Billed Demand Rate (line 16 / line 15)	$/kW/mo	2.39	2.73	3.03	0
18	LTA Generation	GWh	20,248	20,221	20,221	(27)
19	Annual Generation	GWh	20,223	19,972	20,012	(251)
20	Billing Energy Rate	$/MWh	4.92	4.92	4.92	
21	Costs Allocated to Energy Rate (line 20 * line 18)		99,620	99,487	99,487	(133)

* 2006 data is from the 2003 CoS and was based on data and projections available at that time.

NEW YORK POWER AUTHORITY
HYDROELECTRIC PROJECTS
CAPITAL COST SUMMARY

($000)

	2,007	2,008
Existing Assets: 1/		
Depreciation- Debt Financed	2,634	2,568
Depreciation- Equity-Financed	24,883	24,261
Inflation Compensation	20,582	21,397
Interest on Debt 4/	6,001	5,878
New Investments: 2/		
Depreciation- Debt-Financed	3,908	6,366
Depreciation- Equity-Financed	1,098	2,156
Inflation Compensation	59	124
Interest on Debt 4/	9,332	15,575
TOTAL		
Depreciation	32,522	35,350
Inflation Compensation	20,641	21,521
Interest on Debt 4/	15,333	21,453
	68,496	78,324
St. Lawrence Relicensing: 3/		
Depreciation	1,405	1,614
Interest on Debt	3,850	4,333
Niagara Relicensing: 3/		
Depreciation	271	2,024
Interest on Debt	711	5,343

1/ Existing Plant & Relicensing through 12/31/04
2/ New Plant & Relicensing since 1/1/05
3/ Relicensing expenditures since 1/1/05 included in New Investments
4/ Assumed interest rates:

Niagara - Taxable & Non-taxable	5.30%
St. Lawrence-Taxable	5.58%

NEW YORK POWER AUTHORITY
HYDROELECTRIC PROJECTS
CAPITAL COST - EXISTING ASSETS

($000)

Equity-Financed

	Original Cost Depreciation	Inflation Rate	Cumulative Inflation Factor	Amortization of Write-Up ("Inflation")	Total
	[1]	[2]	[3]	[4]	[5]
2,004	26,175	5.20%	1.68	17,837	44,012
2,005	25,521	5.50%	1.77	19,751	45,272
2,006	24,883	3.00%	1.83	20,582	45,464
2,007	24,261	3.00%	1.88	21,397	45,657

Notes:
[1]: 2004 from NYPA gross plant in service.
2005-2008: Value of previous year less the annual retirement amount (2004 Original Cost Depreciation x 2.5%)
[2]: 2004 and 2005: Actual change in Handi-Whitman Index; 2006-2007: Based on NYPA estimate of inflation.
[3]: 2005: [4] / [1]+1; 2005-2007: prior year value of [3] x (1 + [2])
[4]: 2005: NYPA; 2006-2007: [1] x ([3] - 1)
[5]: [1] + [4]

Debt-Financed

	Original Cost Depreciation	Debt-Funded Rate Base	Interest	Total
	[1]	[2]	[3]	[4]
2,004	2,771	113,803		
2,005	2,702	111,527	6,123	8,825
2,006	2,634	109,251	6,001	8,635
2,007	2,568	106,975	5,878	8,447

Notes:
[1]: 2004 from NYPA gross plant in service.
2005-2007: Value of previous year less the annual retirement amount (2004 Original Cost Depreciation x 2.5%)
[2]: 2004: rate base at year-end; 2005-2007: Value of 2004 rate base less cumulative annual amortization of rate base (2.0% per year).
[3]: [2] Rate Base x Interest Rate (Niagara-Taxable & Tax-Exempt, St. Lawrence-Taxable).
[4]: [1] + [3]

NEW YORK POWER AUTHORITY
HYDROELECTRIC PROJECTS
CAPITAL COST - NEW INVESTMENTS
($000)

Equity-Financed

	Original Cost Depreciation	Inflation Rate	Amortization of Write-Up ("Inflation")	Total
	[1]	[2]	[3]	[4]
2,005	479	5.50%	26	505
2,006	1,098	3.00%	59	1,157
2,007	2,156	3.00%	124	2,279

Notes:
[1]: Equity-funded additions to plant x 2.5%.
[2]: 2005: Handi-Whitman Index; 2006-2007 based on NYPA estimate of inflation.
[3]: [1] x [2] plus prior-year Write-Up.
[4]: [1] + [3]

Debt-Financed

	Original Cost Depreciation	Debt-Funded Rate Base	Interest	Total
	[1]	[2]	[3]	[4]
2,005	2,386			
2,006	3,908	170,690	9,332	13,240
2,007	6,366	284,711	15,575	21,941

Notes:
[1]: Equity-funded additions to plant x 2.5%.
[2]: 2005-2007: Value of cumulative additions less the annual amortization of rate base (2.0% per year).
[3]: Rate Base x Interest Rate (Niagara-Taxable & Tax-Exempt, St. Lawrence-Taxable).
[4]: [1] + [3]

Table 1
EMBEDDED COSTS FOR ANCILLARY SERVICES FOR NIAGARA AND ST. LAWRENCE

		2,007	2,008
Voltage Support O&M Cost Reduction ($)	[1]	322,069	331,731
Voltage Support Capital Share (%)	[2]	1.58%	1.64%
Black Start O&M Cost Reduction ($)	[3]	74,324	76,554
Black Start Capital Share (%)	[4]	0.080%	0.079%
Regulation O&M Share (%)	[5]	0.57%	0.57%
Regulation Capital Share (%)	[6]	0.57%	0.57%
Operating Reserve O&M Share (%)	[7]	4.89%	4.82%
Operating Reserve Capital Share (%)	[8]	4.89%	4.82%
Ancillary Service O&M Cost ($)	[9]	396,392	408,284
Ancillary Service O&M Share (%)	[10]	5.46%	5.39%
Ancillary Service Capital Share (%)	[11]	7.03%	7.01%

Notes and Sources:
[1]-[2]: Table 2.
[3]-[4]: Table 3.
[5]-[6]: Table 4.
[7]-[8]: Table 5.
[9]: [1] + [3]
[10]: [5] + [7]
[11]: 1 - { 1 - ([2]+[4]) } * { 1 - ([6]+[8]) }

January 30, 2007

Table 2
EMBEDDED COSTS FOR VOLTAGE SUPPORT FOR NIAGARA AND ST. LAWRENCE

		2,007	2,008
Voltage Fraction of Gross Capital (Niag. & St. L.)	[1]	**1.58%**	**1.64%**
Voltage O&M Expense : Niagara ($)	[2]	269,562	277,649
Voltage O&M Expense : St. Lawrence ($)	[3]	52,507	54,082
Total Voltage O&M Expense ($)	[4]	**322,069**	**331,731**

Notes and Sources:
[1]: From Workpaper 5.3. Fraction is Beginning-of-Year value (equal to End-of-Year value for previous year).
[2] and [3]: From Workpaper 2.2.
[4] = [2] + [3].

January 30, 2007

Table 3

EMBEDDED COSTS FOR BLACK START FOR NIAGARA AND ST. LAWRENCE

		2,007	2,008
Black Start Fraction of Gross Capital (Niag. & St. L.)	[1]	**0.080%**	**0.079%**
Inflation Factor	[2]		103.0%
Black Start O&M Expense ($)	[3]	**74,324**	**76,554**

Notes and Sources:
[1]: From Workpaper 7. Fraction is Beginning-of-Year value (equal to End-of-Year value for previous year).
[2] = From Workpaper 1
[3]: 2007 = Sum of Training costs for Niagara and St. Lawrence, plus O&M Cost allocated to Black Start from Workpaper 6.
2008 =Previous year's Total Black Start O&M Expense, adjusted by Inflation from Workpaper 6.

