

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

September 25, 2007

Table of Contents

<u>Subject</u>	<u>Page No.</u>	<u>Exhibit</u>
1. Minutes of the Regular Meeting held on July 31, 2007	3	
2. Financial Reports for the Eight Months Ended August 31, 2007	4	'2-A'
3. Report from the President and Chief Executive Officer	5	
4. Power for Jobs Program – Extended Benefits Resolution	7	'4-A'
5. Allocation of 3,900 kW of Hydro Power Resolution	10	'5-A'; '5-A1' – '5-A2'
6. Incremental Power Supply Arrangements with Full-Requirements Municipal and Rural Electric Cooperative Systems Resolution	12	'6-A'
7. Village of Marathon – Increase in Retail Rates – Notice of Adoption Resolution	14	'7-A'; '7-B' – '7-C'
8. Hydropower Contracts with Upstate Investor-Owned Utilities for the Benefit of Rural and Domestic Consumers – Notice of Public Hearing Resolution	16	
9. Increase in New York City Governmental Customer Rates – Notice of Proposed Rulemaking Resolution	19	
10. Increase in Westchester County Governmental Customer Rates – Notice of Proposed Rulemaking Resolution	22	'10-A' - '10-B'
11. Budget and Financial Plan Information Pursuant to Regulations of the Office of the State Comptroller Resolution	25	'11-A' - '11-C'
12. Budget Information Pursuant to Section 2801 of the Public Authorities Law Resolution	27	'12-A'
13. Procurement (Services) Contracts – Business Units and Facilities Awards Resolution	29	'13-A'

<u>Subject</u>	<u>Page No.</u>	<u>Exhibit</u>
14. Procurement (Services) Contracts – Business Units and Facilities - Extensions, Approval of Additional Funding and Increase in Compensation Ceiling Resolution	36	‘14-A’
15. Issuance of the Series 2007 A, 2007 B and 2007 C Revenue Bonds Resolution	41	‘15-A1’ - ‘15-A3’
16. Motion to Conduct an Executive Session	42	
17. Motion to Resume Meeting in Open Session	43	
18. Entergy James A. FitzPatrick and Entergy Indian Point 3 Value-Sharing Agreements – Amendments Resolution	44	
19. Next Meeting	47	
Closing	48	

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 11:00 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:

Frank S. McCullough, Jr., Chairman (White Plains, NY)
Michael J. Townsend, Vice Chairman, (White Plains, NY)
James A. Besh, Sr., Trustee (White Plains, NY)
Elise M. Cusack, Trustee (Lewiston, NY)
Robert E. Moses, Trustee (White Plains, NY)
Thomas W. Scozzafava, Trustee (White Plains, NY)
Leonard N. Spano, Trustee (White Plains, NY)

Roger B. Kelley	President and Chief Executive Officer
Thomas J. Kelly	Executive Vice President, General Counsel and Chief of Staff
Joseph Del Sindaco	Executive Vice President and Chief Financial Officer
Vincent C. Vesce	Executive Vice President – Corporate Services and Administration
Steven J. DeCarlo	Senior Vice President – Transmission
Angelo S. Esposito	Senior Vice President – Energy Services and Technology
William J. Nadeau	Senior Vice President – Energy Resource Management and Strategic Planning
Brian Vattimo	Senior Vice President – Public and Governmental Affairs
Edward A. Welz	Senior Vice President and Chief Engineer – Power Generation
James H. Yates	Senior Vice President – Marketing and Economic Development
Thomas P. Antenucci	Vice President – Project Management
Arnold M. Bellis	Vice President, Controller
John M. Hoff	Vice President – Procurement and Real Estate
Donald A. Russak	Vice President – Finance
Thomas Warmath	Vice President and Chief Risk Officer
Daniel Wiese	Inspector General and Vice President – Corporate Security
Brian C. McElroy	Treasurer – Corporate Finance
Lisa A. Cole	Deputy Treasurer
Anne B. Cahill	Corporate Secretary
Angela D. Graves	Deputy Corporate Secretary
Dennis T. Eccleston	Chief Information Officer
Arthur T. Cambouris	Assistant General Counsel and Managing Attorney – Litigation
Joseph J. Carline	Assistant General Counsel – Power and Transmission
Paul F. Finnegan	Executive Director – Public and Governmental Affairs
John J. Suloway	Executive Director – Licensing, Implementation and Compliance
Thomas A. Davis	Director – Financial Planning
Joseph Leary	Director – SENY – Public and Governmental Affairs
James F. Pasquale	Director – Business Power Allocations, Compliance and Municipal and Cooperative Marketing
Michael A. Saltzman	Director – Media Relations – Public and Governmental Affairs
Marilyn J. Brown	Manager – Market Pricing Analysis
Caroline G. Garcia	Manager – Power Contracts
Lesly Y. Pardo	Manager – Internal Audit
Mary Jean Frank	Associate Corporate Secretary
Lorna M. Johnson	Assistant Corporate Secretary
Jack Murphy	Temporary Public Relations Counsel
Timothy Sheehan	Principal Attorney II – Financial Affairs
Felix E. DeJesus	Consultant – Marketing Economic Development
Oksana U. Karaczewsky	Senior Procurement Compliance Coordinator

September 25, 2007

Jeremy Colgan
John Connorton
Michael Mace

Bond Counsel, Hawkins Delafield and Wood, LLP
Bond Counsel, Hawkins Delafield and Wood, LLP
Advisor, Public Financial Management, Inc.

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

1. **Approval of the Minutes**

The Minutes of the Regular Meeting of July 31, 2007 were unanimously adopted.

2. **Financial Reports for the Six Months Ended August 31, 2007**

Mr. Bellis presented an overview of the reports for the Trustees.

NEW YORK POWER AUTHORITY
FINANCIAL REPORTS
FOR THE EIGHT MONTHS ENDED AUGUST 31, 2007

Financial Reports Table of Contents

1	Financial Summary
2	Statement of Net Revenues
3	Statement of Net Revenues by Facility
4	Net Revenues-Variance from Budget
5	Operations & Maintenance
6	Statement of Net Assets
7	Summary of Net Generation
8	Capital Expenditures
9	Demand Side Management Financial Report
10	Operating Fund
11	Portfolio Performance and Financing Rates

NEW YORK POWER AUTHORITY
FINANCIAL REPORT
FOR THE EIGHT MONTHS ENDED AUGUST 31, 2007

(\$ in millions)

<u>Financial Summary</u>	<u>2007 YTD</u>		<u>August 2007</u>	
	<u>Actual</u>	<u>Budget</u>	<u>Actual</u>	<u>Budget</u>
Net operating revenues	\$184.4	\$171.4	\$21.8	\$25.1
Net revenues (loss)	174.3	133.0	22.9	20.3
O&M (incl. administrative)	177.4	183.9	25.2	22.3
Generation (gwh's)	18,104	17,976	2,254	2,358
		<u>Prior</u>	<u>December</u>	
		<u>Current</u>	<u>Month</u>	<u>2006</u>
Reserves	\$366	\$366	\$348	

Net revenues through August 31, 2007 were \$174.3 which was \$41.3 higher than budgeted including higher non-operating income (\$28.3) and higher net operating revenues (\$13.0). Non-operating income included higher earnings on investments due to higher balances, a mark-to-market gain on the Authority's investment portfolio, and lower than anticipated costs on variable rate debt. Net operating revenues were higher primarily at the hydro facilities (\$8.6), Blenheim-Gilboa (\$8.3) and the SCPP'S (\$6.3) due mainly to a higher volume of market-based sales and higher prices for capacity sold in New York City. These favorable variances were partially offset by a negative variance at Flynn (\$9.7) due primarily to the repair of the generator rotor and advance maintenance work related to the planned fall outage.

Net revenues for the month of August were \$22.9 which was \$2.6 higher than anticipated resulting from higher non-operating income (\$5.9) partially offset by lower net operating revenues (\$3.3). Non-operating income included a mark-to-market gain on the Authority's investment portfolio, higher investment earnings, and lower costs on variable rate debt. Net operating revenues were lower primarily at Flynn (\$3.7) due to lower revenues (lower availability and prices) and higher O&M (advanced outage spending). Production for August (2,254 gwh) was 4% lower than anticipated (2,358 gwh) including lower generation at the hydro facilities (146 gwh) partially offset by higher fossil production (42 gwh). Cash generated by operations during the month (\$37.0) was offset by additions to other reserves.

NYPA
Net Revenues
For The Eight Months ended August 31, 2007
(\$ in 000'S)

	<u>Annual Budget</u>	<u>Actual</u>	<u>Budget</u>	<u>Variance Favorable/ (Unfavorable)</u>
Operating Revenues				
Customer	\$1,826,711	\$1,253,096	\$1,217,663	\$35,433
Market-Based Power Sales	737,570	624,626	535,796	88,830
Ancillary Services	67,499	37,386	42,178	(4,792)
NTAC and Other	81,763	57,720	57,701	19
Total Market-Based and ISO	<u>886,832</u>	<u>719,732</u>	<u>635,675</u>	<u>84,057</u>
	2,713,543	1,972,828	1,853,338	119,490
Operating Expenses				
Purchased Power:				
Entergy	155,370	102,271	102,356	85
Other	809,217	640,159	561,110	(79,049)
Ancillary Services	73,733	65,654	49,186	(16,468)
Fuel Consumed - Oil & Gas	519,480	378,833	366,541	(12,292)
Wheeling	325,869	215,479	212,235	(3,244)
Operations & Maintenance	281,152	177,352	183,920	6,568
Other expenses	142,609	96,262	95,068	(1,194)
Depreciation & Amortization	176,451	117,134	117,094	(40)
Allocation to Capital	(12,681)	(4,670)	(5,552)	(882)
	<u>2,471,200</u>	<u>1,788,474</u>	<u>1,681,958</u>	<u>(106,516)</u>
Net Operating Revenues	242,343	184,354	171,380	12,974
Interest Income and Realized Gains	56,743	52,568	37,582	14,986
Mark to Market Adjustment	1,000	5,344	1,000	4,344
Investment Income	<u>57,743</u>	<u>57,912</u>	<u>38,582</u>	<u>19,330</u>
Interest and Other Expenses	124,192	67,975	76,932	8,957
Net Revenues	<u><u>175,894</u></u>	<u><u>174,291</u></u>	<u><u>133,030</u></u>	<u><u>41,261</u></u>

**New York Power Authority
Net Revenues by Facility
For the Eight Months ended August 31, 2007
(\$ in 000's)**

	Niagara/ St. Lawrence	B-G	SENY	SCPP	Market Supply Power	Flynn	Transmission	Eliminations & Adjmts	Total
Operating Revenues									
Customer	\$ 225,549	\$ 5,429	\$ 766,887	\$ 1,530	\$ 156,629	\$ 60,403	\$ 58,582	\$ (21,913)	\$ 1,253,096
Market-Based Power Sales	106,877	70,757	386,076	99,701	31,702			(70,487)	624,626
Ancillary Services	31,384	1,761	3,696	545					37,386
NTAC and Other							57,720		57,720
Total Market-Based and ISO	138,261	72,518	389,772	100,246	31,702		57,720	(70,487)	719,732
Operating Expenses									
Purchased Power:									
Energy									
Other			102,271						102,271
Ancillary Services	73,384	44,492	434,040	5,382	178,820		30	(95,989)	640,159
Fuel Consumed - Oil & Gas	21,271	247	36,478	94	7,564				65,654
Wheeling			286,220	52,300		40,313			378,833
Operations & Maintenance	7,129		200,890		7,081	379			215,479
Other expenses	62,248	17,128	34,210	9,821	941	11,161	41,843		177,352
Depreciation & Amortization	17,102	2,358	10,809	849	33,662	567	8,832	22,083	96,262
Allocation to Capital	23,756	4,394	39,272	18,732	580	3,519	26,881		117,134
	(2,011)	(565)	(791)	(21)		(155)	(1,127)		(4,670)
	202,879	68,054	1,143,399	87,157	228,648	55,784	76,459	(73,906)	1,788,474
Net Operating Revenues	160,931	9,893	13,260	14,619	(40,317)	4,619	39,843	(18,494)	184,354
Investment and Other Income	2		4,642				208	53,060	57,912
Interest and Other Expenses	(13,543)	965	(22,307)	(16)	(32)	(1,716)	(18,061)	(13,265)	(67,975)
Net Revenues (loss)	147,390	10,858	(4,405)*	14,603	(40,349)	2,903	21,990	21,301	174,291
Budget	136,821	2,088	(8,361)	8,305	(38,239)	12,632	17,617	2,167	133,030
Variance	\$ 10,569	\$ 8,770	\$ 3,956	\$ 6,298	\$ (2,110)	\$ (9,729)	\$ 4,373	\$ 19,134	\$ 41,261

* Revenues for SENY include \$24.0 million from the application of an energy charge adjustment to recover variable costs under the LT Supplemental Energy Supply Agreement.

NEW YORK POWER AUTHORITY
VARIANCE FROM BUDGET
MAJOR FACTORS
For the Eight Months Ended August 31, 2007
(Millions)

		Better/(Worse) than budget
Niagara/St. Lawrence	<ul style="list-style-type: none"> o Higher revenues (including higher volume of market-based sales) o Higher purchased power costs (primarily higher congestion) o Higher ancillary service costs (residual adjustments) o Lower St. Lawrence site O&M (lower than anticipated maintenance costs) o Other (includes lower interest costs) 	\$ 29.8 (15.0) (7.8) 1.6 2.0 <hr style="width: 100%;"/>
		\$10.6
Blenheim-Gilboa	<ul style="list-style-type: none"> o Higher market-based revenues (higher volumes) o Higher purchased power costs (higher volumes) 	12.8 (4.0) <hr style="width: 100%;"/>
		8.8
SENY	<ul style="list-style-type: none"> o Higher customer revenues (higher than anticipated ECA revenue) o Higher market-based sales (higher volumes) o Higher purchased power costs (higher volumes & prices) o Higher ancillary service costs (residual adjustments) o Higher fuel costs (higher prices & higher generation) o Lower Poletti site O&M (scheduled maintenance outage delayed) o Other (lower interest costs) 	32.6 44.7 (57.8) (6.7) (16.4) 2.5 5.0 <hr style="width: 100%;"/>
		3.9
SCPP	<ul style="list-style-type: none"> o Higher revenues (primarily higher volumes on market-based sales) o Higher purchased power costs (higher volumes) o Higher fuel costs (primarily higher generation) o Other 	25.0 (3.6) (14.4) (0.7) <hr style="width: 100%;"/>
		6.3
Market Supply Power	<ul style="list-style-type: none"> o Higher revenues (primarily a higher volume of market-bases sales) o Higher purchased power costs (higher volumes) o Higher ancillary service costs (residual adjustments) o Other 	7.1 (7.3) (1.6) (0.3) <hr style="width: 100%;"/>
		(2.1)
Flynn	<ul style="list-style-type: none"> o Lower revenues o Lower fuel costs (primarily lower generation - rotor failure) o Higher site O&M (rotor repair & advance outage spending) o Other 	(22.9) 18.5 (5.7) 0.4 <hr style="width: 100%;"/>
		(9.7)
Transmission	<ul style="list-style-type: none"> o Higher revenues o Lower allocated administrative expenses o Other (includes lower interest costs) 	1.3 2.1 1.0 <hr style="width: 100%;"/>
		4.4
Consolidating adjustments (primarily higher earnings on investments)		<hr style="width: 100%;"/> 19.1 <hr style="width: 100%;"/>
Net Revenues		\$ 41.3 <hr style="width: 100%;"/>

NYPA
Operations & Maintenance
For the Eight Months Ended August 31, 2007

	(\$'s in millions)	
	<u>Actual</u>	<u>Budget</u>
Power Generation		
Headquarters Support	\$7.5	\$6.1
Blenheim-Gilboa	9.2	10.2
Charles Poletti	10.7	13.2
500 MW	8.5	7.4
R.M. Flynn	9.3	3.6
SCPP	9.0	9.4
Small Hydros	2.0	2.8
Niagara	25.0	25.1
St. Lawrence	<u>10.9</u>	<u>12.5</u>
	92.1	90.3
Transmission		
ECC/Headquarters	6.0	6.6
Transmission Facilities	<u>25.0</u>	<u>25.3</u>
	31.0	31.9
Corporate Support		
Executive Office	7.4	7.8
Business Services	21.3	22.1
HR & Corporate Support	15.3	17.9
Marketing & Econ. Devel.	3.9	4.4
Energy Services	<u>2.1</u>	<u>2.7</u>
	50.0	54.9
Research & Development & Other	4.3	6.8
Total	<u>\$177.4</u>	<u>\$183.9</u>

Through August, O&M expenses were \$6.5 million under budget. Underruns at HQ Corporate Support departments, R&D, and the Transmission facilities were partially offset by higher Power Generation spending.

HQ Corporate Support expenses were under budget by \$4.9 million mostly due to under spending for the public awareness program, legal consultants, HQ communications, IT contract services, property liability consultants, and fuel cell maintenance. R&D was under budget due to a significant delay in procurement of Electric Hybrid school Buses, and a delay in spending for the Phase II of the PHEV Sprinter Van Project. Transmission spending was under budget by \$0.9 million primarily due to less than expected contractor support for right-of-way maintenance and aircraft services, and underruns in non-recurring work associated with the Transformer #10 Failure and the ECC Fire Suppression System.

Power Generation expenditures were \$1.8 million higher than budgeted due primarily to an overrun at Flynn (\$5.7). This overrun was the result of an unscheduled outage for generator rotor damage as well as advancing some maintenance scheduled for the fall planned outage. The negative variance at Flynn was partially offset by underruns at Poletti, St. Lawrence, and Blenheim-Gilboa. Poletti was under budget by \$2.5 million primarily due to the postponement until the fall of the scheduled outage. St. Lawrence was under budget by \$1.6 million due to less than expected payroll charges for recurring maintenance, and non-recurring consulting charges for the Robert Moses Power Dam Foundation Grouting. The variance at Blenheim-Gilboa included less than expected spending for consulting services related to the Penstock & Tunnel Inspection and the Tainter Gate Review.