Table 4
EMBEDDED COSTS FOR REGULATION FOR NIAGARA AND ST. LAWRENCE

		2,007	2,008
NYCA Peak Load	[1]	33,831	34,314
Total NYCA Regulation Requirement (MW)	[2]	212	212
Required regulation per MW of peak load (MW)	[3]	0.006	0.006
Peak load of all contract customers of Niagara and St. Lawrence (MW)	[4]	2,940	2,940
Required regulation for all contract customers of Niagara and St. Lawrence (MW)	[5]	18	18
Niagara & St. Lawrence Summer Generation Capacity (MW)	[6]	3,200	3,200
Share of regulation for all contract customers of Niagara and St. Lawrence in generation capacity (%)	[7]	0.57%	0.57%

Notes and Sources:
[1]: From Workpaper 8. Test year peak equals 2005 peak.
[2]: From Workpaper 8.
[3] = [2] / [1].
[4]: From Workpaper 8.
[5] = [3] * [4].
[6]: NYPA, "2005 Annual Report".
[7] = [5] / [6].

January 30, 2007

Table 5
EMBEDDED COSTS FOR OPERATING RESERVE FOR NIAGARA AND ST. LAWRENCE

		2,007	2,008
NYCA Peak Load	[1]	33,831	34,314
Total NYCA Reserve Requirement (MW)	[2]	1,800	1,800
Required reserve per MW of peak load (MW)	[3]	0.053	0.052
Peak load of all contract customers of Niagara and St. Lawrence (MW)	[4]	2,940	2,940
Required reserve for all contract customers of Niagara and St. Lawrence (MW)	[5]	156	154
Niagara & St. Lawrence Summer Generation Capacity (MW)	[6]	3,200	3,200
Share of required reserve for all contract customers of Niagara and St. Lawrence in generation capacity (%)	[7]	4.89%	4.82%

Notes and Sources:
[1]: From Workpaper 8. Test year peak equals 2005 peak.
[2]: From Workpaper 8.
[3] = [2] / [1].
[4]: From Workpaper 8.
[5] = [3] * [4].
[6]: NYPA, "2005 Annual Report".
[7] = [5] / [6].

10. Authorization to Increase the Aggregate Amount of the NYMEX Margin Reserve <u>Fund in the Authority's Operating Fund</u>

The President and Chief Executive Officer submitted the following report:

<u>SUMMARY</u>

"The Trustees are requested to authorize an increase in the amount of the New York Mercantile Exchange ('NYMEX') Margin Reserve Fund from an aggregate of $35 million to $90 million.

<u>BACKGROUND</u>

"At their meeting of April 27, 2004, the Trustees authorized the creation in the Authority's Operating Fund of a NYMEX Margin Reserve Fund. The purpose of the fund is to provide monies or securities to meet collateral requirements (called 'margin') associated with hedging instruments such as futures contracts and options that are traded on NYMEX. A futures contract, which is a standardized NYMEX-traded contract purchased by the Authority through a broker, enables the Authority to purchase a specified amount of natural gas (or fuel oil) in a given time period at a fixed price. A futures contract also allows the Authority to either accept physical delivery of fuel or, alternatively, opt for a financial settlement of the contract. Under a financial settlement, which is the predominant and preferred means of settlement, the Authority would either: (1) receive the difference between the futures contract price and the market price, if the market price is higher than the contract price at the time of settlement or (2) pay the difference, if the market price is lower than the futures contract price. The financial settlement of a futures contract can be used to fix the price paid by the Authority for fuel it purchases. Transactions on NYMEX have the additional advantage of eliminating counterparty credit risk for the Authority, since NYMEX stands behind all transactions conducted on the exchange.

<u>DISCUSSION</u>

"At their meeting of April 27, 2004, the Trustees authorized both the execution of transactions on NYMEX through commodity brokers (as part of hedging strategies designed to reduce cost uncertainty related to fuel price volatility) and the creation of a margin reserve fund for collateral support as required by the account rules of such commodity brokers and NYMEX. In order to participate in such transactions via NYMEX using commodity brokers, the Authority is required to post margin pursuant to the underlying commodity broker agreements consisting of an initial margin deposit and any additional margin (called 'maintenance' margin) resulting from fluctuations in the market price, each as determined in accordance with NYMEX rules. Due to the increased number of NYMEX-related hedging transactions related to the Long-Term Agreements with the New York City Governmental Customers and the steep increase in energy prices, it is necessary to increase the authorized margin amount from an aggregate of $35 million to an aggregate of $90 million. Margin deposits are maintained by NYMEX in segregated Authority accounts.

"At their meeting of April 27, 2004, the Trustees also authorized creation of the NYMEX Margin Reserve Fund in an amount up to $35 million and authorized the withdrawal of monies or securities from the Operating Fund to meet these margin requirements even in instances where the Operating Reserve Fund is below $150 million. In addition, at their meeting of January 31, 2006, the Trustees revised the previously granted authority for the aggregate purchase cost of all NYMEX contracts from an aggregate purchase cost not to exceed $90 million to an aggregate purchase cost not to exceed $250 million.

"Recent prices illustrate the increase in price volatility and need for an increased margin reserve fund. On October 10, 2005, the 12-month strip price for natural gas rose to $11.57/mmbtu (from a level of about $8.00 per mmbtu as recently as June 2005) due to the destructive effects of Hurricanes Katrina and Rita. By October 10, 2006, the 12-month strip was $8.21/mmbtu, down 31%. This dramatic and rapid increase in prices followed by a subsequent and equally dramatic decline in prices had the effect of increasing the margin required to be deposited with commodity brokers as collateral. Further illustration lies in both the dramatic increase and the rapid up-and-down whipsaw in natural gas prices, generally. The 12-month forward strip price of natural gas in April 2004 (when original Trustee approval was granted for the current margin reserve margin) was about $5.80 per mmbtu. The 12-month forward strip price as of early December 2006 was about $8.40 per mmbtu.

"To accommodate calls under the commodity broker agreements for increased margin due to price volatility and the overall increase in natural gas prices (with their commensurate ability to also fall), Authority staff requests that an aggregate of up to $90 million in collateral be authorized, and that the NYMEX Margin Reserve Fund be funded from monies or securities in the Operating Fund in such amounts as deemed advisable by the Treasurer, up to a maximum amount in such Fund at any one time of $90 million, comprising an aggregate of $80 million plus an additional aggregate of $10 million, upon the approval of the President and Chief Executive Officer or, in his absence, the Executive Vice President – Chief Financial Officer and either the Senior Vice President – Energy Resource Management and Strategic Planning or the Vice President – Chief Risk Officer.

"The Trustees are also requested to allow withdrawal of monies or securities from the Operating Fund to meet these margin requirements even in an instance where the Operating Fund is below $150 million.

"In addition, since NYMEX market dynamics often require immediate action, it may be necessary or advisable to terminate these NYMEX contracts prior to their normal expiration, which, in the case of a futures contract, would entail either a payment to the Authority (if market prices have risen) or a payment by the Authority (if market prices have fallen). Consequently, the Trustees are requested to continue to authorize the Senior Vice President – Energy Resource Management and Strategic Planning or, in his absence, his designee, to take such actions relating to NYMEX contracts as he deems necessary or advisable, including, but not limited to, termination of such contracts and, in the case of a futures contract, a determination of whether to financially settle or take physical delivery under the contract.

FISCAL INFORMATION

"Any payments to be made under NYMEX contracts will continue to be treated as fuel payments to be paid from the Operating Fund.

RECOMMENDATION

"The Senior Vice President – Energy Resource Management and Strategic Planning recommends that the Trustees approve the increase of the aggregate amount of the New York Mercantile Exchange Margin Reserve Fund in the Authority's Operating Fund from a total of up to $35 million to a total of up to $90 million and that such monies or securities may be used as collateral for New York Mercantile Exchange margin requirements.