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

	<u>AUGUST</u> <u>2007</u>	<u>DECEMBER</u> <u>2006</u>	<u>NET CHANGE</u>
ASSETS:			
Electric Plant In Service, Less Accumulated Depreciation	\$3,042,082	\$3,078,037	(35,955)
Construction Work In Progress	160,069	163,034	(2,965)
Net Utility Plant	<u>\$3,202,151</u>	<u>\$3,241,071</u>	<u>(38,920)</u>
Restricted Funds	95,301	67,487	27,814
Construction Funds	60,914	105,648	(44,734)
Investment In Decommissioning Trust Fund	948,219	922,778	25,441
Current Assets:			
Cash	72	72	-
Investments In Government Securities	1,009,361	749,988	259,373
Interest Receivable On Investments	17,893	15,114	2,779
Receivables-Customers	203,724	205,471	(1,747)
Materials & Supplies-Plant & General	73,010	66,297	6,713
-Fuel	27,224	32,793	(5,569)
Prepayments And Other	49,419	62,902	(13,483)
Notes Receivable-Nuclear Sale	207,868	192,001	15,867
Deferred Charges And Other Assets	<u>486,748</u>	<u>497,301</u>	<u>(10,553)</u>
TOTAL ASSETS	<u>\$6,381,904</u>	<u>\$6,158,923</u>	<u>\$222,981</u>
LIABILITIES AND OTHER CREDITS:			
Long-Term Debt - Bonds	\$1,711,499	\$1,735,262	(23,763)
Notes	150,000	156,145	(6,145)
Short-Term Notes Payable	240,930	272,282	(31,352)
Accounts Payable And Accrued Liabilities	708,874	636,683	72,191
Spent Nuclear Fuel Disposal	208,404	201,575	6,829
Decommissioning Of Nuclear Plants	948,219	922,778	25,441
Deferred Revenue	<u>206,068</u>	<u>200,706</u>	<u>5,362</u>
TOTAL LIABILITIES AND OTHER CREDITS	4,173,994	4,125,431	48,563
ACCUMULATED NET REVENUES-JANUARY 1	2,033,619	1,896,548	137,071
NET REVENUES	<u>174,291</u>	<u>136,944</u>	<u>37,347</u>
TOTAL LIABILITIES AND CAPITAL	<u>\$6,381,904</u>	<u>\$6,158,923</u>	<u>\$222,981</u>

NYPA
SUMMARY OF NET GENERATION (MWH'S)
FOR THE EIGHT MONTHS ENDED AUGUST 31, 2007

Facility	Year-to-date August			Month of August 2007				
	Actual	Budget	Variance (Actual vs Budget)	% Variance from Budget	Actual	Budget	Variance (Actual vs Budget)	% Variance from Budget
Niagara	8,946,147	8,940,000	6,147	0.07%	961,513	1,050,000	(88,487)	-8.43%
St. Lawrence	4,644,008	4,490,000	154,008	3.43%	550,519	610,000	(59,481)	-9.75%
Combined	13,590,155	(2) 13,430,000	160,155	1.19%	1,512,032	1,660,000	(147,968)	-8.91%
Poletti	1,453,492	(3) 1,293,452	160,040	12.37%	215,876	205,910	9,966	4.84%
500MW	2,122,330	2,142,235	(19,905)	-0.93%	319,452	329,379	(9,927)	-3.01%
SCPP	573,316	429,314	144,002	33.54%	135,892	92,089	43,803	47.57%
Blenheim Gilboa	(272,996)	(270,899)	(2,097)	0.77%	(36,980)	(43,813)	6,833	-15.59%
Small Hydro	107,517	127,061	(19,544)	-15.38%	5,888	10,723	(4,835)	-45.09%
R. M. Flynn	529,756	(1) 824,948	(295,192)	-35.78%	101,934	103,617	(1,683)	-1.62%
Total	18,103,570	17,976,111	127,459	0.71%	2,254,094	2,357,905	(103,811)	-4.40%

(1) Unscheduled outage March 12 to June 6, 2007. A portion of work planned to be completed during the scheduled Fall 2007 outage was accelerated into this outage.

(2) Higher water flows resulting from higher than anticipated level of snow and rainfall.

(3) A major maintenance outage was rescheduled from April 2007 to the Fall of 2007. A portion of work was completed during a smaller outage from April 17 to May 7, 2007.

NYPA
Capital Expenditures
For the Eight Months Ended August 31, 2007

(\$'s in millions)

	<u>Actual</u>	<u>Budget</u>
New Generation	\$1.2	\$1.3
Energy Services	86.3	62.6
Existing Facilities	42.6	56.2
Transmission	14.2	20.9
Headquarters	17.7	20.2
General Plant and Minor Additions	<u>7.5</u>	<u>9.9</u>
	<u>\$169.5</u>	<u>\$171.1</u>

Capital expenditures for 2007 were 1.0% lower than the budget. **Energy Services** was \$23.7 million over budget primarily due to overruns in the Long Term Agreements resulting from unbudgeted expenditures related to the Peak Load Management and the NYC Housing Authority Hot Water Tanks Program. In addition, accelerated construction activity at the Monroe County Landfill Gas Project, Empire State Plaza, and SUNY Brockport Harrison Hall contributed to this overrun. **Existing Facilities** were under running the budget by \$13.6 million due to timing differences on the procurement of various equipment for the St. Lawrence LEM and consultant costs for the New License and Comprehensive Settlement Agreement projects. Also, the Niagara Unit 4 Standardization and Generator Stator Rewind Project have been postponed until the generator rewind failures are addressed. The underrun in **Transmission** of \$6.7 million was primarily due to timing differences on the procurement of equipment for the Static Var Compensator and Tri Lakes Reliability project. Additionally, the Relay Replacement Program has been delayed to coordinate the installation with other planned projects.

Under the Expenditure Authorization Procedure, the President has authorized new expenditures on budgeted capital projects of \$6.2 million for 2007. There were no new expenditures this month.

**Demand Side Management
Cost Summary (Inception to Date)
August 31, 2007
(\$ 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	\$347	\$1,440	\$1,787	\$369	\$1,418
183,050	Electrotechnologies LTEPA	ES-EPN	10,057	74,534	84,591	49,674	34,917
433,000	NYPA Energy Services Program	ES-ESN	71,814	109,049	180,863	55,446	125,417
530,000	SENY Govt Cust Energy Serv	ES-GSN	72,828	11,695	84,523	30,641	53,882
130,000	SENY HELP LTEPA	ES-LTN	12,059	75,667	87,726	62,010	25,716
1,200	MUNI Vehicle Program	ES-MVN		458	458	304	154
140,000	Non-Elect End Use LTEPA	ES-NEN	32,269	57,634	89,903	51,650	38,253
35,000	Peak Load Mgmt	ES-PLN	7,214	165	7,379		7,379
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	1,911	8
14,600	Industrial	ES-IPN		6,875	6,875	6,844	31
51,000	LI HELP	ES-LIN		47,505	47,505	47,202	303
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	38,863	78
130,000	SENY HELP	ES-SEN		134,305	134,305	134,305	0
60,000	Statewide	ES-SWN		56,733	56,733	55,422	1,311
4,085	Other			746	746	746	0
7,500	Wattbusters			5,441	5,441	5,441	0
<u>\$1,872,435</u>			<u>\$206,588</u>	<u>\$703,180</u>	<u>\$909,768</u>	<u>\$619,367</u>	<u>\$290,401</u>

(B) POCR Funding

LOANS

Authorized	Program	Loans Issued	Repayments	Outstanding Balance
<u>\$ 16,390</u>	Colleges & Universities	<u>\$ 16,390</u>	<u>\$ 16,121 (1)</u>	<u>\$ 269</u>

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
25,768 (1)	Energy Services Programs	15,768
31,199 (1)	POCR Grants	13,263
<u>\$ 74,293</u>		<u>\$ 46,357</u>

(C) CASP Funding

Authorized	Program	Issued
\$133,110 (2)	Coal Conversion	\$118,819

(D) Board of Ed Funding

Authorized	Program	Issued
\$39,010 (2)	Climate Controls (NYC BOE)	\$35,077

(E) NYC Housing Auth Funding

Authorized	Program	Issued
\$25,708 (2)	NYCHA Hot Water Heaters	\$18,158

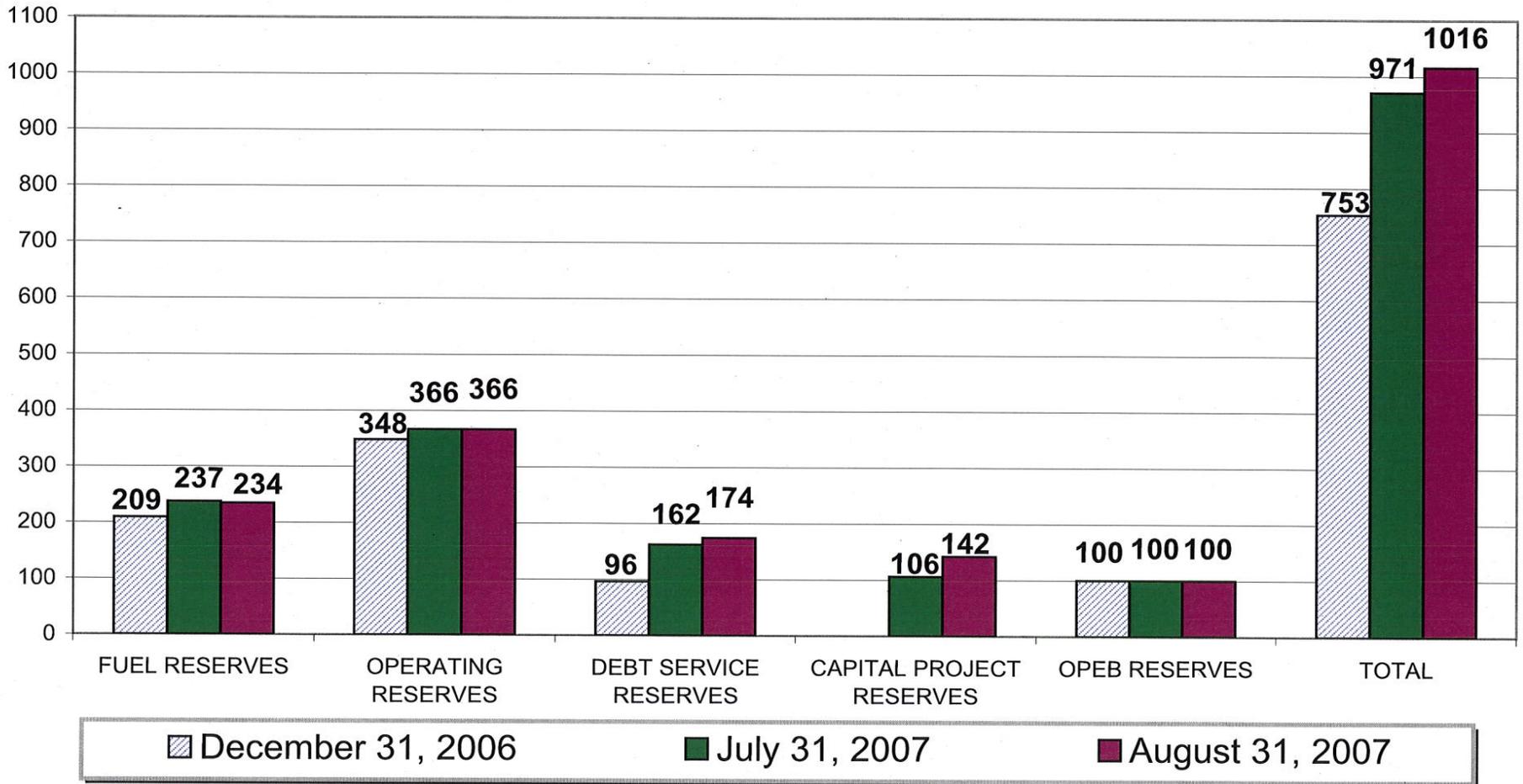
(F) Lower Manhattan Energy Independence Initiative Program

Authorized	Program	Issued
\$25,000 (2)	Lower Manhattan Energy Serv	\$4

(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.

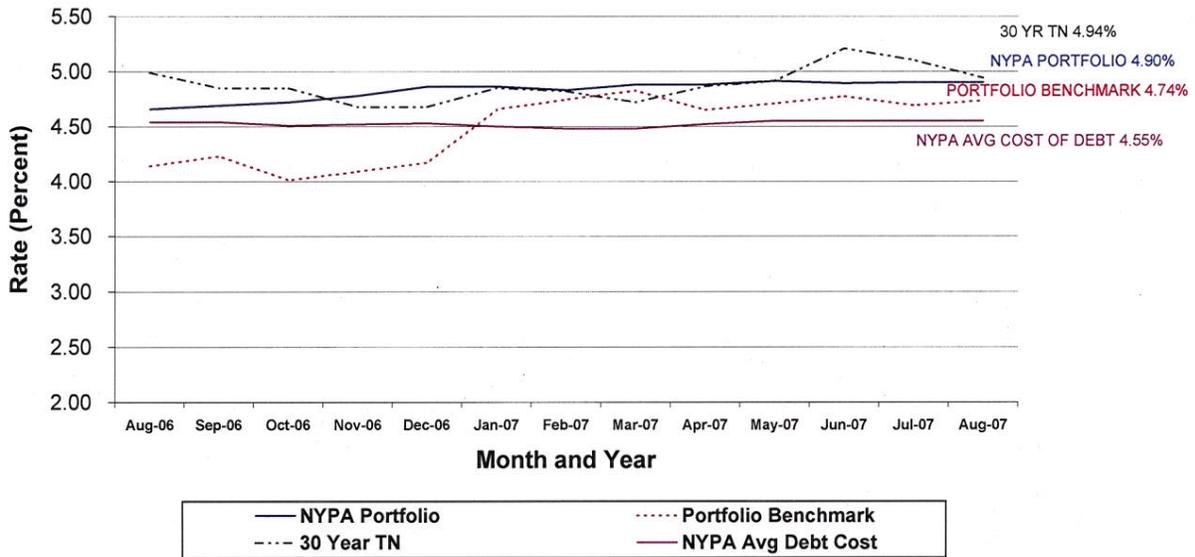
**NEW YORK POWER AUTHORITY
OPERATING FUND
(\$ MILLIONS)**



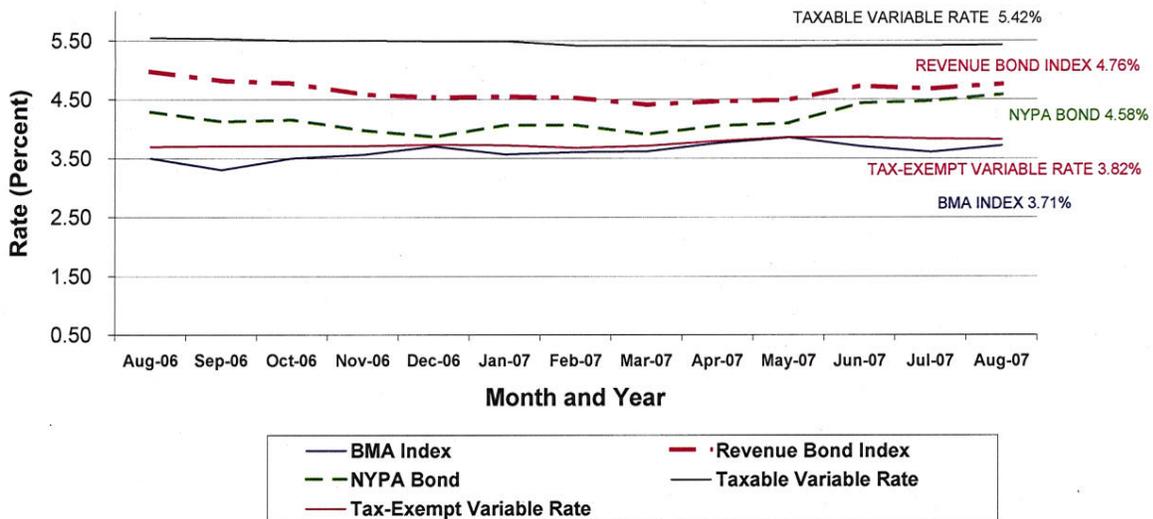
Fuel Reserves include \$208 million for Nuclear Spent Fuel and \$26 million for Energy Hedging Reserve Fund.

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



Financing Rates



3. **Report from the President and Chief Executive Officer**

President Roger Kelley said that on Friday, September 21, 2007, the Federal Energy Regulatory Commission (“FERC”) had issued an order denying the rehearing that had been filed by various parties following the issuance of the new Niagara license in March 2007. This means that the Authority can continue to move forward with implementing its new license and the commitments of the settlement agreements for the benefit of the Niagara region.

President Kelley said that he’s had a very productive couple of months and listed some of the activities in which he’s been involved since the last Trustees’ meeting in July, including:

- *Numerous meetings with the Authority’s western New York customers, including the Buffalo-Niagara Partnership and others, regarding their concerns about the allocation of power after 2012.*
- *Giving a speech about relicensing and conservation at the annual meeting of the Municipal Electric Utilities Association.*
- *Meeting with the Authority’s Southeastern New York (“SENY”) customers, including representatives from Mayor Bloomberg’s office, about their power options following the planned 2010 closure of the Poletti plant.*
- *Participating in several meetings with the Governor’s office and the Division of the Budget regarding economic development issues.*
- *Meeting with Dan Gunderson, the Upstate Chair of the Empire State Development Corporation, about North Country economic development issues.*
- *Meeting with staff from the Governor’s and the Lieutenant Governor’s offices about the renewable portfolio standards and coordination of energy efficiency initiatives regarding attainment of the Governor’s “15 by 15” initiative.*

President Kelley then mentioned that he was scheduled to give the keynote address at the Annual Fall Meeting of the Independent Power Producers of New York and would discuss, among other things, energy conservation and the Authority’s ability to bid on KeySpan’s 2,450 MW Ravenswood project in New York City.

He stated that on behalf of the Authority he recently attended the annual Lewiston Jazz Festival, of which the Authority is a sponsor, and participated in a recent press conference in Buffalo where he made the second \$2 million installment payment to Erie Canal Harbor Development Corporation for redeveloping the Buffalo waterfront under one of the Niagara relicensing settlement agreements.

President Kelley advised the Trustees that the Hinckley Reservoir, site of the Authority's Jarvis hydroelectric plant, was abnormally low and that the Authority had recently sent a letter to FERC requesting an exemption from the minimum flow level requirement, since that was at odds with the Authority's need to draw down the reservoir to run the Jarvis plant.

Finally, President Kelley briefed the Trustees about a developing situation with four of the recently refurbished stators at the Niagara project and said that he would keep the Trustees advised as the situation develops.