"The Executive Vice President and General Counsel, the Executive Vice President and Chief Financial Officer, the Senior Vice President and Chief Engineer – Power Generation, the Vice President – Chief Risk Officer and I concur in the recommendation."

Mr. Warmath presented the highlights of staff's recommendation. In response to questions from Trustee Seymour, Mr. Warmath advised that the reserve fund would only be used in the event that additional funds were necessary to meet the NYMEX collateral requirements associated with certain hedging activities. Mr. Russak further advised that this practice has been approved in the past and that the NYMEX Reserve Funds were held in a separate account. In response to a question from Trustee Scozzafava, Mr. Russak advised that savings or additional costs from the underlying hedge positions are passed on to the customers. In response to questions from Trustee Seymour, Mr. Bellis advised that the Operating Reserve is set and should perhaps be increased if the Trustees have concerns regarding the level of the reserve. At the request of Chairman McCullough and

Trustee Seymour, Mr. Russak confirmed that the Trustees would continue to receive monthly status reports on this matter as the outstanding balance is noted in the monthly financial reports and if the separate Operating Reserve balance were to fall below minimum target levels, it will be so reported.

The following resolution, as submitted by the President and Chief Executive Officer, was unanimously adopted.

RESOLVED, That it is hereby authorized that Authority money or securities in the amount of up to $90 million in the aggregate at any one time may be used as collateral for New York Mercantile Exchange ("NYMEX") margin requirements, and monies or securities may be transferred from the Operating Fund for such purpose, even in those instances where the Operating Reserve Fund is below $150 million, provided that

(1) if a proposed transfer of monies or securities for margin purposes would result in the aggregate amount of such collateral outstanding exceeding $80 million, such transfer shall not occur unless it is approved by the President and Chief Executive Officer or, in his absence, the Executive Vice President and Chief Financial Officer and either the Senior Vice President – Energy Resource Management and Strategic Planning or the Vice President – Chief Risk Officer, and

(2) prior to any withdrawal for such purpose the Treasurer, the Vice President – Finance or the Executive Vice President and Chief Financial Officer shall certify that such amount to be withdrawn is not then needed for any of the other purposes specified in Section 503(1)(a)-(c) of the Authority's General Resolution Authorizing Revenue Obligations;

AND BE IT FURTHER RESOLVED, That the Trustees authorize the increase in the NYMEX Margin Reserve Fund in the Operating Fund, from which monies or securities may be drawn to pay margin requirements, from a maximum amount of up to $35 million at any one time to a maximum amount of up to $90 million at any one time; and be it further

RESOLVED, That the Trustees hereby continue the authority of the Senior Vice President – Energy Resource Management and Strategic Planning (formerly the Senior Vice President – Energy Resource Management) or, in his absence, his designee, to take such actions relating to NYMEX contracts as he deems necessary and advisable, including, but not limited to: (1) approval of the termination of the contracts prior to their expiration and (2) the determination of whether to financially settle or take physical delivery under such contracts; and be it further

RESOLVED, That the Chairman, the President and Chief Executive Officer, the Executive Vice President – Chief Financial Officer, the Senior Vice President – Energy Resource Management and Strategic Planning, the Vice President – Finance, the Treasurer and any other necessary Authority officers are, and each of them hereby is, authorized on behalf of the Authority to do any and all things, take any and all actions and execute and deliver any and all agreements, certificates and other documents necessary to effectuate the foregoing resolutions, subject to the approval of the form thereof by the Executive Vice President and General Counsel.

11. INFORMATIONAL ITEM: Annual Report Regarding Energy Risk Management Policies and Procedures

The President and Chief Executive Officer submitted the following report:

SUMMARY

"The Governing Policies for Energy Risk Management ('Governing Policies') direct the President and Chief Executive Officer, or his designee, to provide to the Trustees periodically, but no less than annually, a report on the results of the energy risk management program, including compliance with the Governing Policies and its implementing procedures. The following briefly describes program activities and developments for 2006.

BACKGROUND

"The Governing Policies were adopted by the Trustees at their meeting of October 29, 2002 and revised at their meeting of January 31, 2006. The objectives of the Governing Policies are to identify exposures to energy and fuel price movements, to understand the potential financial impact of such exposure on the Authority and to mitigate, where appropriate or as deemed prudent by management, the possible adverse impact of such exposures while maintaining adequate flexibility to improve financial performance. The following parameters were established to facilitate the objectives:

- Scope of the program (all transactions related to physical commodities and derivatives for electrical energy, capacity, ancillary services, transmission, natural gas, fuel oil and related hedging transactions);

- Risk management philosophy (non-speculative);

- Energy Risk Management Committee ('ERMC') as the vehicle for establishing procedures for administering the program;

- Permissible risk management (hedging) instruments; and

- Requirement for reporting to the Trustees.

DISCUSSION

POLICIES AND PROCEDURES

"Amendments to the Governing Policies require Trustee approval. The Governing Policies were amended effective January 31, 2006 by the Trustees. There have also been revisions, with Trustee approval, to the initial hedging transaction authority (October 29, 2002 Resolution) for Energy Resource Management ('ERM') and Marketing and Economic Development ('MED') staff, the most recent of which was also effective January 31, 2006. Additionally, a number of procedures, as reported in prior annual reports, have been developed and implemented by the ERMC and Energy Risk Assessment and Control ('ERAC') staff.

"Over the course of the past year, the ERMC and ERAC staff have not issued any additional procedures further refining administration of the energy risk management program. However, with the expected near-term completion of an audit of the Energy Risk Management and ERAC areas by the consulting firm CRA International (selected pursuant to a Request for Proposals ('RFP') process), it is anticipated that new procedures may be developed and existing procedures may be modified to address mutually agreed-upon and accepted recommendations (with our Governmental Customer class) contained within this audit. Such recommendations should further a collaborative relationship and reflect the Governmental Customers' desires with respect to risk tolerance. This audit was a provision negotiated within the Long-Term Agreement ('LTA') with selected Governmental Customers that was executed in March 2005.

"Additionally, over the course of 2006, the Trustees approved four items concerning the administration of the risk management program, as follows:

- Revisions to Governing Policies for Energy Risk Management (1-31-06);
- Revisions to the cascading transactional authorization limits for energy-related transactions and hedging transactions (1-31-06);
- Approval for the Authority to: (1) participate in the New York Independent System Operator ('NYISO') virtual transaction program; (2) authorize the issuance of collateral for such program not to exceed $2 million and (3) either enter into agreements with one or more banks to provide letters of credit to meet the collateral requirements of the program or post cash collateral (1-31-06);
- Approval of specific hedging transaction authority for the 2007 rate year to acquire energy supplies to meet load requirements of the New York City Governmental Customers, provided, however, that the cost of such energy supplies not exceed a cap amount (6-27-06).

PROGRAM ACTIVITIES

"The Authority is routinely exposed to energy and fuel price risk in the conduct of its day- to-day operations. In most cases, price volatility holds significant potential risk to the business objectives of the Authority. ERAC, through policy development and interaction with various Authority business units, works to identify such risk and make it known to management. A primary ERAC mission is to spread the culture of risk awareness and identification throughout the Authority and to bring to bear analytical analysis in an attempt to quantify the range of possible outcomes of energy and fuel activities. To this end, during the last year, ERAC has undertaken the following:

- Continued to develop and refine the analytical model developed by a consultant for the Authority to project a range of potential regional forward electric prices, as well as economic generation levels;
- Continued to make incremental improvements in the Authority's processes and systems for capturing hedge transactions and measuring financial risk;
- Proposed to the Trustees specific guidelines for executing approval of hedge transactions to satisfy long-term agreement obligations for certain Governmental Customers (approved by the Trustees at their meeting of June 27, 2006); and
- Selected a consultant (via RFP Q-02-3606DG), The Structure Group, that completed a review of some of the Authority's processes and procedures for the purpose of developing a future RFP (estimated release in the first quarter of 2007) to solicit a comprehensive computer system to record, track, report, manage and monitor energy commodity transactions and their associated risk. The Structure Group, as an addendum to its work on risk software systems, is also completing a limited organizational review to assess organizational alignment to better conform to good risk management practices, proper functional organization of staff within certain business areas, staffing level needs to perform the work consistent with the current functional organization arrangement and staff resource needs to perform not only existing tasks, but those needed to handle growing workload and responsibilities driven by the changing realities of the still evolving deregulated electric market and the Authority's obligations to serve customer load.