Chairman Frank McCullough said that it's obvious that President Kelley has been extremely busy and that he appreciated the personal attention, energy and enthusiasm he was bringing to everything he did in his 24/7 job.

4. 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 64 Power for Jobs (‘PFJ’) customers as listed in Exhibit ‘4-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 and increase the size of the program to 450 MW.

“In May 2000, legislation was enacted that authorized another 300 MW of power to be allocated under the PFJ program. Legislation further amended the program in July 2002.

“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. Chapter 645 of the Laws of 2006 included provisions extending program benefits until June 30, 2007.

“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.

DISCUSSION

“At its meeting on September 24, 2007, EDPAB recommended that the Authority’s Trustees approve electricity savings reimbursement rebates to the 64 businesses listed in Exhibit ‘4-A.’ Collectively, these organizations have agreed to retain more than 57,000 jobs in New York State in exchange for the rebates.

“The Trustees are requested to approve the payment and funding of rebates for the companies listed in Exhibit ‘4-A’ in a total amount currently not expected to exceed \$7.6 million. 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 ‘4-A’ is not expected to exceed \$7.6 million. Payments will be made from the Operating Fund. To date, the Trustees have approved \$90 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 ‘4-A.’

“The Executive Vice President, General Counsel and Chief of Staff, the Senior Vice President – Marketing and Economic Development, the Senior Vice President – Public and Governmental Affairs 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 (“EDPAB”) has recommended that the Authority approve electricity savings reimbursements to the Power for Jobs (“PFJ”) customers listed in Exhibit “4-A”;

NOW THEREFORE BE IT RESOLVED, That to implement such EDPAB recommendations, the Authority hereby approves the payment of electricity savings reimbursements to the companies listed in Exhibit “4-A” and that the Authority finds that such payments for electricity savings reimbursements are in all respects reasonable, consistent with the requirements of the PFJ 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 \$7.6 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 his designee, be, and hereby is, authorized to negotiate and execute any and all documents necessary or desirable to effectuate the foregoing, subject to approval of the form thereof by the Executive Vice President, General Counsel and Chief of Staff; 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 certificates, agreements and other documents to effectuate the foregoing resolutions, subject to the approval of the form thereof by the Executive Vice President, General Counsel and Chief of Staff.

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

Exhibit "A"
 September 25, 2007

Line	Company	City	County	IOU	KW	Job Committed	Jobs in Application	Over (under)	% Over (under)	Compliance	Recommended KW	Jobs/MW	Type	Service
1	92nd Street YM-YWHA	New York	New York	Con Ed	200	518	624	106	20%	Yes	200	3,120	NFP	Community/cultural center
2	Acme Architectural Products, Inc.	Brooklyn	Kings	Con Ed	620	414	400	-14	-3%	Yes	620	645	Large	Manufacturer of office landscape systems
3	Acme Smoked Fish Corp.	Brooklyn	Kings	Con Ed	400	152	152	0	0%	Yes	400	380	Large	Food processor
4	American Ballet Theater	New York	New York	Con Ed	25	297	242	-55	-19%	No	20	12,100	NFP	Performing arts organization
5	American Cancer Society	New York	New York	Con Ed	80	88	375	287	326%	Yes	80	4,688	NFP	Social Services Provider
6	Bank of New York	New York	New York	Con Ed	4,700	6,917	6,180	-737	-11%	Yes	4,700	1,315	Large	Banking Services
7	Belmont Metals, Inc.	Brooklyn	Kings	Con Ed	400	84	84	0	0%	Yes	400	210	Large	Manufacturer of non-ferrous metals
8	Diller-Quaile School of Music	New York	New York	Con Ed	30	54	56	2	4%	Yes	30	1,867	NFP	Music education programs
9	East Harlem Arts & Education Local Devel. Corp	New York	New York	Con Ed	100	20	32	12	60%	Yes	100	320	NFP	Facilities to house arts education & social services
10	Fort Meat Wholesale	Brooklyn	Kings	Con Ed	60	20	22	2	10%	Yes	60	367	Small	Meat packager & distributor
11	Greater Jamaica Development Corp.	Jamaica	Queens	Con Ed	375	136	139	3	2%	Yes	375	371	NFP	Urban & Community Development
12	Home for Contemporary Theater & Art	New York	New York	Con Ed	30	17	19	2	12%	Yes	30	633	NFP	Arts venue
13	Jacmel Jewelry, Inc.	Long Island City	Queens	Con Ed	170	267	274	7	3%	Yes	170	1,612	Small	Makes & ships fine jewelry
14	Lincoln Center for the Performing Arts	New York	New York	Con Ed	3,000	2,328	3,763	1,435	62%	Yes	3,000	1,254	NFP	Performing Arts Center
15	Manhattan School of Music	New York	New York	Con Ed	200	343	343	0	0%	Yes	200	1,715	NFP	International conservatory of music
16	Memorial Sloan-Kettering Cancer Cen	New York	New York	Con Ed	5,000	8,472	8,801	329	4%	Yes	5,000	1,760	NFP	Medical Center
17	New York Presbyterian Hospital	New York	New York	Con Ed	5,000	7,765	8,540	775	10%	Yes	5,000	1,708	NFP	Medical Center
18	NYU Medical Center	New York	New York	Con Ed	4,000	10,455	11,414	959	9%	Yes	4,000	2,854	NFP	Medical Center
19	S. R. Guggenheim Museum	New York	New York	Con Ed	475	358	380	22	6%	Yes	475	800	NFP	Art Museum
20	The Joyce Theater Foundation, Inc.	New York	New York	Con Ed	150	41	42	1	2%	Yes	150	280	NFP	Dance Performance
21	The Museum of Modern Art	New York	New York	Con Ed	1,000	757	800	43	6%	Yes	1,000	800	NFP	Museum
	Total Con Ed		Subtotal	21	26,015	39,503	42,682				26,010			
22	Commercial Envelope Manufacturing Corp.	Deer Park	Suffolk	LIPA	700	199	199	0	0%	Yes	700	284	Large	Manufacturer of envelopes
23	John T. Mather Memorial Hospital	Port Jefferson	Suffolk	LIPA	400	1,370	1,419	49	4%	Yes	400	3,548	NFP	Community Hospital
24	Ultimate Precision Metal	Farmingdale	Suffolk	LIPA	250	122	123	1	1%	Yes	250	492	Small	Manufactures controlled enclosures
	Total LIPA		Subtotal	3	1,350	1,691	1,741				1,350			
25	Albany Molecular Research, Inc.	Albany	Albany	N. Grid	600	348	395	47	14%	Yes	600	658	Large	Provider of customized pharmaceutical & research
26	Bank of New York	Oriskany	Oneida	N. Grid	500	748	759	11	1%	Yes	500	1,518	Large	Banking Services
27	Bristol-Myers Squibb Company	East Syracuse	Onondaga	N. Grid	5,000	1,069	1,052	-17	-2%	Yes	5,000	210	Large	Manufacturer of bulk antibiotics
28	C. R. Bard, Inc.	Queensbury	Warren	N. Grid	800	943	845	-98	-10%	Yes	800	1,056	Large	Manufacturer of Medical devices
29	Carville National Leather Corp.	Johnstown	Fulton	N. Grid	200	37	31	-6	-16%	Yes *	200	155	Small	Leather finishing & coloring
30	Cascades Tissue Group	Waterford	Saratoga	N. Grid	600	159	160	1	1%	Yes	600	267	Large	Large Industrial towel manufacturer
31	Corning, Inc. (Canton)	Canton	St. Lawrence	N. Grid	1,500	260	245	-15	-6%	Yes	1,500	163	Large	Manufacturer of optical fiber/glass/ceramic products
32	CWM Chemical Services, LLC	Model City	Niagara	N. Grid	330	83	80	-3	-4%	Yes	330	242	Small	Treatment, storage & disposal of Industrial Waste
33	Dielectric Laboratories, Inc.	Cazenovia	Madison	N. Grid	400	174	190	16	9%	Yes	400	475	Large	Ceramic capacitors and ceramic packaging
34	Edward John Noble Hospital	Gouverneur	St. Lawrence	N. Grid	100	258	247	-11	-4%	Yes	100	2,470	NFP	Healthcare center
35	Ford Motor Company	Buffalo	Erie	N. Grid	5,000	1,685	1,610	-75	-4%	Yes	5,000	322	Large	Automotive components stamping
36	Higbee Inc.	Syracuse	Onondaga	N. Grid	100	48	48	0	0%	Yes	100	480	Small	Mfr. of gaskets, and sealing products
37	Intertek Testing Services	Cortland	Cortland	N. Grid	600	289	303	14	5%	Yes	600	505	Large	Independent test lab
38	Lewis County General Hospital	Lowville	Lewis	N. Grid	200	389	379	-10	-3%	Yes	200	1,895	NFP	Medical Center
39	McLane Eastern	Baldwinsville	Onondaga	N. Grid	875	783	823	40	5%	Yes	875	941	Large	Wholesale grocery distributor
40	OAB Holdings, Inc.	Buffalo	Erie	N. Grid	5,000	335	674	339	101%	Yes	5,000	135	Large	Metal manufacturing

41	Oldcastle Precast Inc	South Bethlehem	Albany	N. Grid	160	53	64	11	21%	Yes	160	400	Small	Precast products and installation
42	Organichem, Inc.	Rennselear	Rensselaer	N. Grid	1,000	330	310	-20	-6%	Yes	1,000	310	Large	Manufacturing of active pharmaceutical ingredients
43	Quad Graphics, Inc.	Saratoga Springs	Saratoga	N. Grid	4,000	1,118	958	-160	-14%	Yes *	4,000	240	Large	Printing services
44	Queensboro Farm Products, Inc. - Canastota	Canastota	Madison	N. Grid	500	81	79	-2	-2%	Yes	500	158	Large	Milk manufacturing and processing plant
45	Revere Copper Products	Rome	Oneida	N. Grid	2,000	425	425	0	0%	Yes	2,000	213	Large	Copper & brass products
46	Sorrento Lactalis, Inc.	Buffalo	Erie	N. Grid	1,500	464	364	-100	-22%	No	1,170	311	Large	Produces cheese as well as whey products
47	Syracuse China Company	Syracuse	Onondaga	N. Grid	460	371	324	-47	-13%	Yes *	460	704	Large	Manufactures restaurant china
48	Syracuse Label Co., Inc.	Liverpool	Onondaga	N. Grid	200	89	86	-3	-3%	Yes	200	430	Small	Printing labels for consumer and industrial use
49	Syracuse Plastics, Inc.	Liverpool	Onondaga	N. Grid	400	57	55	-2	-4%	Yes	400	138	Large	Maker of plastic parts and components
50	Vicks Lithograph & Printing	Yorkville	Oneida	N. Grid	750	165	153	-12	-7%	Yes	750	204	Large	Book printer & distribution
	Total National Grid		Subtotal		26	32,775	10,761	10,659			32,445			
51	Agri-Mark, Inc	Chateaugay	Franklin	NYSEG	500	116	112	-4	-3%	Yes	500	224	Large	Cheese Manufacturer
52	Bison Foods - Div. of Upstate Farms	West Seneca	Erie	NYSEG	500	134	134	0	0%	Yes	500	268	Large	Dairy Products
53	Consumers Beverages, Inc.	Buffalo	Erie	NYSEG	240	69	45	-24	-35%	Yes *	240	188	Small	Beverage Producer
54	Corning, Inc.- (Big Flats)	Big Flats	Chemung	NYSEG	500	131	117	-14	-11%	Yes	500	234	Large	Manufacturer of optical fiber/glass/ceramic products
55	Corning, Inc. (Costar Plant)	Oneonta	Otsego	NYSEG	900	188	181	-7	-4%	Yes	900	201	Large	Manufacturer of optical fiber/glass/ceramic products
56	Egli Machine, Inc.	Sidney	Otsego	NYSEG	20	28	28	0	0%	Yes	20	1,400	Small	Injected molds
57	Merritt Plywood Machinery, Inc.	Lockport	Niagara	NYSEG	75	19	19	0	0%	Yes	75	253	Small	Makes machinery for hardwood, veneer and plywood
58	Soucy USA	Champlain	Clinton	NYSEG	400	201	197	-4	-2%	Yes	400	493	Large	Storage & Warehouse facility
59	Upstate Farms Cooperative	Buffalo	Erie	NYSEG	600	151	150	-1	-1%	Yes	600	250	Large	Processes milk into a variety of milk products
60	Vail Ballou Press, Inc.	Binghamton	Broome	NYSEG	1,800	426	412	-14	-3%	Yes	1,800	229	Large	Book printer and distributor
	Total National Grid		Subtotal		10	5,535	1,463	1,395			5,535			
61	International Business Machines - Sterling Forest	Poughkeepsie,	Orange	O&R	700	566	558	-8	-1%	Yes	700	797	Large	Computer Manufacturer
	Total Orange and Rockland		Subtotal		1	700	566	558			700			
62	International Business Machines - Rochester	Rochester	Monroe	RGE	1,150	610	613	3	0%	Yes	1,150	533	Large	Computer Manufacturer
63	Jada Precision Plastics Co.	Rochester	Monroe	RGE	300	56	59	3	5%	Yes	300	197	Small	Custom injection molder
64	Seneca Foods Corporation	Leicester	Livingston	RGE	720	126	128	2	2%	Yes	720	178	Large	Canned fruits & vegetables
	Total RG&E		Subtotal		3	2,170	792	800			2,170			

Total	64	68,545	54,776	57,835
--------------	-----------	---------------	---------------	---------------

68,210	848
---------------	------------

* These companies have had all or part of their allocation restored through the reconsideration process.

5. **Location of 3,900 kW of Hydro Power**

The President and Chief Executive Officer submitted the following report:

SUMMARY

“The Trustees are requested to approve an allocation of available Replacement Power (‘RP’) totaling 3,900 kW to two industrial companies.

BACKGROUND

“Under Section 1005(13) of the Power Authority Act, as amended by Chapter 313 of the Laws of 2005, 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. Allocations are made pursuant to criteria set forth in Section 1002(13).

“On October 22, 2003, the Authority, National 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.

DISCUSSION

“Staff recommends and the Advisory Group supports the available power being allocated to the two companies 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. They are projected to result in the creation of 58 jobs.

RECOMMENDATION

“The Director – Business Power Allocations, Compliance and Municipal and Cooperative Marketing recommends that the Trustees approve the allocation of 3,900 kW of hydropower to the companies listed in Exhibit ‘5-A.’

“The Executive Vice President, General Counsel and Chief of Staff, 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 the allocation of 3,900 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, General Counsel and Chief of Staff.

New York Power Authority
 Replacement Power
 Recommendations for Allocations

Exhibit "5-A"

Exhibit Number	Company Name	City	County	Power Requested (kW)	New Jobs	Estimated Capital Investment	New Jobs Avg. Wage Benefits	Power Recommended (kW)	Contract Term
A-1	Devil's Hole Distilling	Lewiston	Niagara	600	8	\$600,000	\$48,000	400	Five Years
A-2	Unifrax I LLC	Tonawanda	Erie	4,000	50	\$20,000,000	\$63,000	3,500	Five Years

APPLICATION SUMMARY**Replacement Power**

Company:	Devil's Hole Distilling
Location:	Lewiston
County:	Niagara
IOU:	National Grid
Business Activity:	Distillery; principal product is branded luxury vodka
Project Description:	The project will include building a new 2,000-square-foot facility and then installing the equipment to manufacture the product, including distilling equipment, fermentation tanks, fruit-processing equipment, piping, an agitator and pumps.
Existing Allocation:	None
Power Request:	600 kW
Power Recommended:	400 kW
Job Commitment:	
Existing:	0 jobs
New:	8 jobs
New Jobs/Power Ratio:	20 jobs/MW
New Jobs - Avg. Wage and Benefits:	\$48,000
Capital Investment:	\$600,000
Capital Investment per MW:	\$1.5 million/MW
Summary:	The company is a start-up boutique distillery whose principal product is branded luxury artisanal vodka, handcrafted in small batches from New York State-grown apples. In addition to its flagship branded products, the company also will have the ability to produce other distilled spirits made from a minimum of 75% New York State-grown agricultural products. Given its proximity to both Niagara County's numerous fruit growers and Lake Ontario, the company has a competitive advantage in terms of both availability and cost in obtaining the raw materials for the distillation process. These advantages, along with a low-cost power allocation, will allow the company to develop and maintain a competitive pricing strategy as well.

APPLICATION SUMMARY**Replacement Power**

Company:	Unifrax I LLC
Location:	Tonawanda
County:	Erie
IOU:	National Grid
Business Activity:	Manufacturer ceramic fiber insulation products
Project Description:	The expansion project includes a facility addition along with new equipment to expand the production capacity of the Tonawanda plant. The expansion will provide capability to support growing demand in the catalytic converter market. The equipment to be installed will both expand papermaking capability and increase the range of products that can be produced on existing production lines. The new equipment would include tanks, pumps, a mixer, dryers, ovens, die cutters and other processing equipment.
Existing Allocation:	3,600 kW of Replacement Power
Power Request:	4,000 kW
Power Recommended:	3,500 kW
Job Commitment:	
Existing:	188 jobs
New:	50 jobs
New Jobs/Power Ratio:	14 jobs/MW
Total Jobs/Power Ratio:	34 jobs/MW (all allocations)
New Jobs - Avg. Wage and Benefits:	\$63,000
Capital Investment:	\$20 million (an additional \$1.75 million will be invested by building owner)
Capital Investment per MW:	\$5.71million/MW
Summary:	Product improvements are essential to achieve market growth targets and support existing customer sales. Without this expansion, capacity would most likely be pursued within European operations. Unifrax is currently evaluating several locations for addition of this new capacity, including Indiana, China, France, Germany, Czech Republic and the United Kingdom. All of these locations are preparing competitive proposals for this expansion and are actively soliciting local government incentives. A low-cost power allocation would help Unifrax build its case to locate this expansion in western New York.

6. Incremental Power Supply Arrangements with Full-Requirements Municipal and Rural Electric Cooperative Systems

The President and Chief Executive Officer submitted the following report:

“The Trustees are requested to authorize the Acting Senior Vice President – Marketing and Economic Development to negotiate and execute agreements for incremental power service with any or all of the full-requirements municipal and rural electric cooperative systems. The current 10 full-requirements municipal systems (‘munis’) and four rural electric cooperative systems (‘Coops’) are shown on the Exhibit ‘6-A.’

BACKGROUND

“The Authority presently serves 14 munis and coops (‘Customer Group’) as full-requirements systems. Full-requirements systems are supplied all their power needs, including hydro power from the Niagara project and incremental (consisting of market purchases) by the Authority. The Customer Group is in the last year of a 12-year contract for their incremental power. These customers have the right to transfer to partial-requirements status, purchasing only Authority hydro power, by providing the Authority written notice. By mid-2007, two of the munis had provided the required notice to transfer to partial-requirements status effective January 1, 2008.

“In 2006, annual revenues from the Customer Group were approximately \$35.7 million, of which \$20.8 million was for hydropower purchases and \$14.9 million was for incremental power purchases. Of this total, \$8.2 million was for power transmission and wheeling.

DISCUSSION

“At the request of the Customer Group, Authority staff has held discussions with the customers seeking to arrive at an arrangement under which these systems could remain full-requirements customers of the Authority. An agreement has been reached by which the Authority will procure all of the Customer Group’s incremental power needs by purchasing the supply in the day-ahead market of the New York Independent System Operator (‘NYISO’). Balancing any undersupply from that scheduled in the day-ahead market will take place in the real-time market. The customers will pay the Authority all costs it incurs to supply incremental power and energy to them. Such costs, which will be passed through to the customers on their monthly bills, will consist of the following:

- All UCAP purchases, if any, necessary to supply the customers;
- All NYISO costs, including Ancillary Services 1 through 6, marginal losses, NTAC and congestion costs associated with deliveries to the customers; and
- All Authority administrative overhead costs associated with the supply of incremental power and energy.

“In addition, the customers will be responsible for any other costs, fees, taxes or assessments imposed on the Authority by the NYISO or any other third party that are associated with the Authority’s role as load-serving entity to the customers. The initial term of the agreement will be for the two-year period beginning January 1, 2008 and ending December 31, 2009. Thereafter, the agreement can be renewed by mutual agreement on a year-to-year basis. The agreement can be cancelled by the customer submitting a request in writing 90 days in advance of the proposed cancellation date.

RECOMMENDATION

“The Director – Business Power Allocations, Compliance and Municipal and Cooperative Marketing recommends that the Trustees authorize the Senior Vice President – Marketing and Economic Development to negotiate and execute incremental power supply agreements with the eight full-requirements municipal electric systems and the four full-requirements rural electric cooperative systems.

“The Executive Vice President, General Counsel and Chief of Staff, 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 adopted by a vote of 6 to 1 with Trustee Besha recusing himself.

RESOLVED, That the Senior Vice President – Marketing and Economic Development, or his designee, be, and hereby is, authorized to negotiate and execute long-term power supply arrangements with any or all of the full-requirements municipal and electric rural cooperative systems 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 his designee, be, and hereby is, authorized to execute any and all documents necessary or desirable to effectuate the foregoing, subject to approval of the form thereof by the Executive Vice President, General Counsel and Chief of Staff; 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, General Counsel and Chief of Staff.

Listing of Full Requirements Customers

<u>Municipal Customers</u>	<u>Will Accept New Agreement</u>
1. Village of Fairport	No
2. Village of Greenport	Yes
3. Village of Lake Placid	Yes
4. Village of Marathon	Yes
5. Village of Mayville	Yes
6. City of Sherrill	Yes
7. Village of Solvay	Yes
8. Village of Tupper Lake	Yes
9. Village of Watkins Glen	Yes
10. Village of Westfield	No
 <u>Cooperative Customers</u>	
1. Delaware Electric Cooperative	Yes
2. Oneida Madison Electric Cooperative	Yes
3. Otsego Electric Cooperative	Yes
4. Steuben Electric Cooperative	Yes

7. Village of Marathon – Increase in Retail Rates – Notice of Adoption

The President and Chief Executive Officer submitted the following report:

SUMMARY

“The Board of the Village of Marathon (‘Village Board’) has requested the Trustees to approve revisions to the Village of Marathon’s (‘Village’) retail rates for each customer service classification. These revisions will result in additional total annual revenues of about \$125,000, or 11%.

BACKGROUND

“The Village Board has requested the proposed rate increase primarily to provide additional revenues to allow for sufficient working funds and meet forecasted increases in operation and maintenance expenses and additional debt payment requirements. The current rates have been in effect since April 1991.

“The Village Board has planned upgrades to the electric system amounting to \$500,000 in order to maintain reliable service to its customers. The upgrades will be directed primarily at substation distribution equipment, new customer meters and a load management system. The Village is planning to debt-finance \$475,000 of its capital program by issuing a new bond.

“Under the new rates, an average residential customer who currently pays about 5.5 cents per kWh will pay about 6.1 cents after the increase. A small commercial customer that currently pays 6.0 cents per kWh will pay 6.6 cents and large commercial customers that presently pay 4.6 cents per kWh will pay 5.1 cents after the increase.

DISCUSSION

“The proposed rate revisions are based on a cost-of-service study requested by the Village and prepared by Authority staff. A public hearing was held by the Village of Marathon on May 30, 2007. No ratepayer comments were received at the public hearing. The Village Board has requested that the proposed rates be approved.

“Pursuant to the approved procedures, the Senior Vice President – Marketing and Economic Development requested that the Corporate Secretary file a notice for publication in the *New York State Register* of the Village’s proposed revision in retail rates. Such notice was published on July 3, 2007. No comments concerning the proposed action have been received by the Authority’s Corporate Secretary.

“An expense and revenue summary, comparisons of present and proposed total annual revenues and their corresponding rates by service classification are attached as Exhibits ‘7-A,’ ‘7-B’ and ‘7-C,’ respectively.

RECOMMENDATION

“The Director – Business Power Allocations, Compliance and Municipal and Cooperative Marketing recommends that the attached schedule of rates for the Village of Marathon be approved as requested by the Board of the Village of Marathon, to take effect beginning with the first full billing period following the date this resolution is adopted.

“It is also recommended that the Trustees authorize the Corporate Secretary to file a notice of adoption with the Secretary of State for publication in the *New York State Register* and to file such other notice as may be required by statute or regulation.

“The Executive Vice President, General Counsel and Chief of Staff, the Senior Vice President – Marketing and Economic Development and I concur in the recommendation.”

September 25, 2007

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

RESOLVED, That the proposed rates for electric service for the Village of Marathon, as requested by the Village Board, be approved, to take effect with the first full billing period following this date, as recommended in the foregoing report of the President and Chief Executive Officer; and be it further

RESOLVED, That the Corporate Secretary of the Authority be, and hereby is, authorized to file a notice of adoption with the Secretary of State for publication in the *New York State Register* and to file any other notice required by statute or regulation; 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, General Counsel and Chief of Staff.

**Village of Marathon
Expense and Revenue Summary**

	<u>Five-Year Average</u>	<u>2006</u>	<u>Proposed¹</u>
Purchase Power Expense (Authority hydro and incremental)	\$475,296	\$ 638,833	\$ 688,655
Distribution Expense (Village-owned facilities)	187,740	201,697	191,443
Depreciation Expense (On all capital facilities and equipment)	72,413	73,574	154,584
General and Administrative Expenses (Salaries, insurance, management services and Administrative expenses)	<u>102,330</u>	<u>128,646</u>	<u>109,461</u>
Total Operating Expenses	837,509	1,042,570	1,144,143
Net Rate of Return – (average 3.5%, proposed 6.9%) (includes debt service on current and planned debt, cash reserves and contingencies)	<u>52,231</u>	<u>-0-</u>	<u>110,344</u>
Total Cost of Service	<u>\$890,010</u>	<u>\$1,042,570</u>	<u>\$1,254,487</u>
Revenue at Present Rates			<u>1,129,916</u>
Deficiency at Current Rates			124,571
Revenue at Proposed Rates			\$1,254,487
Increase % at Proposed Rates			11.0%

¹Based on five years of historical and projected data.

Village of Marathon
Comparison of Present and Proposed Annual Total Revenues

<u>SERVICE CLASSIFICATION</u>	<u>PRESENT REVENUE</u>	<u>PROPOSED REVENUE</u>	<u>% INCREASE</u>
Residential – SC1	\$ 605,723	\$ 672,504	11%
Small Commercial – SC2	106,902	118,689	11%
Large Commercial - SC3	405,441	450,140	11%
Security Lights – SC4	2,869	3,185	11%
Street Lights – SC5	<u>8,979</u>	<u>9,969</u>	11%
Total	<u>\$1,129,914</u>	<u>\$1,254,487</u>	11%

Village of Marathon
Comparison of Present and Proposed Net Monthly Rates

<u>Present ¹ Rates</u>		<u>Proposed ¹ Rates</u>
	Residential SC 1	
\$ 2.25	Customer Charge	\$ 5.00
		Non-Winter <u>(May-October)</u>
\$.0488	Energy Charge, per kWh.	\$.0500
		Winter <u>(November-April)</u>
	<u>Energy Charge, per kWh.</u>	
\$.0488	First 1,000 kWh.	\$.0500
\$.0600	Over 1,000 kWh.	\$.0691
	Small Commercial SC 2	
\$ 3.00	Customer Charge	\$ 7.00
		Non-Winter <u>(May-October)</u>
\$.0529	Energy Charge, per kWh.	\$.0494
		Winter <u>(November-April)</u>
\$.0595	Energy Charge, per kWh.	\$.0666

¹ Average annual purchased power adjustment reflected in present and proposed rates.

Village of Marathon
Comparison of Present and Proposed Net Monthly Rates

Present ¹
Rates

Proposed ¹
Rates

Large Commercial SC 3

\$ 5.00	Demand Charge, per kW	\$ 5.50
\$.0246	Energy Charge, per kWh.	\$.0276

Security Lights SC 4

\$ 3.70	Facilities Charge, per lamp	\$ 5.50
\$.0261	Energy Charge, per kWh.	\$.0119

Street Lights SC 5

\$ 4.80	Facilities Charge, per lamp	\$ 5.37
\$.0261	Energy Charge, per kWh.	\$.0119

¹ Average annual purchased power adjustment reflected in present and proposed rates.

8. Hydropower Contracts with Upstate Investor-Owned Utilities for the Benefit of Rural and Domestic Consumers – Notice of Public Hearing

The President and Chief Executive Officer submitted the following report:

SUMMARY

“The Trustees are requested to authorize a public hearing, pursuant to Section 1009 of the Public Authorities Law, on contract extensions for sale to National Grid (formerly Niagara Mohawk Power Corporation), New York State Electric & Gas Corporation (‘NYSEG’) and Rochester Gas & Electric Corporation (‘RGE’) (hereinafter referred to collectively as the ‘Utilities’) of a total of 455 MW of firm and 360 MW of firm peaking hydropower currently being sold to the Utilities for the benefit of rural and domestic consumers. The contracts would terminate June 30, 2008 subject to earlier termination by the Authority on 30 days’ written notice. These contract extensions were approved on an interim basis by the Trustees at their July 31, 2007 meeting.

BACKGROUND

“The Utilities had been receiving a total of 553 MW of firm power from the St. Lawrence/FDR and Niagara Power Projects and 360 MW of firm peaking hydropower from the Niagara Project for the benefit of rural and domestic consumers under contracts that expired on August 31, 2007. At their July 31, 2007 meeting, the Trustees approved an extension of these contracts to take effect on an interim basis on September 1, 2007, pending completion of the formal contract approval process under §1009 of the Public Authorities Law. Under §1009, the contracts will be subject to public notice, hearing and approval by the Governor. The contract extensions reflect a reduction in the amount of firm hydropower to be sold to the Utilities from 553 MW to 455 MW. The allocations of firm peaking hydropower would remain unchanged. The power is purchased at the cost-based hydropower rate and the benefits are passed on to the Utilities’ residential and small farm customers (the rural and domestic, or ‘R&D,’ customers) without markup under Public Service Commission tariffs.

“The Authority had been selling a total of 1,936 MW of firm Niagara power, 56 MW in excess of the 1,880 MW of firm Project Power determined to be appropriate by the Federal Power Commission (‘FPC’) in 1976. In addition, the Authority made commitments in connection with relicensing the Niagara Project to allocate 58 MW of Niagara Project power for the benefit of the Host Communities, Erie County and the City of Buffalo, the Tuscarora Nation and Niagara University (‘Relicensing Customers’). Based on a rigorous study, the Authority determined that there were an additional 32 MW of firm Niagara Project power available for sale as a result of completion of the Niagara Upgrade project. Of this amount, one-half, or 16 MW, must be sold to municipal systems pursuant to federal law. The remainder is the net available capacity resulting from the Upgrade project.

“Other than the 553 MW sold to the Utilities, the entire firm output from the St. Lawrence/FDR and Niagara Projects is sold under contracts extending beyond August 31, 2007, or otherwise required to be used for specific purposes under law. As of September 1, 2007, 98 MW (58 MW to the Relicensing Customers plus 56 MW oversold less 16 MW of additional capacity) of the 553 MW of St. Lawrence/FDR and Niagara Project firm power previously sold to the Utilities was withdrawn. This left 455 MW of firm power and 360 MW of firm peaking power to be sold to the Utilities.

“Chapter 59 of the Laws of 2006 (Part U) authorized the creation by the Governor of a ‘Temporary State Commission on the Future of New York State Power Programs for Economic Development’ (‘Commission’). The charge to the Commission was to recommend to the Governor and the Legislature on or before December 1, 2006, ‘whether to continue, modify, expand or replace the state’s economic development power programs, including but not limited to the power for jobs program and the energy cost savings benefit program. . . .’

“On December 1, 2006, the Commission issued its report, which included an array of findings and recommendations. A key recommendation of the report was that, among other things, hydropower now sold to the Utilities ought to be ‘redeployed’ for economic development purposes.

DISCUSSION

“In the recently concluded legislative session, the Power for Jobs and Energy Cost Savings Benefit Programs were extended for an additional year through June 30, 2008, (Chapter 89 of the Laws of 2007) with the understanding that a reformation of the State’s economic development power programs was necessary in order to create a long-term power resource with price stability for business, whether based on the recommendations of the Commission or some other approach. It is anticipated that this issue will be addressed before the current programs expire in mid-2008.

“The contract extensions would continue the sale of firm and firm peaking hydropower to the Utilities in the amounts approved by the Trustees at their July 31, 2007 meeting. Specifically, for National Grid, 189 MW of firm and 175 MW of firm peaking; for NYSEG, 167 MW of firm and 150 MW of firm peaking and for RGE, 99 MW of firm and 35 MW of firm peaking. These amounts would be sold to the Utilities through June 30, 2008 subject to withdrawal upon 30 days’ written notice by the Authority for reallocation as may be authorized by law or as otherwise may be determined by the Trustees.

“In addition to the withdrawals specified above, the Authority may reduce or terminate service if it is determined to be necessary to comply with any ruling, order or decision by a regulatory or judicial body or the Trustees relating to hydropower and energy allocated under the proposed contracts.

FISCAL INFORMATION

“The contract extensions provide that the Utilities continue to pay for hydropower at the same rates they are currently charged, that is, determined in accordance with the ratemaking principles incorporated in the Auer Settlement and subsequent rate settlements. At their April 24, 2007 meeting, the Trustees approved an increase in these rates effective May 1, 2008. Accordingly, there will be no fiscal impact associated with the power sold on a month-to-month basis.

RECOMMENDATION

“The Senior Vice President – Marketing and Economic Development recommends that the Trustees authorize a public hearing on the contract extension agreements with the Utilities to be held at Syracuse City Hall on November 8, 2007. It is further recommended that, pursuant to Section 1009 of the Public Authorities Law, the Corporate Secretary be authorized to transmit copies of the proposed contracts to the Governor and legislative leaders.

“The Executive Vice President, General Counsel and Chief of Staff, the Executive Vice President and Chief Financial Officer and I concur in the recommendation.”

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

RESOLVED, That the Trustees hereby authorize a public hearing on the terms of the contract extensions for the sale of hydroelectric power and energy generated by the Authority for sale to National Grid, New York State Electric & Gas Corporation and Rochester Gas & Electric Corporation to be held at Syracuse City Hall on November 8, 2007; and be it further

September 25, 2007

RESOLVED, That the Corporate Secretary be, and hereby is, authorized to transmit copies of the contract extensions to the Governor, the Speaker of the Assembly, the Minority Leader of the Assembly, the Chairman of the Assembly Committee on Ways and Means, the Temporary President of the Senate, the Minority Leader of the Senate and the Chairman of the Senate Finance Committee pursuant to Section 1009 of the Public Authorities Law; and be it further

RESOLVED, That the President or his designee be, and hereby is, authorized, subject to approval of the form thereof by the Executive Vice President, General Counsel and Chief of Staff, to enter into such other agreements, and to do such other things as may be necessary or desirable to implement the contract extensions with National Grid, New York State Electric & Gas Corporation and Rochester Gas and Electric Corporation as 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, General Counsel and Chief of Staff.

9. Increase in New York City Governmental Customer Rates – Notice of Proposed Rulemaking

The President and Chief Executive Officer submitted the following report:

SUMMARY

“The Trustees are requested to approve a Notice of Proposed Rulemaking (‘NOPR’) to increase the Fixed Costs component of the production rates to be charged in 2008 to the New York City Governmental Customers (‘NYC Governmental Customers’). This proposed action would increase the Fixed Costs component of production rates by \$26.5 million as compared to 2007. The Trustees are also requested to direct the Corporate Secretary to publish the NOPR in the State Register in accordance with the requirements of the State Administrative Procedure Act (‘SAPA’).

“This proposed action is consistent with the annual rate-setting process set forth in the Long-Term Agreements (‘LTAs’) for the purchase of electric service executed by each of the NYC Governmental Customers and the Authority. Under the LTAs, any proposed increase in the Fixed Costs component of the Governmental Customers’ production rates must be done in accordance with a SAPA proceeding. Since the proposed increase is greater than 2%, a public forum will be held in accordance with Authority policy. Trustee authorization is also requested to direct the Corporate Secretary to provide all appropriate notice for such public forum. Upon closure of the 45-day statutory comment period concerning this proposed rate action, Authority staff will take into consideration concerns that have been raised and return to the Trustees at their meeting on December 18, 2007 to seek final adoption of this proposal.

BACKGROUND

“In 2005, the Authority and the NYC Governmental Customers entered into LTAs for the purchase of electric service through December 31, 2017. The LTAs replaced prior agreements entered into during the mid-1990s with most of these same NYC Governmental Customers. The LTAs established a new relationship between the Authority and the NYC Governmental Customers that reflects the costs of procuring electricity in the restructured marketplace managed by the New York Independent System Operator (‘NYISO’). The LTAs define specific cost categories with respect to providing electric service, and prescribe a collaborative process for acquiring resources, managing risk and selecting a cost-recovery mechanism.