PROGRAM RESULTS AND COMPLIANCE

"ERAC, in coordination with the Human Resource Department's Performance Planning Group, developed two performance measures for the program. One measure characterizes the collective financial quality of the counterparties used for the Authority's hedge transactions and is essentially calculated as a credit exposure weighted average of the counterparties' Standard & Poor's default ratings. Another measure has been established to determine whether the distribution of forward prices generated via modeling processes is a reasonable representation of future market prices. The measure essentially examines how frequently the actual NYISO zone A on-peak forward price, for the next three months of each forward curve developed, falls within the range of projected possibilities. Cumulative results of 100% and 1% have thus far been recorded, respectively, for these two measures, which compare favorably to the established control limits of 80% and 3%, respectively. Annual results for a third 2006 ERAC performance measure, the Customer Satisfaction Survey, which compares end-of-year to start-of-year stakeholder customer satisfaction, indicate a survey response of 2.0 vs. a target of 1.75. Thus, improvement must be sought to better this performance. Steps have already been taken to address this.

"A new LTA with certain of the Authority's Governmental Customers was executed in March 2005. Among the provisions of the new agreement is one requiring mutual agreement in the selection of a qualified independent expert to review the Authority's ERM and ERAC functions. In the first quarter of 2006, CRA International ('CRA') was selected to perform this audit. CRA began its review process in June 2006 and is now in the final phase of completing its report, the draft of which currently consists of 22 recommendations that have been presented to both the Authority and the Governmental Customers. The Authority will meet with the Governmental Customers, currently planned for January 2007, to collectively discuss recommendations and mutually agreed-upon next steps. Depending on which recommendations may be mutually accepted and agreed upon and how such recommendations are to be implemented, the work efforts to support this customer class could grow substantially. Two salient features of the above LTA are a risk-sharing provision between the Governmental Customers and the Authority and a collaborative decision-making process on hedging the risks associated with serving the customer load. Note that under the process within the LTA for the 2007 rate year, the Governmental Customers selected an energy charge adjustment ('ECA') mechanism, therefore, there will be no risk sharing between the Authority and Governmental Customers for 2007.

"Overall, compliance with the policies and procedures established by the ERMC was very good. The few minor issues of procedural administrative noncompliance that arose were detected and corrected with no negative consequences to the Authority.

<u>FUTURE PROGRAM INITIATIVES</u>

"Given the doubling of monthly energy commodity hedging transactions from 2004 to 2005, the Authority's new risk-sharing arrangements with the Governmental Customers and concomitant increased workload and the anticipated further increase in the Authority's duties in serving the Governmental Customers as a result of recommendations in CRA's current draft report, the Authority undertook an initiative (RFP Inquiry # Q-02-3606DG) to improve its energy commodity hedging work processes and information systems. The firm selected through this RFP process was The Structure Group. The objectives of this project, which started in early 2006, were as follows:

- Review and document all of the Authority's existing hedge-related work processes and information systems, including the Deal Capture, Credit Management, Risk Measurement and Settlement Processes; and

- Produce detailed technology-specific recommendations for improving the functionality and efficiency of those processes, including: (1) a detailed blueprint that will provide the technical foundation for subsequent software development and system integration RFPs; (2) a marketplace assessment of the most relevant and highly used software providers and integrators; (3) recommendations as to whether the existing software should be enhanced or replaced and (4) detailed cost estimates.

"This first project by The Structure Group is close to completion and it is anticipated that another RFP will be issued in the first quarter of 2007. The purpose of such RFP is to solicit qualified suppliers of computer software systems to supply and implement a new system that fulfills the requirements, functionality and needs of the Authority as identified by the work completed by The Structure Group. The target is to have the first stages of what could be a three-year plan for implementing a new system under way by the end of 2007.

CONCLUSION

"Maintaining and implementing an independent energy risk assessment and control program is a major task and, due to the ever-changing character of relevant markets, an ongoing process. As the deregulated electric marketplace and the Authority's obligations continue to change, it has become apparent that, in large part, many portions of risk systems currently in place are now no longer adequate to either address the Authority's needs or handle the continually growing workload and complexity of the Authority's activities; hence, the RFP to first select a consultant (The Structure Group) to help identify and quantify the Authority's requirements for a new risk system and, soon, another RFP to solicit software suppliers and implement a new system. However, this year, the major program focused on:

- Working with The Structure Group on completion of their efforts to map out process and procedures and identify and quantify the software and system needs for new risk systems for the Authority;
- Coordinating and cooperating with CRA International, selected under the LTA with the Governmental Customers, on their audit of ERM and ERAC functions;
- Meeting the Authority's obligations under the LTA by working with the Governmental Customers to develop, design and coordinate analysis and implementation of their selected hedging program for 2007 consistent with their specified objective function(s);
- Building a new modeling process specifically for Governmental Customers by which they can assess the performance of their own selected hedge strategy or otherwise assess how their cost might change by varying hedge positions or due to changes in market prices; and
- Ensuring that risk considerations remains a part of every business discussion and process.

"Going forward into 2007, the focus will be as follows:

- Issuing an RFP for the selection and implementation of new risk software and risk systems;
- Implementing mutually agreed-upon recommendations contained in the CRA International audit report with the Governmental Customers;
- Continuing to identify, analyze and review the Authority's risk exposures;
- Maintaining a robust customer/client relationship between ERAC and all other Authority business units; and
- Providing continued staff development and training."

12. Information Technology Initiatives –
<u>Capital Expenditure Authorization</u>

The President and Chief Executive Officer submitted the following report:

<u>SUMMARY</u>

"The Trustees are requested to authorize capital expenditures of $3,758,000 for the implementation of Information Technology ('IT') Initiatives in 2007 as per the Authority's Expenditure Authorization Procedures. These expenditures have been budgeted in the 2007 approved Capital budget.

<u>BACKGROUND</u>

"In accordance with the Authority's Expenditure Authorization Procedures, the award of non-personal services or equipment purchase contracts in excess of $3 million, as well as personal services contracts in excess of $1 million if low bidder, or $500,000 if sole source or non-low bidder, requires Trustees' approval.

"For each of the past 10 years, in concert with the Business Units, IT has developed a list of initiatives designed to meet business needs by taking advantage of evolving technology applications. These application developments have been funded from a capital program called IT Initiatives. This capital program, which has typically totaled less than $3 million annually, has been approved by the Trustees in the Authority's Capital budget each December with funds later authorized and released by the President and Chief Executive Officer during the budget year. Since the request for 2007 is greater than $3 million, Trustee approval is requested as per the Authority's Expenditure Authorization Procedures.

<u>DISCUSSION</u>

"The following lists the 2007 IT Initiatives, along with the estimated cost of each:

- **Fuels Management System** — **$ 600,000**
  This initiative is a major modification to the existing FMS system. These changes are required to allow proper transaction processing for gas activities as a result of further deregulation in the industry. There is a need to accept multiple delivery points for a single purchase of gas and for each leg of the gas delivery for a single purchase.

- **Time & Attendance** — **$ 600,000**
  This project entails replacement of the TESS payroll time entry system with the SAP R/3 CATTS module. The existing TESS time-entry system is used by staff to feed the external payroll-processing environment, as well as for internal reporting. The new system will become an integral part of the SAP R/3 environment and eliminate existing interfaces.

- **Fleet Management System** — **$ 300,000**
  This initiative is to purchase and implement a specialized system which is optimized for fleet vehicle operation and maintenance.

- **Marketing Forecasting** — **$ 380,000**
  This project will develop enhancements to the Short- and Long-Term Marketing Forecast Systems.

• **NERC Cyber Security Initiative** This initiative represents the implementation of a software package to facilitate security assessments and development of risk profiles. The system will support the development of a database of critical systems, critical cyber assets and their current state of compliance to new standards.	**$ 100,000**
• **Traders Portal** This project represents additional enhancements to the Traders portal system. A number of additional functions and additional reports are planned for this initiative.	**$ 300,000**
• **Maximo – Meridan Initiative** This initiative represents the implementation of new software to allow better integration of AutoCad drawings and their use from within Maximo the Work Force Management System.	**$ 300,000**
• **Energy Efficiency Initiative** This initiative is implementation of a new software solution for project management, scheduling and reporting on various projects conducted by Energy Services and Technology.	**$ 200,000**
• **Human Capital Initiatives** HR has requested a series of solutions to manage various issues related to Human Capital including Performance Management, Succession Planning, Recruitment Management and Compensations Surveys.	**$ 300,000**
• **IT Security Initiatives** Security initiatives in the cyber environment required to harden the Authority's enterprise and minimize risk to its systems from cyber attack.	**$ 200,000**
• **Internal Labor**	**$ 299,000**
• **HQ Overhead**	**$ 179,000**
Total	**$3,758,000**

FISCAL INFORMATION

"Payments associated with these projects will be made from the Capital Fund.

RECOMMENDATION

"The Chief Information Officer – Information Technology recommends that the Trustees approve the Capital Expenditure of $3,758,000 for Information Technology Initiatives.

"The Executive Vice President and General Counsel, the Executive Vice President – Corporate Services and Administration, the Executive Vice President – Chief Financial Officer, the Senior Vice President and Chief Engineer – Power Generation and I concur in the recommendation."

The following resolution, as submitted by the President and Chief Executive Officer, was unanimously adopted.

RESOLVED, That Capital Expenditures are hereby approved in accordance with the Authority's Expenditure Authorization Procedures, as recommended in the foregoing report of the President and Chief Executive Officer, in the amount and for the purpose listed below:

Capital	**Expenditure Authorization**
Information Technology Initiatives 2007	**$3,758,000**

AND BE IT FURTHER RESOLVED, That the Chairman, the President and Chief Executive Officer, and all other officers of the Authority are, and each of them hereby is, authorized on behalf of the Authority to do any and all things and take any and all actions and execute and deliver any and all agreements, certificates and other documents to effectuate the foregoing resolution, subject to the approval of the form thereof by the Executive Vice President and General Counsel.

13. <u>INFORMATIONAL ITEM: Participation in Emission Reduction Programs</u>

The President and Chief Executive Officer submitted the following report:

"In 1990, when the Clean Air Act (1975) was amended, the U. S. Congress created a market-based concept to reduce air pollution from industries and to achieve National Ambient Air Quality Standards. Congress authorized the U. S. Environmental Protection Agency ('EPA') to implement a so-called 'Cap and Trade' program that limits the total pollutant emissions in the country (and in each state) to an annual amount called a 'budget' and allows for the sale and purchase of Allowances among users. Power plants (and other sources of emissions) must hold these Allowances to operate. EPA developed a methodology to allocate Allowances to power plants based on the history of the plant's operation or on the projected or planned level of operation as specified in the plant owner's permit application. Allowances, defined as one ton of a regulated pollutant that a user may emit, are allocated to the individual power plants (and other large industrial sources) from that annual budget. Allowances currently cover the emission of sulfur dioxide (SO_2) and nitrogen oxide (NOx) pollutants. In addition to the EPA program, the New York State Department of Environmental Conservation ('DEC') has run a program since 2005 that regulates the same emissions. Separate Allowances are allocated in each program for specified control periods. The control period for SO_2 is one calendar year for both programs. For NOx emissions, the control period is May 1 to September 30 (the Ozone Season) for the EPA program. For the New York State program, the control period for NOx emissions is October to April (the Non-Ozone Season). If a plant's operation during a control period results in its exceeding its allocated Allowances, the operator may purchase additional Allowances from another plant operator, transfer Allowances from some of its other plants that have unused Allowances or install pollution control equipment. The decision to purchase Allowances or install pollution equipment is an economic and operating cost decision that gives the plant operator some flexibility as to how to meet the emissions limitations. In this way, a producer of emissions has a financial incentive to curtail its own production of emissions over time.

"As a result, an active trading system has developed for buyers and sellers of SO_2 and NOx emissions. Prices for SO_2 and NOx Allowances are determined in a competitive market through supply and demand forces. EPA and DEC require the reporting of all sales and purchases (transfers), identifying buyers and sellers and the specific power plants involved in the transfer. Due to the Authority's environmentally sensitive operations at its plants, such as using cleaner-burning natural gas rather than fuel oil when feasible, as well as its substantial investment in pollution controls, the Authority has unused Allowances available for sale. The Authority limits its emissions sales to those buyers that will restrict their use or resale within New York State or New England. A majority of the $19 million of revenue received from the Authority's sales have reduced its Southeastern New York Governmental Customer overall cost of service since 2004. A summary of the Authority's transactions in these programs is attached.

"EPA recently promulgated a new regulation called the Clean Air Interstate Rule ('CAIR'), which becomes effective between 2009 and 2015. This regulation will lessen the budget of available Allowances, increase the number of states participating from 11 to 28 and extend the current 7-month program to a 12-month program. When fully effective in 2015, CAIR is expected to reduce SO_2 and NOx emissions in the eastern United States by more than 70% and 60%, respectively, relative to 2003 levels.

"Separate from the above programs, some states have put into place their own programs to reduce Green House Gas ('GHG') emissions, principally carbon dioxide (CO_2), since there is no federally run GHG program. One such initiative is New York State's Regional Greenhouse Gas Initiative ('RGGI'). This is an effort by seven states in the Northeast (New York, New Jersey, Delaware, Connecticut, Vermont, New Hampshire and Maine) that calls for major reductions in CO_2 emissions from power plants beginning in January 2009. Initial RGGI targets are to achieve 90% of year 2000 CO_2 levels by 2020. A similar program in California is targeted at achieving year 1990 CO_2 levels by 2020. Details of each program are to be worked out by the various states' relevant regulatory bodies. The California and RGGI programs are expected to coordinate efforts to ensure that CO_2 Allowances on both coasts are essentially equivalent on a monetary basis."

In response to a question from Chairman McCullough, Mr. Michael Carey advised that it is hard to forecast whether the revenues will continue given the volatility of prices, but that the Allowances will continue.

Summary

		EPA			DEC	
Year	**Allowance**	**Tons**	**Revenue**	**Allowance**	**Tons**	**Revenue**
2004	NOx	500	$1,037,500			
	$S0_2$	12,500	5,952,500			
2005	NOx	200	$680,000	NOx	200	$430,00
	$S0_2$	7,567	5,276,900	$S0_2$	2,500	1,325,000
2006	NOx	350	$ 327,000	NOx	160	$33,125
	$S0_2$	6,200	3,983,300	$S0_2$	0	
	NOx	1050	$ 2,045,000	NOx	200	$463,125
	$S0_2$	26,267	15,212,700	$S0_2$	2,500	1,325,000
Total			**$17,257,700**			**$1,788,125**

GRAND TOTAL **$19,000,000**

14. Procurement (Service) Contract – Blenheim-Gilboa Power Project Life Extension and Modernization Program – Increase in Expenditure Authorization and Contract Compensation Limit

The President and Chief Executive Officer submitted the following report:

SUMMARY

"The Trustees are requested to authorize capital expenditure of $76,099,000 for Engineering, Procurement and Construction to complete the first three units of the Blenheim-Gilboa Life Extension and Modernization ('B-G LEM') Program by the spring of 2009. This additional request will bring the total authorization to $103,419,000.