“The LTAs separate all costs into two distinct categories: Fixed Costs and Variable Costs. Fixed Costs include Operation and Maintenance (‘O&M’), Shared Services, Capital Cost, Other Expenses (*i.e.*, certain directly assignable costs) and a credit for investment and other income. Under the LTAs, the Authority must establish Fixed Costs based on Cost-of-Service (‘COS’) principles and make changes only under a SAPA proceeding. In addition, the LTAs contemplate that year-to-year changes in Fixed Costs will be reviewed by the NYC Governmental Customers in advance of a filing made under SAPA. Under the LTAs, the NYC Governmental Customers’ concerns must be considered prior to presenting any proposed changes to the Fixed Costs to the Trustees or issuing them for public comment.

“Under the LTAs, the Authority also develops on an annual basis the Variable Costs (*i.e.* fuel and purchased-power expense, risk management, NYISO ancillary services and O&M reserve, less a credit for NYISO revenues from NYC Governmental Customer-dedicated generation), which are subject to the NYC Governmental Customers’ review and comment. Each year’s Variable Costs are determined in accordance with the methods and procedures set forth in the LTAs that were previously approved by the Trustees, and therefore are not a matter for Trustee approval. In the rate-setting process for the 2007 Rate Year, the NYC Governmental Customers selected an ‘Energy Charge Adjustment (‘ECA’) with Hedging’ cost-recovery mechanism under which all Variable Costs are passed on to the NYC Governmental Customers. Because the LTA prescribes that an ECA with Hedging cost-recovery mechanism, if selected, must remain in effect for two consecutive years, the 2008 Rate Year will also employ an ECA with Hedging cost-recovery mechanism for the Variable Costs. Under this ECA mechanism,

Authority invoices will include an addition or subtraction each month that reflects changes in the Variable Costs as described in the LTAs.

DISCUSSION

“A ‘Preliminary Staff Report’ detailing the ‘Preliminary 2008 Cost-of-Service’ was published in May 2007 and submitted to the NYC Governmental Customers for their review and comment. As part of the rate-setting process set forth in the LTAs, Authority staff provided its *pro forma* 2008 Preliminary COS, 2008 revenue projections (at current rates), a comparison with *pro forma* 2007 costs and revenues and the cost of different risk management and cost-recovery options affecting Variable Costs that are not part of this proposed rate action.

“Based on the projected 2008 Final COS, a Fixed Costs increase of \$26.5 million is proposed for the NYC Governmental Customers. Collectively, the Fixed Costs are projected to be \$179.7 million in 2008 versus \$153.2 million in 2007. Contributors to the additional Fixed Costs are increases in Capital Costs, \$11.1 million; O&M, \$7.9 million; Shared Services, \$4.4 million and Other Expenses, \$2.3 million, with credit offsets bringing the net total to \$26.5 million. The \$26.5 million represents a 17.3% increase in Fixed Costs and a 3.4% overall production rate increase. As an information item, the projected Variable Costs are expected to increase nominally (less than 1%) from 2007 levels and are subject to change depending on the selected hedging strategies. The current estimate of the 2008 production rate, combining the Fixed and Variable Costs, is projected to increase by about 3.5%.

“Because this proposal would increase revenues to the Authority by more than 2%, a public forum under Authority procedures will be held on Thursday, November 15, 2007 at 10:30 a.m. at the Authority’s New York City office to solicit comments from interested parties. Advance notice and comment procedures under the LTAs concerning changes to Fixed Costs were followed, and the NYC Governmental Customers will have opportunity to file comments in accordance with SAPA after the issuance of this NOPR in the *New York State Register*.

“All of the NYC Governmental Customers would be subject to this proposed increase in the Fixed Costs component of their production rates. This proposed action does not affect Westchester County and other local governmental entities in the County, which are the subject of a separate Trustee action.

“Staff anticipates returning to the Trustees at their December meeting with a request for final adoption of a Fixed Costs increase that will include an analysis of any comments received from interested parties. Subsequent to such final adoption, staff will incorporate the approved Fixed Costs and the final Variable Costs that are determined in the rate-setting process with the NYC Governmental Customers set forth in the LTAs into new production rates to become effective with the January 2008 billing cycle. Staff proposes to apply the increase equally to both the demand and energy rates.

FISCAL INFORMATION

“The adoption of this proposal concerning the increase in Fixed Costs applicable to the NYC Governmental Customers under the LTAs would result in the recovery of approximately \$26.5 million in additional revenues to the Authority over current rates. These new revenues are offset by corresponding projected increases in the costs of serving the NYC Governmental Customers.

RECOMMENDATION

“The Manager – Market and Pricing Analysis recommends that the Trustees authorize the Corporate Secretary to file a Notice of Proposed Rulemaking in the *New York State Register* for the adoption of an increase in Fixed Costs applicable to the New York City Governmental Customers under the Long-Term Agreements and also direct the Corporate Secretary to provide all appropriate notice for a public forum.

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

September 25, 2007

“The Executive Vice President, General Counsel and Chief of Staff, the Executive Vice President and Chief Financial Officer, the Senior Vice President – Marketing and Economic Development, the Vice President – Controller, the Vice President – Finance, the Assistant General Counsel – Power and Transmission and I concur in the recommendations.”

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

RESOLVED, That the Authority projects an increase in the Fixed Costs of serving the New York City Governmental Customers when comparing those costs contained in current rates to 2008 projected costs; and be it further

RESOLVED, That the Authority has entered into supplemental Long-Term Agreements with the New York City Governmental Customers and those agreements provide for the recovery of additional Fixed Costs through a rate filing under the State Administrative Procedure Act; and be it further

RESOLVED, That the Senior Vice President – Marketing and Economic Development , or his designee, be, and hereby is, authorized to issue written notice of this proposed action by the Trustees to the affected customers; and be it further

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, authorized to schedule and provide all appropriate public notice of a public forum to be held on Thursday, November 15, 2007 at 10:30 a.m. at the Authority’s New York City office for the purpose of obtaining the views of interested persons concerning the Authority’s proposed action to adjust the rates for the New York City Governmental Customers; 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 certificates, agreements and other documents to effectuate the foregoing resolution, subject to the approval of the form thereof by the Executive Vice President, General Counsel and Chief of Staff.

10. **Increase in Westchester County Governmental Customer Rates - Notice of Proposed Rulemaking**

The President and Chief Executive Officer submitted the following report:

SUMMARY

“The Trustees are requested to approve a Notice of Proposed Rulemaking (‘NOPR’) to increase the production rates to be charged to the Westchester County Governmental Customers (‘Westchester Customers’) in 2008. Under staff’s proposal, the production rates will increase by 18.1%, on average, as compared to 2007 rates. The Trustees are also requested to direct the Corporate Secretary to publish a NOPR in the *New York State Register* in accordance with the requirements of the State Administrative Procedure Act (‘SAPA’). Since the proposed increase is greater than 2%, a public forum will be held in accordance with Authority policy. Trustee authorization is also requested to direct the Corporate Secretary to provide all appropriate notice for such public forum.

BACKGROUND

“The Authority provides electricity to 104 governmental customers in Westchester County, which includes the County of Westchester, school districts, housing authorities, cities, towns and villages. At their meeting of December 19, 2006, the Trustees approved new Supplemental Electricity Agreements (‘Agreements’) with the Westchester Customers. The Agreements provide that, among other things:

- The Authority can modify the Westchester Customers’ rates at any time based on a fully supported *pro forma* cost-of-service (‘COS’) and the SAPA process, subject to review and comment by the Westchester Customers;
- The Westchester Customers agree to be full-requirements customers of the Authority through December 31, 2008;
- The Westchester Customers may fully terminate service on one year’s written notice, which cannot be effective earlier than January 1, 2009; and
- Beginning in 2007, the Energy Charge Adjustment (‘ECA’) mechanism will be reactivated.

“At their meeting of December 19, 2006, the Trustees also approved a 25.5% production rate increase for 2007, which went into effect in January 2007. In addition, starting in March, the ECA was reinstated. The ECA is a monthly reconciliation of certain specified costs as projected versus actually incurred. The difference is credited or charged (as applicable) to the Westchester Customers’ monthly invoices.

“The County of Westchester, which accounts for nearly 35% of the revenues in the Authority’s Westchester Customer segment, approved and executed the Agreement in April 2007. Subsequently, more than 70 additional Westchester Customers have signed the Agreement, with many more pending at this time. This rate modification will also be applicable to those Westchester Customers that have not executed the Agreement, as the Authority can modify their rates in accordance with the terms and conditions of their Original Application for Service.

DISCUSSION

“Consistent with the Authority’s past rate-making practices and with the rate-setting process set forth in the Agreements, the proposed increase is based on a *pro forma* COS. Under the Agreements, the Authority must provide at least 30 days’ notice to the Westchester Customers of any proposed increase and the increase is also subject to their review and comment. Notice was sent to all Westchester Customers on August 24, 2007.

“The *pro forma* Preliminary 2008 COS for the Westchester Customers, which is summarized in Exhibit ‘10-A,’ is \$48.9 million, and revenues at current production rates are expected to be \$41.4 million, resulting in a projected revenue deficiency of \$7.5 million. Contributors to the increase in costs are additional Capital Costs of \$1.1 million; O&M, \$0.1 million; Shared Services, \$0.2 million and a projected increase in the cost of purchased power and New York Independent System Operator (‘NYISO’) ancillary services charges required to serve the Westchester Customers.

“Therefore, staff is recommending that base production rates be increased by 18.1 % over 2007 rates. On a total bill basis, the proposed increase would be 11% on average for the Westchester Customers, excluding a significant proposed increase in delivery charges by Consolidated Edison Company of New York, Inc. Staff proposes to apply the production increase equally to both the base demand and energy rates. Both the current and proposed new rates are contained in the table in Exhibit ‘10-B.’

“Since the new rates would increase Westchester Customer revenues by more than 2%, a public forum will be held in accordance with Authority policy. The forum will be held at 10:30 a.m. on November 14, 2007 at the Authority’s White Plains Office.

“After the 45-day statutory comment period concerning this proposed rate action, Authority staff will address any concerns that have been raised by the Westchester Customers and interested parties at the public forum and in comments filed with the Authority, make any necessary changes to the proposed rate increase and return to the Trustees at their December 18, 2007 meeting to request approval of a rate modification for 2008.

FISCAL INFORMATION

“The proposed rate increase is expected to collect \$7.5 million in additional production revenue from the Westchester Customers through the end of 2008, excluding any charges and credits through the ECA mechanism.

RECOMMENDATION

“The Manager – Market and Pricing Analysis recommends that the Trustees authorize the Corporate Secretary to file a Notice of Proposed Rulemaking in the *New York State Register* for the adoption of a production rate increase applicable to the Westchester County Governmental Customers, and because the proposed new rates will increase Authority revenues by more than 2%, be authorized to schedule, and issue appropriate notices for, a public forum on this proposed action.

“It is also recommended that the Senior Vice President – Marketing and Economic Development, or his designee, be authorized to issue written notice of the proposed action to the affected customers under the provisions of the Authority’s tariffs.

“The Executive Vice President, General Counsel and Chief of Staff, the Executive Vice President and Chief Financial Officer, the Senior Vice President – Marketing and Economic Development, the Vice President – Controller, the Vice President – Finance, the Assistant General Counsel – Power and Transmission and I concur in the recommendation.”

Ms. Marilyn Brown presented the highlights of staff’s recommendations to the Trustees. In response to questions from Chairman McCullough and Mr. Thomas Kelly, Ms. Brown said that the rates for the Westchester governmental customers had been frozen since 1995, with increases of 2.4%, 2.4% and 25.8% in 2005, 2006 and 2007, respectively. Responding to another question from Mr. Kelly, Mr. James Yates said that the Authority had been diligent in reaching out to the Westchester customers so that the 2008 rate increase did not catch them by surprise. Chairman McCullough said that he had actually received letters from some of the affected communities thanking the Authority for keeping them informed about the rate increase.

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

RESOLVED, That the Authority proposes an increase in the production rates applicable to the Westchester County Governmental Customers 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 his designee, be, and hereby is, authorized to issue written notice of this proposed action by the Trustees to the affected customers; and be it further

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 proposed tariff modification; and be it further

RESOLVED, That the Corporate Secretary of the Authority be, and hereby is, authorized to schedule and provide all appropriate public notice of a public forum to be held on Wednesday, November 14, 2007 at 10:30 a.m. at the Authority's White Plains office for the purpose of obtaining the views of interested persons concerning the Authority's proposed action to adjust the rates for the Westchester County Governmental Customers; 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, General Counsel and Chief of Staff.

September 25, 2007
EXHIBIT "A"

New York Power Authority
2008 Cost of Service
Westchester County Governmental Customers

<u>Component</u>	<u>Amount</u> (Millions)
Operations & Maintenance	\$0.7
Shared Services	\$0.5
Capital Cost	\$1.9
Other Expenses	\$0.2
<u>Purchased Power</u>	
Energy	\$42.6
Capacity	<u>\$3.6</u>
Subtotal Purchased Power	\$46.2
Ancillary Services	\$1.6
Sub-Total Cost of Service	\$51.1
NYISO Revenue Credit	(\$2.2)
Total Production Cost Of Service	\$48.9
Current Rate Revenues	\$41.4
Production Revenue Shortfall	\$7.5
as a percent of Current Revenues	18.1%

WESTCHESTER COUNTY GOVERNMENTAL CUSTOMERS
PRODUCTION RATES

CONVENTIONAL		Demand Rates \$/kW-mo.		Base Energy Rates Cents/kWh	
Service Class		Current	2008 Proposed	Current	2008 Proposed
62	General Small	n/a	n/a	8.494	10.031
64	Commercial & Industrial Redistribution	11.59	13.69	4.373	5.165
66	Westchester Street Lighting	n/a	n/a	7.140	8.432
68/82	Multiple Dwellings Redistribution	10.24	12.09	4.511	5.327
69	General Large	8.44	9.97	4.724	5.579

TIME-OF-DAY		Demand Rates \$/kW-mo.		Base Energy Rates			
Service Class		Current	2008 Proposed	On-Peak Cents/kWh		Off-Peak Cents/kWh	
				Current	2008 Proposed	Current	2008 Proposed
64	Commercial & Industrial Redistribution	9.51	11.23	6.304	7.445	3.486	4.117
68/82	Multiple Dwellings Redistribution	9.18	10.84	6.518	7.698	3.570	4.216
69	General Large	6.99	8.26	6.742	7.962	3.511	4.146

Rider A	Back-up and Maintenance power			13.428	15.858	2.439	2.880
---------	-------------------------------	--	--	--------	--------	-------	-------

The on-peak period for energy is weekdays from 7:00AM to 7:00PM, excluding holidays.
The off-peak period for energy is all other hours.

SC Notes:

In addition to the base energy rates, a monthly energy charge adjustment will apply.
The on-peak period for demand is weekdays from 8:00AM to 6:00PM, including holidays.
The on-peak period for energy is weekdays from 8:00AM to 10:00PM, including holidays.
The off-peak period for demand and energy is all other hours.

11. Budget and Financial Plan Information Pursuant to Regulations of the Office of the State Comptroller

The President and Chief Executive Officer submitted the following report:

SUMMARY

“In accordance with regulations of the Office of the State Comptroller (‘OSC’), the Trustees are requested to approve for public release a proposed 2008 budget and four-year financial plan; authorize making the proposed budget and four-year financial plan available for public inspection at not less than five convenient public places throughout New York State and authorize posting of the proposed budget and four-year financial plan on the Authority’s website.

BACKGROUND

“OSC implemented new regulations in March 2006 that address the preparation of annual budgets and four-year financial plans by ‘covered’ public authorities, including the Authority. (See 2 NYCRR Part 203 (‘Part 203,’) attached as Exhibit ‘11-A.’) These regulations establish various procedural and substantive requirements, discussed below, relating to the budgets and financial plans of public authorities.

DISCUSSION

“Part 203 sets forth specific requirements in connection with submitting, formatting, preparing supporting documentation for and monitoring annual budgets and financial plans of public authorities.

“Under Part 203, the Authority’s proposed budget and four-year financial plan (Exhibit ‘11-B’) must be made available for public inspection at least 30 days before approval by the Trustees of a final budget and financial plan and not less than 60 days before commencement of the next fiscal year. The availability for public inspection must be for a period of not less than 45 days and in not less than five convenient public places throughout the State. The regulations also require the Authority to post the proposed budget and four-year financial plan on its website.

“Under Part 203, each proposed budget and four-year financial plan must be shown on both an accrual and cash basis and be prepared in accordance with generally accepted accounting principles; be based on reasonable assumptions and methods of estimation; be organized in a manner consistent with the public authority’s programmatic and functional activities; include detailed estimates of projected operating revenues and sources of funding; contain detailed estimates of personal service expenses related to employees and outside contractors; list detailed estimates of non-personal service operating expenses and include estimates of projected debt service and capital project expenditures.

“Other key elements that must be incorporated in each proposed budget and four-year financial plan are a description of the budget process and the principal assumptions, as well as a self-assessment of risks to the budget and financial plan. Additionally, the proposed budget and financial plan must include a certification (Exhibit ‘11-C’) by the chief operating officer (defined as the executive officer responsible for overseeing the day-to-day activities of an authority) that, to the best of his or her knowledge and belief after reasonable inquiry, the proposed budget and financial plan are based on reasonable assumptions and methods of estimation and that the Part 203 regulations have been satisfied.

“The Trustees will be asked to approve the Authority’s final budget and four-year financial plan, including any modifications and amendments to the proposed budget and financial plan, at their meeting of December 18, 2007.

FISCAL INFORMATION

“There is no anticipated fiscal impact.

RECOMMENDATION

“The Vice President – Controller recommends that the Trustees approve for public release the proposed 2008 budget and four-year financial plan; authorize making the proposed budget and four-year financial plan available for public inspection at no less than five convenient public locations and authorize posting of the proposed budget and four-year financial plan on the Authority’s website.

“The Executive Vice President, General Counsel and Chief of Staff, the Executive Vice President and Chief Financial Officer and I concur in this recommendation.”