"The Trustees are further requested to approve an increase of $2,000,000 in the contract value and expenditure authorization for Hitachi America Limited ('Hitachi') from $20,176,624 to $22,176,624 for additional work associated with the turbine installation and removal.

"The overall cost estimate for the B-G LEM Program remains at $135,495,000 as approved by the Trustees at their meeting of November 25, 2003.

BACKGROUND

"Section 2879 of the Public Authorities Law and the Authority's Guidelines for Procurement Contracts require the Trustees' approval for procurement contracts involving services to be rendered for a period in excess of one year.

"The Authority's revised Expenditure Authorization Procedures ('EAPs') require the Trustees' approval when the cumulative change order value of a personal services contract exceeds the greater of $250,000 or 35% of the originally approved contract amount not to exceed $500,000, or when the cumulative change order value of a non-personal services, construction, equipment purchase or non-procurement contract exceeds the greater of $500,000 or 35% of the originally approved contract amount, not to exceed $1,000,000.

"At their meeting of November 25, 2003, the Trustees approved the initiation of the LEM Program and authorized capital expenditures of $26,320,000 to begin engineering, procurement and construction of long-lead components. This, together with $1,000,000 authorized earlier for preliminary engineering and design, brings the present total authorized funding to $27,320,000. The Trustees also approved the award of a $19,700,000 contract to Hitachi for replacing the four pump turbines.

DISCUSSION

"Work on the first unit to undergo overhaul under the B-G LEM Program began in September 2006 and milestones reached to date include: dewatering of the upper reservoir; installation of the new spherical valve; delivery of two new power transformers, power circuit breakers and exciters and repair of the liquid rheostat tank.

"Modification of embedded parts such as the scrollcase stay vanes and bottom ring are in progress and the balance of work is proceeding to support the June 1, 2007 return to service date.

"The total estimated cost of the B-G LEM Program is unchanged at $135,495,000. The current B-G LEM expenditures are consistent with the approved expenditure limits.

"In order to allow for completion of the B-G LEM Program within the current four-year schedule, it is necessary at this time to increase the expenditure authorization limit for engineering, procurement and construction services to support the program through the spring of 2009. The remaining fund balance would then be requested as required to complete the last B-G unit in 2010.

"This current Capital Expenditure Authorization Request ('CEAR') is:

Engineering	$ 3,978,000
Procurement	$ 8,782,000
Construction	$54,569,000
Authority Direct and Indirect	$ 8,770,000
Total	$76,099,000

"After disassembly and inspection of the first unit's components, it was necessary to carry out additional work to correct unforeseeable, as-found deficiencies. This additional work, which falls under the Hitachi contract, included additional field machining, removing head cover weldments placed over the years to reduce leakage, removing thrust bearings and reassembling and providing additional shop repair of removed components that had excessive corrosion.

"The cost for the additional materials and work is approximately $2,000,000; therefore, the request is to increase the compensation ceiling for Hitachi to $22,176,624, to allow for the work noted above to be completed. This additional material and construction cost is within the contingency allowances included with the B-G LEM Program estimate.

FISCAL INFORMATION

"Payment will be made from the Capital Fund.

RECOMMENDATION

"The Vice President – Project Management, the Vice President – Procurement and Real Estate, the Vice President Engineering – Power Generation, the Regional Manger – Central New York and the Project Manager recommend that the Trustees authorize: (i) capital expenditures in the amount of $76,099,000 for rehabilitation of three Blenheim-Gilboa Life Extension and Modernization units and (ii) an increase in the compensation limit of $2,000,000 for additional material and work required for the contract with Hitachi American Limited (Contract #4600001252) for removing, rehabilitating and installing four new pump turbines and accessories at the Blenheim-Gilboa Power Project, bringing the total contract amount to $22,171,624.

"The Executive Vice President and General Counsel, the Executive Vice President – Corporate Services and Administration, the Executive Vice President and Chief Financial Officer, the Senior Vice President and Chief Engineer – Power Generation, the Vice President – Controller and I concur in the recommendation."

The following resolution, as submitted by the President and Chief Executive Officer, was unanimously adopted.

RESOLVED, That additional capital expenditures are hereby approved in accordance with the Authority's Expenditure Authorization Procedures, as recommended in the foregoing report of the President and Chief Executive Officer, in the amounts and for the purposes listed below:

Description	**Current CEAR Estimate**	**Previous Authorization**	**Current Request**	**New Authorized Total**
Prel. Eng.	**$ 500,000**	**$ 500,000**	**$ 0**	**$ 500,000**
Engineering	**13,305,000**	**6,000,000**	**3,978,000**	**9,978,000**
Procurement	**15,044,000**	**2,500,000**	**8,782,000**	**11,282,000**
Construction	**89,094,000**	**13,370,000**	**54,569,000**	**67,939,000**
Direct/Indirect	**17,552,000**	**4,950,000**	**8,770,000**	**13,720,000**
	$135,495,000	**$27,320,000**	**$76,099,000**	**$103,419,000**

AND BE IT FURTHER RESOLVED, That approval is hereby granted under the existing contract with Hitachi America Limited to increase the contract value and commit capital funds for refurbishing the pump turbines (contract #4600001252) and associated work for the Blenheim-Gilboa Power Project Life Extension and Modernization program, in the amounts and for the purposes listed below:

Current authorized	**$20,176,624**
Current increase amount	**$ 2,000,000**
New authorized amount	**$22,176,624**

AND BE IT FURTHER RESOLVED, That the Chairman, the President and Chief Executive Officer and all other officers of the Authority are, and each of them hereby is, authorized on behalf of the Authority to do any and all things, take any and all actions and execute and deliver any and all agreements, certificates and other documents to effectuate the foregoing resolution subject to the approval of the form thereof by the Executive Vice President and General Counsel.

15. Procurement (Services) Contracts –
<u>Business Units and Facilities – Awards</u>

The President and Chief Executive Officer submitted the following report:

SUMMARY

"The Trustees are requested to approve the award and funding of the procurement contracts listed in Exhibit '15-A' for the Authority's Business Units/Departments and Facilities. Detailed explanations of the nature of such services, the bases for the new awards if other than to the lowest-priced bidders and the intended duration of such contracts, are set forth in the discussion below.

BACKGROUND

"Section 2879 of the Public Authorities Law and the Authority's Guidelines for Procurement Contracts require the Trustees' approval for procurement contracts involving services to be rendered for a period in excess of one year.

"The Authority's Expenditure Authorization Procedures ('EAPs') require the Trustees' approval for the award of personal services contracts in excess of $1,000,000 if low bidder, or $500,000 if sole source or non-low bidder.

DISCUSSION

"The terms of these contracts will be more than one year and/or the requested funding will exceed the dollar thresholds that can be authorized by the President and Chief Executive Officer per the EAPs; therefore, the Trustees' approval is required. These contracts contain provisions allowing the Authority to terminate the services for the Authority's convenience, without liability other than paying for acceptable services rendered to the effective date of termination. Approval is also requested for funding these contracts, which range in estimated value from $800,000 to $1,200,000. Except as noted, these contract awards do <u>not</u> obligate the Authority to a specific level of personnel resources or expenditures.

<u>Contracts in Support of Business Units/Departments and Facilities</u>:

<u>Corporate Services and Administration</u>

"Due to the need to commence services, the contract with **Ove Arup and Partners, PC ('Arup'; 4500134375)** became effective on December 28, 2006, in accordance with the Authority's Guidelines for Procurement Contracts and EAPs, subject to the Trustees' subsequent approval as soon as practicable. The purpose of this contract is to provide for consulting services to develop the framework for integrating sustainability principles into all facets of the Authority's operations. These services will include researching globally the best sustainability practices of electric utilities and other industries, and working with Authority staff and external stakeholders, developing guidelines, policies and procedures for integrating such principles, where applicable, into all of the Authority's operational, transmission and administrative processes. To this end, in September 2006, 25 firms were invited to submit qualification statements, including those that may have responded to a notice in the New York State Contract Reporter; 14 such statements were received and evaluated by an Authority team comprising representatives from Procurement; Environment, Health and Safety and Energy Services and Technology. In November 2006, a formal Request for Proposals, including scope of work, was sent to nine pre-qualified firms. Eight proposals were received and evaluated by the team. The six bidders with the lowest overall estimates for completing this work were then interviewed. Arup submitted a very detailed and complete proposal that demonstrated the best understanding of the scope of work requirements and the effort required to complete this work, and presented the most comprehensive plan. Arup's presentation was compelling and, by far, the best of all of the bidders interviewed. Its proposed project team is exemplary and includes staff that has developed the Sustainability Plan for the San Francisco Public Utilities Commission (a water authority with some hydropower operations). Arup has also performed sustainability or environmental planning for Princeton University, Pfizer, Wal-Mart, the Hudson River Park and the Fulton Street Transit Center in New York City; provided engineering and environmental services to the New York City Transit Authority in connection with the Second Avenue subway project and worked with other energy utilities across the globe. In addition, Arup will use a certified Women-Owned Business Enterprise ('WBE'), Padron International Associates, to help develop the training curriculum and program for Authority staff to implement the sustainability policies and guidelines. Based on the foregoing, the Authority's evaluation team, consisting of Procurement; Environment, Health and Safety; Corporate Support Services and Energy Services and Technology representatives, determined that Arup's was the best project team to perform the study and to work with Authority staff to develop the Authority's sustainability framework. Staff therefore recommended award of the subject contract to Arup, the most technically qualified, reasonably priced bidder, for an intended term of nine months, subject to the Trustees' approval, which is hereby requested. Approval is also requested for the total estimated amount expected to be expended for the term of the contract, $800,000. This excludes funding for optional Tasks 3 (for reviewing current energy services and new technologies programs and policies, particularly with respect to Authority customers, and implementing a community outreach and education program) and 8 (for reviewing a proposed developmental project from a Leadership in Energy and Environmental Design ('LEED') perspective at the Vernon Boulevard site in Queens).

Law Department

"At their meeting of March 28, 2006, the Trustees approved the award of a three-year contract to Berman, Paley, Goldstein & Kannry, LLP ('Berman Paley') to provide for legal services to support the Authority in matters relating to the 500 MW Combined Cycle Project and to assist the Authority in its defense against claims made by others. The Trustees also authorized a total estimated contract amount of $2,000,000 for such services, to be released as needed. Recently, Jack Kannry, the partner in charge of the Authority's matters, notified the Authority that as of January 1, 2007 he would no longer be affiliated with Berman Paley and would be joining a new, larger firm, **Warshaw Burstein Cohen Schlesinger & Kuh, LLP ('Warshaw')**. Mr. Kannry has decades of experience in all aspects of construction law and has been the lead outside counsel representing the Authority with respect to claims by General Electric ('GE'), as well as the Authority's claims against GE related to the design, engineering and equipment provided by GE for the 500 MW plant. Mr. Kannry's partner Linda Sklaren, who worked with him on the Authority's case, is also moving to the new firm. These attorneys' expertise and knowledge of the complex facts underlying this construction project are integral to successfully supporting the Authority in ongoing matters. Continuing with the old firm, none of whose partners had any familiarity with the 500 MW Project, was not an option. Staff therefore recommended that the specialized services of Mr. Kannry, his support staff and various subcontractors be continued under a new contract with Warshaw, awarded on a sole source basis. (It should be noted that the original contract with Berman Paley was awarded as the result of a competitive search.) Due to the need to provide for uninterrupted service, the contract with Warshaw (PO# TBA) became effective January 1, 2007, in accordance with the Authority's Guidelines for Procurement Contracts and EAPs, subject to the Trustees' subsequent approval as soon as practicable. The Trustees are hereby requested to approve the award of the subject contract for an intended two-year term. Approval is also requested for the total estimated amount expected to be expended through 2007, $1,200,000, to be released as needed. Should additional funding be required, such funding will be approved in accordance with the Authority's EAPs. It should be noted that the contract amount also includes funds for expert consultants required to support the legal services.

FISCAL INFORMATION

"Funds required to support contract services for various Business Units/Departments and Facilities have been included in the 2007 Approved O&M Budget. Funds for subsequent years, where applicable, will be included in the budget submittals for those years. Payment will be made from the Operating Fund.

"Funds required to support contract services for capital projects have been included as part of the approved capital expenditures for those projects and will be disbursed from the Capital Fund in accordance with the projects' Capital Expenditure Authorization Requests.

RECOMMENDATION

"The Vice President – Procurement and Real Estate, the Vice President – Environment, Health and Safety, the Director – Corporate Support Services and the Project Manager – Energy Services recommend the Trustees' approval of the award of procurement contracts to the companies listed in Exhibit '15-A' for the purposes and in the amounts set forth above.

"The Executive Vice President and General Counsel, the Executive Vice President – Corporate Services and Administration, the Executive Vice President – Chief Financial Officer, the Senior Vice President – Energy Services and Technology, the Senior Vice President – Marketing and Economic Development, the Senior Vice President and Chief Engineer – Power Generation and I concur in the recommendation."

The following resolution, as submitted by the President and Chief Executive Officer, was unanimously adopted.

RESOLVED, That pursuant to the Guidelines for Procurement Contracts adopted by the Authority, the award and funding of the procurement services contracts set forth in Exhibit "15-A," attached hereto, are hereby approved for the period of time indicated, in the amounts and for the purposes listed therein, as recommended in the foregoing report of the President and Chief Executive Officer; and be it further

RESOLVED, That the Chairman, the President and Chief Executive Officer and all other officers of the Authority are, and each of them hereby is, authorized on behalf of the Authority to do any and all things, take any and all actions and execute and deliver any and all agreements, certificates and other documents to effectuate the foregoing resolution, subject to the approval of the form thereof by the Executive Vice President and General Counsel.

Awd-A012007final

Procurement (Services) Contracts – Awards
(For Description of Contracts See "Discussion")

EXHIBIT "15-A"
January 30, 2007

Plant Site	Company Contract #	Start of Contract	Description of Contract	Closing Date	Award Basis[1] Contract Type[2]	Compensation Limit	Amount Expended To Date	Authorized Expenditures For Life Of Contract
CORP SERV & ADMIN - Procurement & Real Estate	OVE ARUP AND PARTNERS, PC (4500134375)	12/28/06	Provide for consulting services to develop the framework for integrating sustainability principles into all Authority operations	09/30/07	B/P	$800,000 *Note: excludes funding for optional Tasks 3 and 8		**$800,000***
LAW	WARSHAW BURSTEIN COHEN SCHLESINGER & KUH, LLP (PO# TBA)	01/01/07	Provide for legal services in connection with claims for the 500 MW Project	12/31/08	S/P	*Note: represents estimated funding for 2007		**$1,200,000***

1 Award Basis: B= Competitive Bid; S= Sole Source; C= Competitive Search
2 Contract Type: P= Personal Service; S= (Non-Personal) Service; C= Construction; E= Equipment; N= Non-Procurement

16. Motion to Conduct an Executive Session

"Mr. Chairman, I move that the Authority conduct an Executive Session for the purpose of discussing matters related to potential litigation and the financial and credit history of GE." Upon motion moved and seconded, an Executive Session was held.