Mr. Thomas Davis presented the highlights of staff’s recommendations to the Trustees. In response to a question from Chairman McCullough, Mr. Davis said that, in the event of a change in circumstances, the Authority would be able to update the budget and financial plan information through the electronic reporting system provided by the Authority Budget Office. Chairman McCullough said that he knew that the production of this document had been a major undertaking and thanked staff for a job well done.

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

RESOLVED, That pursuant to 2 NYCRR Part 203, the proposed budget and four-year financial plan, including its certification by the President and Chief Executive Officer, is approved for public release in accordance with the foregoing report of the President and Chief Executive Officer; and be it further

RESOLVED, That pursuant to 2 NYCRR Part 203, the Corporate Secretary be, and hereby is, authorized to make the proposed budget and four-year financial plan available for public inspection at not less than five convenient public places throughout New York State, to notify the Office of the State Comptroller of said locations and to post the proposed budget and four-year financial plan on the Authority’s website; 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, General Counsel and Chief of Staff.

PART 203

BUDGET AND FINANCIAL PLAN FORMAT, SUPPORTING DOCUMENTATION
AND MONITORING – PUBLIC AUTHORITIES

(Statutory Authority: Constitution, art. X, § 5; State Finance Law §8[14])

Sec.	
203.1	Purpose
203.2	Applicability
203.3	Definitions
203.4	Submission of Budgets and Financial Plans
203.5	Budget and Financial Plan Format
203.6	Budget and Plan Presentation
203.7	Supporting Documentation
203.8	Reporting
203.9	Certification
203.10	Covered Public Authorities

Section 203.1 Purpose.

The purpose of this Part is to set forth specific requirements in connection with the submission and format of, the preparation of supporting documentation for, and the monitoring of, annual budgets and financial plans of the public authorities listed in this Part. All requirements of this Part apply immediately upon the effective date of this Part, except as otherwise consented to by the State Comptroller at the request of individual public authorities, upon good cause shown.

§ 203.2 Applicability.

Except as provided in the next sentence, this Part shall apply to every authority, commission or public benefit corporation identified as a "public authority" in section 203.10 of this Part, unless a waiver is granted by the State Comptroller upon good cause shown. The Metropolitan Transportation Authority and its Agencies shall continue to be governed by 2 NYCRR Part 202 with the exception that subdivisions a through e of section 203.4, subdivisions d and g of section 203.6, and subdivision b and c of section 203.8 of this Part shall also apply to the Metropolitan Transportation Authority and its Agencies; provided, however, that with respect to the Metropolitan Transportation Authority and its Agencies, the definitions set forth in Part 202 of this chapter shall be used for purposes of determining compliance with the applicable provisions of this Part.

§ 203.3 Definitions.

For purposes of this Part:

(a) "Affiliate" shall mean a corporate body or company controlling, controlled by, or under common control with another corporate body.

(b) "Board" shall mean the governing board, members of the public authority, board of directors, board of trustees or trustees or other similar governing body as described in the laws, articles of incorporation or corporate by-laws creating and/or governing the authority.

(c) "Budget" shall mean the proposed and approved budgets, and any amendments or modifications thereto, of the public authority. The budget shall include all the organizations, programs, activities, and functions of the public authority that comprise its accounting entity in accordance with accounting principles generally accepted in the United States of America.

(d) "Chief financial officer" shall mean the treasurer, chief fiscal officer or other executive level officer directly responsible for overseeing the financial activities of the public authority.

(e) "Chief operating officer" shall mean the executive director or other executive level officer responsible for overseeing the day-to-day activities of the public authority.

(f) "Debt" shall mean bonds, notes, contractual financing arrangements, or other evidences of indebtedness issued by the public authority for any purpose.

(g) "Financial Plan" shall mean the budget for the current fiscal year and revenue and expenditure projections, in a format consistent with the budget, for at least the three following years.

(h) "Gap" shall mean the difference between projected revenues and other financing sources and expenditures and other financing uses for any given fiscal year before proposed management actions that would increase revenues or reduce costs.

(i) "Gap-closing program" shall mean any combination of management actions that reduce costs or increase revenues that lower a gap in any given fiscal year.

(j) "Subsidiary" shall mean a corporate body or company (i) having more than half of its voting shares owned or held by a public authority specified in this section, or (ii) having a majority of its directors, trustees or members in common with the directors, trustees or members of a public authority specified in this section or as designees of a public authority specified in this section.

§ 203.4 Submission of Budgets and Financial Plans.

(a) All public authorities shall prepare an annual budget and financial plan in accordance with this Part.

(b) The budget and financial plan, and all amendments or modifications thereto, shall be approved by the Board.

(c) All proposed budgets and financial plans shall be made available for public inspection at least 30 days before approval by the Board, and not less than 60 days before the commencement of the next fiscal year.

(d) All approved budgets and financial plans shall be made available for public inspection, whenever practicable, not less than 7 days before the commencement of the next fiscal year, and shall be submitted to the State Comptroller within 7 days of approval by the board, in an electronic format prescribed by the State Comptroller.

(e) For purposes of making budgets and financial plans available for public inspection under subdivisions (c) and (d) of this section, the public authority shall make the budgets and financial plans available for a period of not less than 45 days in not less than five convenient public places throughout the area of jurisdiction of the authority and notify the State Comptroller of such locations. The public authority shall also post the budgets and financial plans on its website, if any.

§ 203.5 Budget and Financial Plan Format.

Each budget and financial plan shall:

(a) be prepared in accordance with accounting principles generally accepted in the United States of America on a modified accrual basis. When an organization, program, activity or function that is reportable under such principles is not included in the budget, the budget shall clearly disclose this exclusion and the associated justification;

(b) be based on reasonable assumptions and methods of estimation;

(c) be organized in a manner consistent with the authority's programmatic and functional activities;

(d) include detailed estimates of projected operating revenues and other sources of funding;

(e) include detailed estimates of personal service expenses related to employees (e.g., salary and wage costs, overtime, health insurance and pension costs) and personal service contracts with outside contractors;

(f) include detailed estimates of non-personal service operating expenses (e.g., materials and supplies, contracts, and rentals);

(g) include estimates of projected debt service expenditures; and

(h) include a corresponding cash budget and financial plan, and identify all material cash adjustments.

§ 203.6 Budget and Financial Plan presentation.

Each budget or financial plan shall be accompanied by:

(a) an explanation of the public authority's relationship with the unit or units of government, if any, on whose behalf or benefit the authority was established;

(b) a description of the budget process, including the dates of key budget decisions;

(c) a description of the principal budget assumptions, including sources of revenues, staffing and future collective bargaining costs, and programmatic goals;

(d) a self-assessment of budgetary risks;

(e) a revised forecast of the current year's budget;

(f) a reconciliation that identifies all changes in estimates from the projections in the previously approved budget or plan;

(g) a statement of the last completed fiscal year's actual financial performance in categories consistent with the proposed budget or financial plan;

(h) a projection of the number of employees, including sources of funding, the numbers of full-time and full-time equivalents, and functional classifications;

(i) a statement of each revenue-enhancement and cost-reduction initiative that represents a component of any gap-closing program and the annual impact on revenues, expenses and staffing;

(j) a statement of the source and amount of any material non-recurring resource that is planned for use in any given fiscal year;

(k) a statement of any transactions that shift material resources from one year to another and the amount of any reserves;

(l) a statement of borrowed debt projected to be outstanding at the end of each fiscal year covered by the budget or financial plan; the planned use or purpose of debt issuances; scheduled debt service payments for both issued and proposed debt; the principal amount of proposed debt and assumed interest rate(s); debt service for each issuance as a percentage of total pledged revenues, listed by type or category of pledged revenues; cumulative debt service as a percentage of available revenues; and amount of debt that can be issued until legal limits are met; and

(m) a statement of the annual projected capital cost broken down by category and sources of funding, and for each capital project, estimates of the annual commitment, total project cost, expected date of completion and the annual cost for operating and maintaining those capital projects or capital categories that, when placed into service, are expected to have a material impact on the operating budget.

§ 203.7 Supporting Documentation.

The public authority shall prepare working papers that detail the assumptions and methods of estimation used to calculate all operating and capital budget projections, consistent with prudent budgetary practices. The working papers shall be completed contemporaneously with the release of the budget or plan and shall include a statement supporting the reasonableness of each estimate, and the underlying information on which the estimate

is based, such as actual results from prior years, inflationary trends and economic data, assumptions regarding the cost of future collective bargaining agreements, utilization, demographic and other pertinent data.

§ 203.8 Reporting.

The chief financial officer shall:

(a) provide to the Board a written mid-year update on the budget and associated financial plan and should present at least quarterly updates to the Board on the status of actual revenues and expenses compared to annual budget targets. The mid-year report shall explain and quantify material variances that are due to timing or have a budgetary impact, and include an assessment of the annual impact. The report also shall include the status of capital projects, including but not limited to, commitments, expenditures and completions, and an explanation of material cost overruns and delays;

(b) report publicly not later than 90 days after the close of each fiscal year on actual versus budgeted results; and

(c) inform the State Comptroller in writing at any point during the fiscal year when the chief financial officer learns of the potential financial impact of any adverse development that would materially affect the budget or financial plan.

§ 203.9 Certification.

Included in each budget and financial plan shall be a certification by the chief operating officer to the effect that, to the best of his or her knowledge and belief after reasonable inquiry, the budget or plan, as the case may be, is based on reasonable assumptions and methods of estimation and that these regulations have been satisfied. The certification shall be presented to the Board and shall be released to the public along with the budget or financial plan, as the case may be.

§ 203.10 Covered Public Authorities.

The following entities, including any and all affiliates and subsidiaries, shall be considered "public authorities" for purposes of this Part:

1. Agriculture and New York State Horse Breeding Development Fund, created by or existing under section 330 of the Racing, Pari-mutuel Wagering and Breeding Law.
2. Albany Port District Commission, created by or existing under section 1 of chapter 192 of the laws of 1925.
3. Battery Park City Authority, created by or existing under section 1973 of the Public Authorities Law.
4. Buffalo Fiscal Stability Authority, created by or existing under section 3852 of the Public Authorities Law.

5. Capital District Transportation Authority, created by or existing under section 1303 of the Public Authorities Law.
6. Central New York Regional Transportation Authority, created by or existing under section 1328 of the Public Authorities Law.
7. Community Facilities Project Guarantee Fund, created by or existing under section 14 of chapter 1013 of the laws of 1969.
8. City University Construction Fund, created by or existing under section 6272 of the Education Law.
9. Development Authority of the North Country, created by or existing under section 2703 of the Public Authorities Law.
10. Dormitory Authority of the State of New York, created by or existing under section 1677 of the Public Authorities Law.
11. Erie County Fiscal Stability Authority, created by or existing under section 3952 of the Public Authorities Law.
12. Erie County Medical Center Corporation, created by or existing under section 3628 of the Public Authorities Law.
13. Executive Mansion Trust, created by or existing under section 54.05 of the Arts and Cultural Affairs Law.
14. Hudson River-Black River Regulating District, created by or existing under section 15-2137 of the Environmental Conservation Law.
15. Hudson River Park Trust, created by or existing under section 5 of chapter 592 of the laws of 1998.
16. Industrial Exhibit Authority, created by or existing under section 1651 of the Public Authorities Law.
17. Life Insurance Guaranty Corporation, created by or existing under section 7503 of the Insurance Law.
18. Long Island Power Authority, created by or existing under section 1020-c of the Public Authorities Law.
19. Metropolitan Transportation Authority, created by or existing under section 1263 of the Public Authorities Law.

20. Municipal Assistance Corporation for the City of New York, created by or existing under section 3033 of the Public Authorities Law.

21. Municipal Assistance Corporation for the city of Troy, created by or existing under section 3053 of the Public Authorities Law.

22. Nassau County Interim Finance Authority, created by or existing under section 3652 of the Public Authorities Law.

23. Nassau Health Care Corporation, created by or existing under section 3402 of the Public Authorities Law.

24. Natural Heritage Trust, created by or existing under section 55.05 of the Arts and Cultural Affairs Law.

25. Nelson A. Rockefeller Empire State Plaza Performing Arts Center Corporation, created by or existing under section 3 of chapter 688 of the laws of 1979.

26. New York Convention Center Operating Corporation, created by or existing under section 2562 of the Public Authorities Law.

27. New York State Bridge Authority, created by or existing under section 527 of the Public Authorities Law.

28. New York State Energy Research and Development Authority, created by or existing under section 1852 of the Public Authorities Law.

29. New York State Environmental Facilities Corporation, created by or existing under section 1282 of the Public Authorities Law.

30. New York State Housing Finance Agency, created by or existing under section 43 of the Private Housing Finance Law.

31. New York Job Development Authority, created by or existing under section 1802 of the Public Authorities Law.

32. New York Local Government Assistance Corporation, created by or existing under section 3233 of the Public Authorities Law.

33. New York State Archives Partnership Trust Board, created by or existing under section 4 of the New York State Archives Partnership Trust Act, as added by section 1 of chapter 758 of the laws of 1992.

34. New York State Foundation for Science, Technology and Innovation, created by or existing under section 3151 of the Public Authorities Law.

35. New York State Olympic Regional Development Authority, created by or existing under section 2608 of the Public Authorities Law.

36. New York State Project Finance Agency, created by or existing under section 2 of chapter 7 of the laws of 1975.

37. New York State Sports Authority, created by or existing under section 2463 of the Public Authorities Law.

38. New York State Theatre Institute Corporation, created by or existing under section 9.05 of the Arts and Cultural Affairs Law.

39. New York State Thoroughbred Breeding and Development Fund Corporation, created by or existing under section 245 of the Racing, Pari-mutuel Wagering and Breeding Law.

40. New York State Thoroughbred Racing Capital Investment Fund, created by or existing under section 253 of the Racing, Pari-mutuel Wagering and Breeding Law.

41. New York State Thruway Authority, created by or existing under section 352 of the public Authorities Law.

42. New York State Urban Development Corporation, created by or existing under section 4 of the New York State Urban Development Corporation Act, as added by section 1 of chapter 174 of the laws of 1968.

43. New York Wine/Grape Foundation, created by or existing under section 2 of chapter 80 of the laws of 1985.

44. Niagara Frontier Transportation Authority, created by or existing under section 1299-c of the Public Authorities Law.

45. Ogdensburg Bridge and Port Authority, created by or existing under section 725 of the Public Authorities Law.

46. Port of Oswego Authority, created by or existing under section 1353 of the Public Authorities Law.

47. Power Authority of the State of New York, created by or existing under section 1002 of the Public Authorities Law.

48. Rochester-Genesee Regional Transportation Authority, created by or existing under section 1299-dd of the Public Authorities Law.

49. Roosevelt Island Operating Corporation, created by or existing under section 3 of chapter 899 of the laws of 1984.

50. Roswell Park Cancer Institute Corporation, created by or existing under section 3553 of the Public Authorities Law.

51. State of New York Mortgage Agency, created by or existing under section 2403 of the Public Authorities Law.

52. State of New York Municipal Bond Bank Agency, created by or existing under section 2433 of the Public Authorities Law.

53. State University Construction Fund, created by or existing under section 371 of the Education Law.

54. United Nations Development Corporation, created by or existing under section 4 of chapter 345 of the laws of 1968.

55. Westchester County Health Care Corporation, created by or existing under section 3303 of the Public Authorities Law.

New York Power Authority

Proposed Budget and Financial Plan

2008-2011

(in compliance with 2 NYCRR Part 203)

Background and Mission Statement	1
NYPA's Four-Year Projected Income Statements	2
2008 Budget – Sources and Uses	3
NYPA's Four-Year Projected Cash Budgets	4
NYPA's Relationship with the New York State Government	5
Budget Process	5
Budget Assumptions	5
Self-Assessment of Budgetary Risks	10
Revised Forecast of 2007 Budget	14
Reconciliation of 2007 Budget and 2007 Revised Forecast	14
Statement of 2006 Financial Performance	15
Employee Data	15
Gap-Closing Initiatives	15
Material Non-recurring Resources	16
Shift in Material Resources	16
Debt Service	16
Capital Investments and Sources of Funding	20

Background and Mission of the Power Authority of the State of New York

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

NYPA generates, transmits and sells electric power and energy principally at wholesale. The Authority's primary customers are municipal and investor-owned utilities and rural electric cooperatives located throughout New York State, high load factor industries and other businesses, various public corporations located within the metropolitan area of New York City ("SENY governmental customers"), and certain out-of-state customers.

To provide electric service, the Authority owns and operates six major generating facilities, eleven small gas-fired electric generating facilities, and five small hydroelectric facilities and a number of transmission lines, including major 765-kV and 345-kV transmission facilities. The most recent addition to the generation stock is a new combined-cycle electric generating plant in New York City that has a nominal capacity rating of 500 MW (the "500-MW Project") and that entered into commercial operation on December 31, 2005. NYPA's other five major generating facilities consist of two large hydroelectric facilities ("Niagara" and "St. Lawrence-FDR"), a large pumped-storage hydroelectric facility ("Blenheim-Gilboa") and two oil-and-gas-fired facilities in NYC ("Poletti Project") and Long Island ("Flynn Project").

The Authority also supplies a significant portion of its customers' needs through purchased power, both energy and capacity; principally from the New York Independent System Operator ("NYISO"). In addition to Authority-supplied electricity, electric energy needs are purchased from in-state generating companies, municipal electric systems, and out-of-state generating companies. Also, a small amount of such energy is received from customer-owned generation.

To maintain its position as a low cost provider of power in a changing environment, the Authority has undertaken and continues to carry out a multifaceted program, including: (a) the upgrade and re-licensing of the Niagara and St. Lawrence-FDR projects; (b) new long-term supplemental electricity supply agreements with its governmental customers located mainly within the City of New York ("NYC governmental customers"); (c) the construction of the 500-MW Project; (d) a significant reduction of outstanding debt; and (e) implementation of an energy and fuel risk management program.

To achieve its goal of promoting energy efficiency, NYPA implements two energy services programs, one for its SENY governmental customers and the other for various other public entities throughout the State. Under these programs, the Authority finances the installation of energy saving measures and equipment, which are owned by the customers and public entities upon their installation and which focus primarily on the reduction of the demand for electricity. These programs generally provide funding for, among other things, high efficiency lighting technology conversions, high efficiency heating, ventilating and air conditioning systems and controls, boiler conversions, replacement of inefficient refrigerators with energy efficient units in public housing projects, distributed generation technologies and clean energy technologies, and installation of non-electric energy saving measures.

Participants in these energy efficiency programs include departments, agencies or other instrumentalities of the State, the Authority's SENY governmental customers, the Authority's municipal electric system customers, public school districts or boards and community colleges located throughout New York State, county and municipal entities with facilities located throughout New York State, and various business/industrial customers of the Authority. By recently enacted legislation, the Authority is also authorized to engage in (1) energy efficiency services and clean energy technologies projects for public and non-public elementary and secondary schools in New York, (2) energy efficiency and conservation services and projects involving facilities using conventional or new energy technologies for certain specified military establishments in New York, and (3) replacement of inefficient refrigerators with energy efficient units in certain public and private multiple dwelling buildings.

On February 24, 1998, the Authority adopted its "General Resolution Authorizing Revenue Obligations" (as amended and supplemented, the "Bond Resolution"). The Authority has covenanted with bondholders under the Bond Resolution that at all times the Authority shall maintain rates, fees or charges, and any contracts entered into by the Authority for the sale, transmission, or distribution of power shall contain rates, fees or charges sufficient together with other monies available therefor:

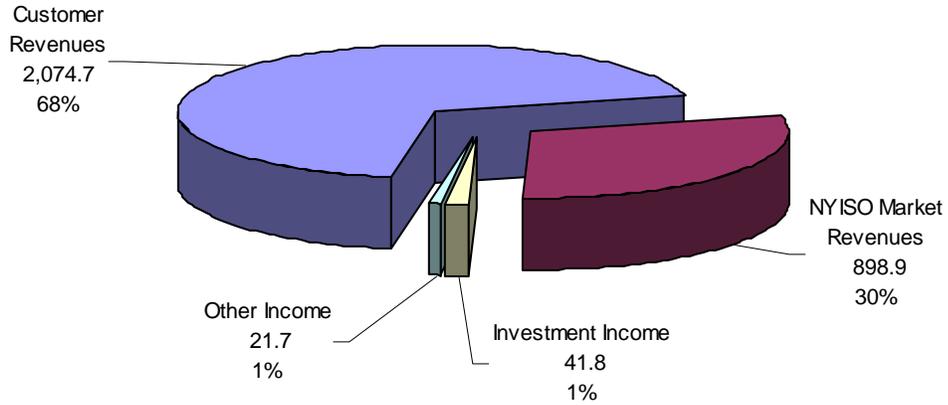
- (i) to pay all Operating Expenses of the Authority,
- (ii) to pay the debt service on all Senior Indebtedness and the debt service on all Subordinated Indebtedness then outstanding, and all Parity Debt and Subordinated Contract Obligations, all as the same respectively become due and payable, and

(iii) to maintain any reserve established by the Authority pursuant to the General Resolution, in such amount as may be determined from time to time by the Authority in its judgement.

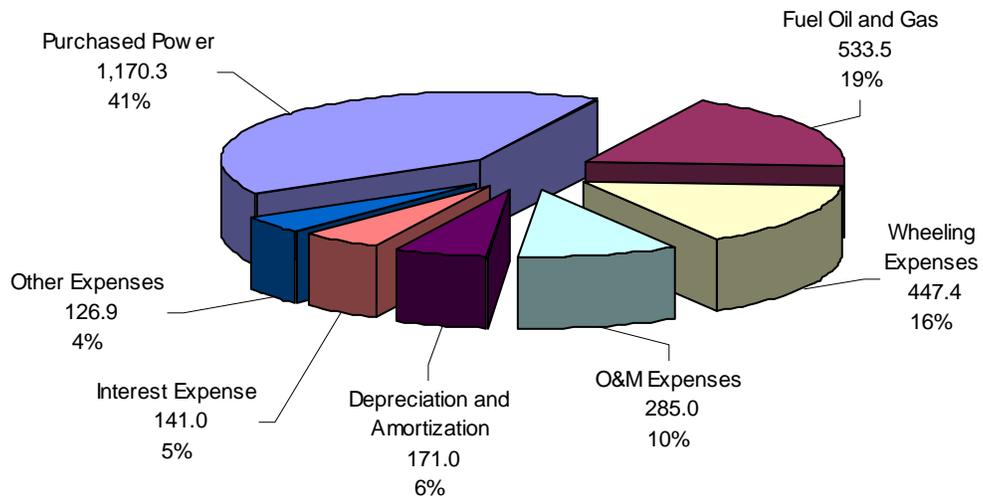
NYPA's Four-Year Projected Income Statements
(in Millions)

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
<u>Operating Revenues:</u>				
Customer Revenues	\$2,074.7	\$2,298.6	\$2,474.0	\$2,470.4
NYISO Market Revenues	<u>\$898.9</u>	<u>\$914.0</u>	<u>\$701.0</u>	<u>\$663.7</u>
Total Operating Revenues	\$2,973.6	\$3,212.6	\$3,175.0	\$3,134.1
<u>Operating Expenses:</u>				
Purchased Power	(\$1,170.3)	(\$1,291.9)	(\$1,376.1)	(\$1,385.5)
Fuel oil and gas	(\$533.5)	(\$550.0)	(\$370.8)	(\$339.3)
Wheeling Expenses	(\$447.4)	(\$517.8)	(\$581.6)	(\$600.4)
O&M Expenses	(\$289.8)	(\$294.5)	(\$294.2)	(\$293.7)
Other Expenses	(\$126.9)	(\$128.2)	(\$119.3)	(\$117.8)
Depreciation and Amortization	(\$171.0)	(\$154.4)	(\$154.6)	(\$155.4)
Allocation to Capital	<u>\$4.8</u>	<u>\$4.5</u>	<u>\$4.0</u>	<u>\$3.3</u>
Total Operating Expenses	(\$2,734.2)	(\$2,932.3)	(\$2,892.5)	(\$2,888.9)
NET OPERATING REVENUES	\$239.4	\$280.3	\$282.5	\$245.2
<u>Other Income:</u>				
Investment Income	\$41.8	\$35.9	\$33.5	\$35.7
Other Income	<u>\$21.7</u>	<u>\$20.8</u>	<u>\$17.8</u>	<u>\$16.9</u>
Total Other Income	\$63.5	\$56.7	\$51.3	\$52.5
<u>Interest Expense:</u>				
Interest Expense	(\$141.0)	(\$135.2)	(\$128.9)	(\$123.3)
Total Interest Expense	(\$141.0)	(\$135.2)	(\$128.9)	(\$123.3)
NET REVENUES	\$161.9	\$201.8	\$205.0	\$174.4

2008 Budget – Sources
(in Millions)



2008 Budget – Uses
(in Millions)



NYPA's Four-Year Projected Cash Budgets
(in Millions)

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
<u>Revenue Receipts:</u>				
Sale of Power, Use of Transmission Lines, Wheeling Charges and other receipts	\$2,973.6	\$3,212.6	\$3,175.0	\$3,134.1
Earnings on Investments and Time Deposits	<u>\$42.8</u>	<u>\$40.8</u>	<u>\$35.5</u>	<u>\$35.7</u>
Total Revenues	\$3,016.4	\$3,253.4	\$3,210.5	\$3,169.8
<u>Expenses:</u>				
Operation and Maintenance, including Transmission of Electricity by others, Purchased Power and Fuel Purchases	(\$2,571.9)	(\$2,787.2)	(\$2,749.1)	(\$2,734.9)
<u>Debt Service:</u>				
Interest on Bonds and Notes	(\$116.4)	(\$110.0)	(\$103.3)	(\$97.3)
General Purpose Bonds Retired	(\$147.0)	(\$115.6)	(\$138.3)	(\$118.2)
Notes Retired	<u>(\$6.0)</u>	<u>(\$6.5)</u>	<u>(\$7.0)</u>	<u>(\$7.6)</u>
Total Debt Service	(\$269.4)	(\$232.1)	(\$248.6)	(\$223.1)
Total Requirements	(\$2,841.3)	(\$3,019.3)	(\$2,997.7)	(\$2,958.0)
NET OPERATIONS	\$175.1	\$234.1	\$212.8	\$211.8
<u>Capital Receipts:</u>				
Sale of Bonds, Promissory Notes & Commercial Paper	\$112.2	\$105.1	\$104.4	\$102.3
Less : Repayments	(\$49.3)	(\$50.0)	(\$50.0)	(\$50.0)
Earnings on Construction Funds	\$8.5	\$5.8	\$3.3	\$2.5
DSM Recovery Receipts	\$60.7	\$50.0	\$50.0	\$50.0
Other	<u>\$30.0</u>	<u>\$30.0</u>	<u>\$30.0</u>	<u>\$30.0</u>
Total Capital Receipts	\$162.1	\$140.9	\$137.7	\$134.8
<u>Capital Additions & Refunds:</u>				
Additions to Electric Plant in Service and Construction Work in Progress, and Other costs	(\$255.0)	(\$271.8)	(\$261.2)	(\$235.0)
Construction Escrow	<u>\$34.6</u>	<u>\$30.3</u>	<u>\$30.8</u>	<u>\$32.8</u>
Total Capital Additions & Refunds	(\$220.4)	(\$241.5)	(\$230.4)	(\$202.2)
NET CAPITAL	(\$58.3)	(\$100.6)	(\$92.7)	(\$67.4)
NET INCREASE / (DECREASE)	\$116.8	\$133.5	\$120.1	\$144.4

(a) NYPA's Relationship with the New York State Government

NYPA is a corporate municipal instrumentality and political subdivision of the State of New York created in 1931 and authorized by the Power Authority Act of the State of New York (the "Power Authority Act") to help provide a continuous and adequate supply of dependable electric power and energy to the people of New York State. The Authority's operations are overseen by seven Trustees. NYPA's Trustees are appointed by the Governor of the State, with the advice and consent of the State Senate. The Authority is a fiscally independent public corporation that does not receive State funds or tax revenues or credits. NYPA generally finances construction of new projects through sales of bonds and notes to investors and pays related debt service with revenues from the generation and transmission of electricity. Income of the Authority and properties acquired by it for its projects are exempt from taxation. However, the Authority is authorized by Chapter 908 of the Laws of 1972 to enter into agreements to make payments in lieu of taxes with respect to property acquired for any project where such payments are based solely on the value of the real property without regard to any improvement thereon by the Authority and where no bonds to pay any costs of such project were issued prior to January 1, 1972.

(b) Budget Process

As an electric utility, NYPA operates in a capital intensive industry where operating revenues and expenses are significant and highly variable due to the volatility of electricity prices and fuel costs. NYPA's operations are not only subject to electric and fuel cost volatility, but changing water flows have a direct effect on hydroelectric generation levels. The proposed budget and financial plan relies on an early July snapshot of these inputs, while the approved budget and financial plan will use estimates of these markets and conditions as they are appraised in early October 2007. The Authority's experiences with these markets and conditions have shown that they can significantly change over time and therefore substantial differences in operating revenues and expenses between the proposed and approved budget and financial plans are to be expected.

The following is a general outline of the schedule of actions for both the proposed and approved budget forecast for 2008 and the overall four year financial plan for 2008-2011:

Proposed Budget and Financial Plan

- During July 2007 developed preliminary forecasts of electric prices (both energy and capacity) and fuel expenses; NYPA customer power and energy use; NYPA customer rates; generation levels at NYPA power projects reflecting scheduled outages; and purchased energy & power requirements and sources.
- During July – August 2007 developed preliminary operations & maintenance and capital expense targets.
- During August – September 2007 integrated above data to produce the budget and financial valuations.
- September 25, 2007 approval by NYPA's Trustees to submit the proposed budget and financial plan for public inspection at five convenient locations and on NYPA's internet website.

Approved Budget and Financial Plan

- During October 2007 update forecasts of electric prices (both energy and capacity) and fuel expenses; NYPA customer power and energy use; NYPA customer rates; generation levels at NYPA power projects reflecting scheduled outages; and purchased energy & power requirements and sources.
- During October – November finalize operations & maintenance expenses and capital costs estimates.
- In November – December 2007 integrate above data to produce updated budget and financial valuations as well as produced sensitivity (scenario) valuations.
- December 18, 2007 seek authorization of NYPA's Trustees to approve the updated budget and financial plan; and submit the document to the State Comptroller's Office; and to make the document available for public inspection and on NYPA's internet website.

(c) Budget Assumptions

NYISO Revenue and Expenses

The Authority schedules power to its customers and buys and sells energy in an electricity market operated by the New York Independent System Operator. The majority of NYPA's operating expenses are due to various NYISO purchased power charges in combination with generation related fuel expenses. A significant amount of the Authority's revenues result from sales of the Authority's generation into the NYISO market.

In order to budget these expenses and revenues, the Authority utilizes a customized economic statistical software package that develops forward curves. The software package develops forecasts of fuel costs, NYISO super-zone load projections, and wholesale electricity prices and simulates the economic dispatch of statewide generation resulting from

these supply and demand factors. Employing a probabilistic approach to uncertainty through the use of multiple scenarios for loads, fuel prices, and other key inputs, this software package is particularly designed to provide not only price forecasting, but also the crucial underlying volatility data required for accurate valuation of power contracts, generating assets, and energy derivative products. For budget purposes, the prices of the multiple scenarios are averaged to produce an expected value. Key outputs of the software are:

- Forecasts of expected electric price and associated uncertainty for each NYISO super-zone.
- Monte Carlo like scenarios of NYISO super-zone loads and electric and fuel prices that efficiently span the range of possibilities.
- Transmission flows within the NYISO and between the NYISO and external entities.
- Operating margin for specific plants over a period of time.
- Conditional expectations of peak loads in future years.
- Capacity additions commensurate with the above conditional expectations.
- Supply curves (cost vs. load) for specific hours and scenarios.
- Power generated by specific plants over a period of time.

In addition to the economic software package, NYPA employs additional hydrologic, hydraulic and statistical modules and models to forecast the generation levels at its Niagara and St. Lawrence hydroelectric projects. The level of hydroelectric generation is one of the more important determinative factors to the Authority's net revenue position.

Customer and Project Revenue

The customers projected to be served by the Authority for the financial plan period 2008-2011 and the rates paid by such customers vary with the NYPA facilities designated to serve such loads.

St. Lawrence-FDR and Niagara Customers. Power and energy from the St. Lawrence-FDR and Niagara hydroelectric facilities are sold to investor-owned electric utilities, municipal electric systems, rural electric cooperatives, industrial customers, certain public bodies, and out-of-state public customers. The charges for firm power and associated energy sold by the Authority to the investor-owned utility companies for the benefit of rural and domestic customers, the municipal electric systems and rural electric cooperatives in New York State, two public transportation agencies, and seven out-of-state public customers have been established in the context of an agreement settling litigation respecting rates for hydroelectric power, judicial orders in that litigation, and contracts with certain of these customers. Essentially, the "settlement agreement" and relevant judicial orders preclude the inclusion of any expense associated with debt service for non-hydroelectric projects in the hydroelectric rates charged to wholesale customers for the benefit of rural and domestic customers, but specifically permit the inclusion of interest on indebtedness and continuing depreciation and inflation adjustment charges with respect to the capital costs of Niagara and St. Lawrence-FDR. For the purposes of the 2008-2011 financial plan, rate changes were incorporated as of May 1st for each of the four years based on the ratemaking principles established in the settlement agreement.

The basic rates for Niagara expansion and replacement power industrial customers and St. Lawrence-FDR industrial customers are subject to annual adjustment in May of each year based on contractually agreed upon economic indices. For purposes of the four-year financial plan, projections were made concerning the movements and magnitudes of these indices.

SENY Governmental Customers. Power and energy purchased by the Authority in the NYISO capacity and energy markets, as supplemented by sales of power and energy by Authority resources at Poletti, the 500 MW Project, the small hydro projects and Blenheim-Gilboa, are sold to various municipalities, school districts and public agencies in the New York City and Westchester County area.

The Authority and its major New York City governmental customers have entered into new long-term agreements ("2005 LTA"). The 2005 LTA replaced earlier long-term agreements with these NYC governmental customers. Under the 2005 LTA, the NYC governmental customers have agreed to purchase their electricity from the Authority through December 31, 2017, with the NYC governmental customers having the right to terminate service from the Authority at any time on three years' notice provided that they compensate the Authority for any above-market costs associated with certain of the resources used to supply the NYC governmental customers and, under certain limited conditions, on one year's notice.

Under the 2005 LTA, the Authority modifies rates annually through a formal rate proceeding before the Authority if there is a change in fixed costs to serve the New York City governmental customers. Generally, changes in variable costs, which include fuel and purchased power, will be captured through contractual pricing adjustment mechanisms. Under these mechanisms, actual and projected variable costs will be reconciled and either charged or credited to the NYC governmental customers. The NYC governmental customers are committed to pay for any supply secured for them by the Authority which results from a collaborative effort.

Effective January 1, 2007, the Authority entered into a new supplemental electricity supply agreement with Westchester County. Under the new agreement, Westchester County will remain a full requirements customer of NYPA through at least December 31, 2008. The Authority may modify the rates charged the customer pursuant to a specified procedure; an energy charge adjustment mechanism is applicable; the customer is committed to pay for any supply resources secured for it by the Authority under a collaborative process; and NYPA will continue to make available financing for energy efficiency projects and initiatives, with costs thereof to be recovered from the customer. The Authority expects that all of the other Westchester Governmental customers will execute this form of agreement.

For purposes of the four year financial plan it is assumed that the New York City and Westchester customers will continue to be served and rates set to produce the projected net revenue position for each year.

Market Supply Power Customers. The Authority administers an array of power programs for economic development that supply power to businesses and to not-for-profit institutions in New York State. Currently more than 400,000 jobs across the Empire State are linked to these power programs. For a number of these customer programs such as the Economic Development Power program, the High Load Factor Power program, the Municipal Development Agency Power program, and the Power for Jobs program, the Authority has no physical assets to supply power and energy to these customers and NYPA must buy these products in the NYISO market or negotiate bilateral arrangements with other power suppliers.

Many of the programs or the individual contracts of the business customers served under these programs are set to expire during the financial plan timeframe. However, the Authority assumes that the State Legislature will maintain a leading role for NYPA in fostering economic development over the 2008-2011 forecast period. Resultantly, NYPA has modeled the business customers and the not-for-profit institutions as continuing to be served.

Blenheim-Gilboa Customers. The Authority uses all but 50 MW of the Blenheim-Gilboa Pumped Storage Power Project output to meet the requirements of the Authority's business and governmental customers and to provide services in the NYISO market. The Authority also has a contract for the sale of 50 MW of firm capacity from the Blenheim-Gilboa Project to the Long Island Power Authority ("LIPA"). Service under the contract with LIPA commenced on April 1, 1989 and will terminate April 30, 2015, unless terminated by LIPA upon not less than 6 months advance notice. For purposes of the four-year financial plan it is assumed that the LIPA contract is not terminated and the current charges remain in effect throughout the forecast horizon.