17. Motion to Resume Meeting in Open Session

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

18. INFORMATIONAL ITEM: 2007 EXECUTIVE ORDERS

The President and Chief Executive Officer submitted the following report:

"On January 1, 2007, Governor Eliot Spitzer issued five new Executive Orders, three of which impact the Authority. Among the topics addressed and actions taken in the Executive Orders are new ethical conduct guidelines for public employees and members of authorities, the elimination of politics from governmental decision making, the promotion of public access to government decision making and the continuation of certain other Executive Orders from prior administrations.

"Executive Orders Nos. 1, 2 and 3 are applicable to the Authority. Executive Order No. 1 prohibits the receipt of gifts of more than nominal value where the circumstances of the giving indicate an intention to influence the recipient in the performance of official business. This prohibition is stricter than Public Officers Law § 73(5), which provides that gifts up to $75 may be allowed in certain circumstances. This Executive Order also prohibits nepotism in hiring and contracting and the use of state property for personal purposes, including stationary, postage, telephones and computers (other than incidental and necessary use) and vehicles (the value of any authorized personal use is to be calculated and reported as personal income).

"Executive Order No. 2 seeks to eliminate politics from governmental decision making by prohibiting campaign contributions to the Governor and Lieutenant Governor, prohibiting consideration of politics in employment and contracting, prohibiting state agencies or public authorities from having elected officials or candidates for elective office from appearing in any advertisement paid for, in whole or part, by an agency or authority. This Executive Order also requires the head of an agency or public authority to take a leave of absence from his/her position before commencing a candidacy for that office.

"Finally, Executive Order No. 3 requires agencies and public authorities to identify all meetings that are subject to the Open Meetings Law and to set a time by which these meetings are broadcast on the Internet.

"Executive Orders Nos. 1 and 2 contain a requirement that an agency or public authority establish penalties, up to and including dismissal, for any individual who violates the orders.

"While I believe current Authority policies and practices embrace most of the new Executive Orders' requirements, I have directed the Executive Vice President and General Counsel to ensure an orderly and coordinated review process within the Authority of the new Executive Orders. He has reached out to the applicable Business Unit heads and their direct reports and requested them to review the current polices against the new requirements and to amend current policies or draft new policies to implement the Executive Orders. The Law Department will then review the updated or drafted polices as to form and consistency."

"After the Chairman and I review and comment on the revised polices, we intend to report to the full Board of Trustees at the regular March 2007 meeting."

Mr. Kelly presented the highlights of Governor Spitzer's Executive Orders and advised that Executive Order Nos. 1, 2 and 3 would affect the Authority. In response to a question from Trustee Scozzafava, President Carey mentioned that the Authority does not advertise, although it has a branding process that is currently under review. He said that in the past the Authority had done radio ads promoting energy efficiency with local elected officials. President Carey said that recently a borough president had asked that such ads be continued, but that the Authority had to decline because of Executive Order No. 2.

At this point in the meeting, Chairman McCullough left for an appointment, turning the meeting over to Vice Chairman Townsend.

19. INFORMATIONAL ITEM: Windfarm Substations for Interconnection

The President and Chief Executive Officer submitted the following report:

SUMMARY

"In accordance with the New York Independent System Operator's ('NYISO') Open Access Transmission Tariff ('OATT') filed at the Federal Energy Regulatory Commission ('FERC'), the Authority is allowing developers to connect new generation to its transmission lines. Currently, three developers are in the process of designing five windfarm projects to be connected to the Authority's lines in the Northern Adirondacks.

"In order to connect to the system, the developers must design and construct three substations to the Authority's specifications at their own expense. The Authority was subsequently confronted with the issue of whether to own, operate and maintain these new substations, as opposed to the developers. In the spirit of the *pro-forma* Interconnection Agreement ('IA') filed with the NYISO's OATT, and in the interest of maintaining its reliability standards and control of its bulk power transmission system, the Authority has concluded that it will own, operate and maintain these three (as well as any future) substations required by any developer to interconnect to the Authority's transmission facilities, at the expense of those developers.

BACKGROUND

"Between the years 2007 and 2009, the New York power grid will host a number of new green power generators as required by NYISO's OATT. In fact, as many as 10 windfarm projects will be connecting to the Authority's transmission lines in the Northern Adirondack region of New York. The first five windfarm projects will be constructed adjacent to both of the Authority's MWP-1 and MWP-2 lines between the Authority's Willis and Plattsburgh substations.

"In order to accommodate this new, green energy, at least three new substations (also referred to as 'attachment facilities') must be constructed to connect the windfarms to the Authority's lines. At this time, three wind power project developers have pledged to design and construct these substations at their own expense. As part of the interconnection process set forth in the NYISO's OATT, the Authority, NYISO and the developers must execute a three-party *pro-forma* IA for each project prior to its construction. Under these (yet to be executed) IAs, each developer is obligated to pay for the operation, maintenance, repair and replacement (at the Authority's direction) of any substation it builds for its use. Throughout this interconnection process, the Authority has worked closely with the developers in engineering and procurement, and will also assist in construction. The Authority will recover these costs in each project's respective IA.

DISCUSSION

"As encouraged by FERC and NYISO, the Authority concluded that it would own, operate and maintain the new windfarm project substations for a number of compelling reasons. As integral parts of the Authority's transmission system, the new substations could have a deleterious effect on transmission system reliability unless built and maintained to the appropriate standards. In making its determination, the Authority considered its need to maintain the continuity, reliability and control of its existing transmission system without the interference of non-regulated entities. The reliability of these facilities is paramount to the Authority.

"As an extension of the aforementioned concern, the Authority determined that, as a 'Transmission Owner,' it would be accountable to the North American Electrical Reliability Corporation ('NERC') for the proper operation of these substations. It is unclear at this time how generation developers (that own transmission bulk power facilities) would be classified, and whether or not they would be held accountable to NERC. If these developers were to own the substations, but are not held accountable by NERC (or to lower standards than the Authority), the Authority's ability to reliably operate its transmission system could be undermined.

"Also significant to the Authority was the understanding and knowledge that the cost to design, construct and maintain said facilities shall be entirely the responsibility of the developers as outlined in the NYISO

Interconnection process and as negotiated in the IA. Finally, the Authority believes that owning these substations will reduce safety-related risks associated with their operation and maintenance."

Mr. DeCarlo presented the highlights of this informational item to the Trustees. In response to a question from Trustee Seymour, Mr. DeCarlo said these windfarms would be located north of Utica, including parts of Madison County. The substations will be built and paid for by the wind developers as part of the interconnection process set forth in the NYISO's OATT (Open Access Transmission Tariff)and in accordance with Authority standards and specifications. Mr. Kelly further advised that the Authority might incur some liability in connection with the windfarms and that legal staff is monitoring the process. Trustee Seymour asked what the charge per kilowatt would be and Ms. Morman said that it would be 7 cents at the source.

20. Other Business

On behalf of Monroe County Executive, Maggie Brooks, and himself, Vice Chairman Townsend thanked Authority staff for their part in the success of the Monroe County landfill-gas-to-energy project.

Vice Chairman Townsend acknowledged the passing of Shalom Zelingher, the Authority's Chief Technology Development Officer, and asked that the meeting be adjourned in his memory.

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21. Next Meeting

The next meeting of the Trustees will be held on **Tuesday, February 27, 2007, at 11:00 a.m., at the Clarence D. Rappleyea Building, White Plains, New York,** unless otherwise designated by the Chairman with the concurrence of the Trustees.

Closing

On motion duly made and seconded, the meeting was adjourned by the Chairman at approximately 12:30 p.m.

Anne B. Cahill
Corporate Secretary