Small Clean Power Plants ("SCPPs"). To meet capacity deficiencies and ongoing local requirements in the New York City metropolitan area, which could also adversely affect the statewide electric pool, the Authority placed in operation, in the summer of 2001, eleven 44-MW natural-gas-fueled SCPPs at various sites in New York City and one site in the service territory of LIPA. It is anticipated that for the entire 2008-2011 period, two of these plants will be retired pursuant to an agreement with New York City.

For the 2008 through 2011 forecast period, the installed capacity of the remaining SCPPs is used by the Authority to meet its NYISO mandated installed capacity needs or, if not needed for that purpose, is subject to sale to other users via bilateral arrangements or by sale into the NYISO capacity auction. NYPA sells the energy produced by the SCPPs into the NYISO energy market.

Flynn. The Flynn Project is a combined-cycle facility with a nameplate rating of 164 MW. The Authority is supplying the full output of the Project to LIPA pursuant to a capacity supply agreement (the "CS Agreement") between the Authority and LIPA, which commenced in 1994 and had an initial term of 20 years. The CS Agreement was amended, effective January 1, 2004, by an agreement, which extended the CS Agreement to April 30, 2020. The amended agreement modified the pricing provisions for the period January 1, 2004 to December 31, 2008 and either party has the right to terminate the extension on or before April 30, 2012.

For purposes of the four-year financial plan it is assumed that the agreement between LIPA and NYPA remains in effect throughout the period.

Transmission Project. The Authority owns approximately 1,400 circuit miles of high voltage transmission lines, more than any other utility in New York State, with the major lines being the 765-kV Massena-Marcy line, the 345-kV Marcy-South line, the 345-kV Niagara-to-Edic transmission line, and the 345-kV Long Island Sound Cable.

In an Order issued January 27, 1999, FERC approved the use of the Authority's present transmission system revenue requirement in developing the rates for service under the NYISO tariff. FERC also approved, among other things, the imposition of the NYPA Transmission Adjustment Charge ("NTAC") and the NYPA Transmission Service Charges ("TSC") which are the tariff elements set aside to aid in the full recovery of the Authority's annual transmission revenue requirement.

With the implementation of the NYISO arrangement in November 1999, all transmission service over the Authority's facilities is either pursuant to the NYISO tariffs or pre-existing Authority contracts with NYPA realizing its \$165 million annual revenue requirement via the NTAC, TSC or through existing customer contracts. For purposes of the

four-year financial plan it is assumed that these revenue producing vehicles remain in effect and the Authority earns its annual revenue requirement.

Investment and Other Income

Investment Income. Investment of the Authority's funds is administered in accordance with the applicable provisions of the Bond Resolution and with the Authority's investment guidelines. These guidelines comply with the New York State Comptroller's investment guidelines for public authorities and were adopted pursuant to Section 2925 of the New York Public Authorities Law. The Authority's investments are restricted to (a) collateralized certificates of deposit, (b) direct obligations of or obligations guaranteed by the United States of America or the State of New York, (c) obligations issued or guaranteed by certain specified federal agencies and any agency controlled by or supervised by and acting as an instrumentality of the United States government, and (d) obligations of any state or any political subdivision thereof or any agency, instrumentality or local government unit of any such state or political subdivision which is rated in any of the three highest long-term rating categories, or the highest short-term rating category, by nationally recognized rating agencies. The Authority's investments in the debt securities of Federal National Mortgage Association (FNMA) and Federal Home Loan Mortgage Corp. (FHLMC) were rated Aaa by Moody's Investors Services (Moody's) and AAA by Standard & Poor's (S&P) and Fitch Ratings (Fitch). All of the Authority's investments in U.S. debt instruments are issued or explicitly guaranteed by the U.S. Government.

Other Income. On November 21, 2000 ("Closing Date"), the Authority sold its nuclear plants (Indian Point #3 and James A. FitzPatrick Projects) to two subsidiaries of the Entergy Corporation for cash and non-interest bearing notes totaling \$967 million maturing over a 15-year period. The present value of these payments recorded on the Closing Date, utilizing a discount rate of 7.5%, was \$680 million. On an accrual basis the Authority expects to recognize interest income of \$18.7 million in 2008, \$17.8 million in 2009, \$16.9 million in 2010, and \$15.9 million in 2011. On a cash basis the Authority projects to receive \$30 million payments in each year from 2008 through 2011.

As part of the Authority's sale in 2000 of its two nuclear plants, the Authority entered into two "value sharing agreements" with the Entergy subsidiaries. In essence, the agreements provide that Entergy subsidiaries will share with the Authority a certain percentage of all revenues they receive from power sales from the nuclear plants in excess of specific projected power prices for a 10 year period, covering 2005 – 2014. The Authority and the Entergy subsidiaries are disputing the sharing amounts for 2005 and 2006 and the dispute is being arbitrated consistent with terms of the value sharing agreement. NYPA and the Entergy subsidiaries are also engaged in settlement discussions. At this time, it is impossible to predict the outcome of either the arbitration dispute or the settlement talks and no projection of either outcome's effect on net revenues and cash flow has been incorporated into the four-year financial plan.

Operations and Maintenance Expenses

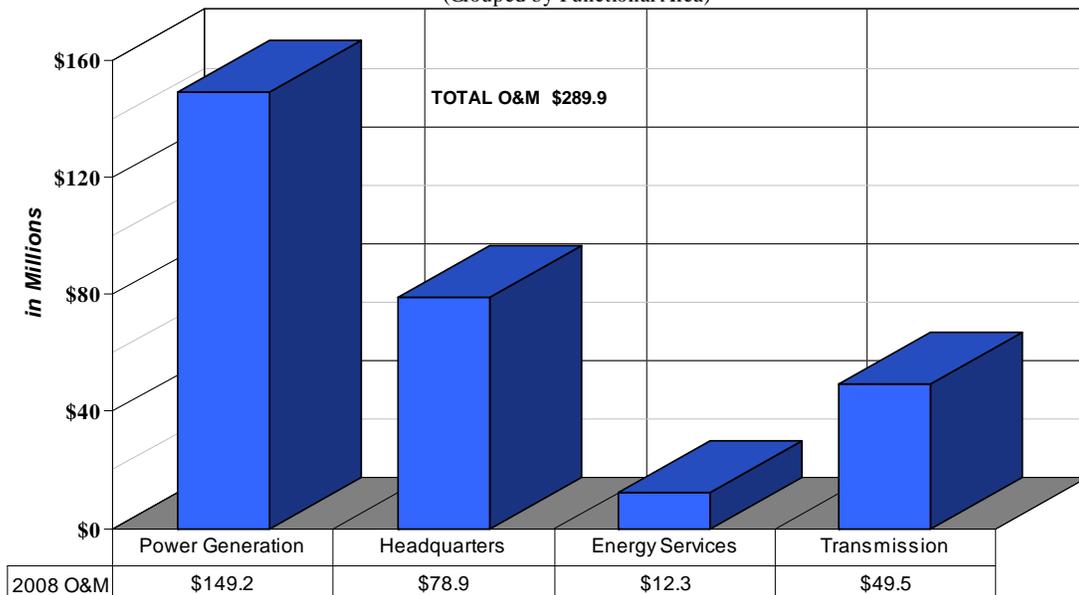
NYPA's O&M plan for 2008 – 2011 assumes planned wage increases, stabilized benefit costs, planned maintenance outages and flat non-recurring spending, resulting in anticipated budget increases below inflation.

Operations and Maintenance Forecast by Cost Element
(in Millions)

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Payroll				
Regular Pay	\$131.6	\$133.7	\$134.9	\$137.6
Overtime	\$7.6	\$7.0	\$6.5	\$6.0
Other Payroll	<u>\$2.2</u>	<u>\$2.0</u>	<u>\$2.0</u>	<u>\$2.0</u>
Total Payroll	\$141.4	\$142.7	\$143.4	\$145.6
Benefits				
Employee Benefits	\$29.4	\$30.6	\$31.8	\$33.1
Pension	\$12.4	\$13.0	\$13.0	\$13.0
FICA	<u>\$10.6</u>	<u>\$10.8</u>	<u>\$11.0</u>	<u>\$11.2</u>
Total Benefits	\$52.4	\$54.4	\$55.8	\$57.3
Materials/Supplies	\$17.2	\$17.6	\$16.9	\$17.3
Fees	\$7.3	\$7.5	\$7.5	\$7.5
Office & Station	\$14.8	\$15.1	\$14.7	\$15.0
Maintenance Repair & Service Contracts	\$82.3	\$82.4	\$79.1	\$77.6
Consultants	\$15.5	\$15.8	\$16.1	\$16.4
Charges to:				
Outside Agencies	(\$16.0)	(\$16.3)	(\$16.7)	(\$17.0)
Capital Programs	<u>(\$34.1)</u>	<u>(\$33.7)</u>	<u>(\$32.0)</u>	<u>(\$35.4)</u>
Total Charges	(\$50.1)	(\$50.0)	(\$48.7)	(\$52.4)
Research & Development	\$9.1	\$9.0	\$9.3	\$9.4
TOTAL NYPA O&M	\$289.9	\$294.5	\$294.2	\$293.7

2008 Operations and Maintenance Expenses

(Grouped by Functional Area)



(d) Self – Assessment of Budgetary Risks

Regulatory Risks

On July 6, 2005, the U.S. Fish and Wildlife Service (“FWS”) initiated a status review under the Endangered Species Act (16 U.S.C. 1531 et seq.) to determine if listing the American eel as threatened or endangered is warranted. American eels are a fish species that migrate between freshwater and the ocean, and their wide range includes the Atlantic seaboard of the United States and Canada and the Great Lakes’ drainages. In findings issued February 2, 2007, the FWS determined that such a listing is not warranted. However, in the event the FWS were to determine in the future to list the American eel as threatened or endangered, such a determination could potentially result in significant additional costs and operational restrictions on hydroelectric generating facilities located within the range of the species, including the Authority’s St. Lawrence-FDR Project.

The Regional Greenhouse Gas Initiative (“RGGI”) is a cooperative effort by Northeastern and Mid-Atlantic states to reduce carbon dioxide emissions commencing in 2009. Central to this initiative is the proposed implementation of a multi-state cap-and-trade program with a market-based emissions trading system. The proposed program will require electricity generators to hold carbon dioxide allowances in a compliance account in a quantity that matches their total emissions of carbon dioxide for the compliance period. The Authority’s Poletti, Flynn, SCPPs, and 500-MW Plant will be subject to the RGGI requirements. Depending on the final program design and prices of the allowances, the costs of compliance to the Authority and other generators in the region could be significant.

Legislative and Political Risks

A series of legislative enactments call for NYPA to subsidize business customers and the State’s general fund. Legislation enacted into law, as part of the 2000-2001 State budget, as amended in 2002, 2003 and 2004, provides that the Authority “as deemed feasible and advisable by the Trustees, is authorized to make an additional annual voluntary contribution into the state treasury to the credit of the general fund,” in connection with the Power for Jobs Program. The Authority has made voluntary contributions totaling \$219 million (including \$50 million payments in March 2005 and December 2004) in addition to reimbursement payments to Power for Jobs customers, \$37 million in 2005, \$46 million for 2006 and a comparable amount forecasted for 2007, in connection with the Power for Jobs legislation. The Executive Budget for State Fiscal Year 2005-2006 extended the Power for Jobs Program to December 31, 2006, increased the cap on Authority contributions from \$275 million to \$394 million, and authorized the Authority to make additional voluntary contributions in the amount of \$75 million to the State.

In August 2006, the Governor signed legislation which authorized NYPA to make voluntary contributions to the State’s general fund and which authorized, and in some cases directed, NYPA to take certain actions with respect to a significant number of its Market Supply Power business customers. For the State’s Fiscal Year 2006-2007 the law authorizes a voluntary contribution of \$100 million and extended the Power for Jobs Program through June 30, 2007. In June 2007, additional legislation was enacted into law that extended the Power for Jobs Program through June 30, 2008 and provided for an additional voluntary contribution of \$30 million for the State Fiscal Year 2007 – 2008 while raising the cap on voluntary contributions to \$424 million.

Approval of any payments to subsidize the State’s general fund and to subsidize the customers under the foregoing legislation is, for the most part, conditional upon the Trustees’ determination that such payments are deemed “feasible and advisable” at the discretion of NYPA’s Trustees. The Trustees’ decision as to whether and to what extent such payments are feasible and advisable will be made based on the exercise of their fiduciary responsibilities and in light of the requirements of the NYPA’s Bond Resolution, other legal requirements, and all the facts and circumstances known to them at the time of the decision. Many of those circumstances are not known at the present time.

As stated earlier, for the 2008-2011 financial plan, the Authority is presuming that continuation of service to the Market Supply Power business customers will remain a New York State priority. Therefore, **for modeling purposes only** for the duration of the 2008 through 2011 financial plan, a maximum of \$100 million annually in total has been incorporated as aggregate payments or subsidies to the Market Supply Power business customers and the State’s general fund. These forecasted voluntary subsidies and payments are subject to the strictures and caveats of the preceding paragraph. Also, the modeling of such contributions should not be read to mean that the Authority believes such continuing subsidies are an appropriate way of promoting economic development in New York State.

Pursuant to legislation enacted into law in April 2006, the Temporary Commission on the Future of New York State Programs for Economic Development (“Temporary Commission”) was established. On December 1, 2006, the Temporary Commission reported their findings on how to best meet the energy cost needs of statewide businesses. Among the Temporary Commission’s recommendations include the centralization of the administration of the State’s power programs; that the proceeds of certain unallocated hydroelectric power of the Authority be dedicated to economic development; that the duration of certain types of power allocation contracts be lengthened; that the Authority facilitate the expansion of the State’s power infrastructure by continuing to enter into long term contracts with power producers for the construction of new generation and/or transmission facilities; the creation of stable

funding sources for the State's power programs, potentially including the State Treasury and dedicated funding from the Authority subject to the Authority's bond covenants and reserve requirements; the expansion of geographic restrictions of certain Authority hydroelectric industrial programs; and the redeployment of hydroelectric power provided by the Authority to the "rural and domestic" (i.e., residential) customers of National Grid, NYSEG and RG&E for statewide economic development purposes. It is unclear at this point which, if any, of the Temporary Commission's recommendations will be implemented by the Legislature and how they would affect NYPA's estimated net revenues for the financial plan period.

Section 1011 of the Power Authority Act ("Act") constitutes a pledge of the State to holders of Authority obligations not to limit or alter the rights vested in the Authority by the Act until such obligations together with the interest thereon are fully met and discharged or unless adequate provision is made by law for the protection of the holders thereof. Several bills have been introduced into the State Legislature, some of which propose to limit or restrict the powers, rights and exemption from regulation which the Authority currently possesses under the Act and other applicable law or otherwise would affect the Authority's financial condition or its ability to conduct its business, activities, or operations, in the manner presently conducted or contemplated by the Authority. It is not possible to predict whether any of such bills or other bills of a similar type which may be introduced in the future will be enacted. In addition, from time to time, legislation is enacted into New York law which purports to impose financial and other obligations on the Authority, either individually or along with other public authorities or governmental entities. The applicability of such provisions to the Authority would depend upon, among other things, the nature of the obligations imposed and the applicability of the pledge of the State set forth in Section 1011 of the Act to such provisions. There can be no assurance that the Authority will be immune from the financial obligations imposed by any such provision.

Actions taken by the State Legislature or the Executive Branch to extract greater contributions and which attempt to constrain the discretion of or bypass the Authority's Trustees could negatively affect net revenues and possibly harm NYPA's bond rating.

In Executive Order No. 111, dated June 10, 2001 (the "Executive Order"), the Governor, among other things, required State agencies and other affected entities, as defined in the Executive Order, with responsibility for purchasing energy to increase their purchases of energy generated from the following renewable technologies: wind, solar thermal, photovoltaics, sustainably managed biomass, tidal, geothermal, methane waste and fuel cells. State agencies and other affected entities must seek to purchase sufficient quantities of energy (or renewable energy attributes) from these technologies so that 10 percent of the overall annual electric energy requirements of buildings owned, leased or operated by such entities will be met through these technologies by 2005, increasing to 20 percent by 2010. No agency or affected entity will be exempt from these goals except pursuant to criteria to be developed by the New York State Energy Research and Development Authority. For the purposes of the Executive Order, "State agencies and affected entities" means agencies and departments over which the Governor has Executive authority and all public benefit corporations and public authorities the heads of which are appointed by the Governor. While the Authority's Chairman is appointed by the Trustees and not by the Governor, the Authority has voluntarily determined to comply with the Order and to assist any of its governmental customers with their compliance obligations. It is uncertain what impact this Order will have on the sale by the Authority of power and energy to those Authority governmental customers coming within the scope of the Executive Order (NYPA is providing renewable energy attributes to several such customers), but it may result in such customers seeking suppliers other than the Authority for a portion of their power and energy requirements.

Hydroelectric Generation Risk

For the 2008-2011 financial plan period, NYPA's net revenues are highly dependent upon generation levels at its Niagara and St. Lawrence-FDR Projects. The generation levels themselves are a function of the hydrological conditions prevailing on the Great Lakes, primarily, Lake Erie (Niagara Project) and Lake Ontario (St. Lawrence-FDR). Long-term generation levels at the two hydroelectric projects are about 20.0 terawatt-hours ("TWH") annually. For 2008, NYPA's probabilistic hydroelectric generation models are forecasting an expected generation level of 18.1 TWH, which is below the long-term average. In 2009, the generation level is estimated at 18.8 TWH; in 2010 at 19.3 TWH; and in 2011 at approximately 19.1 TWH.

However, these generation amounts are expected values and hydrological conditions can vary considerably from year to year. For instance, during a recent eight year period, 1999-2006, hydroelectric generation was in a number of the years below the long-term average and manifested considerable volatility.

Net Hydroelectric Generation

1999	18.7	TWH
2000	18.6	TWH
2001	17.6	TWH
2002	19.7	TWH
2003	18.3	TWH
2004	20.4	TWH
2005	20.7	TWH
2006	20.3	TWH

Poor hydrological conditions would adversely affect NYPA's estimated net revenues for the Financial Plan horizon and would likely compel NYPA's Trustees to lower or not approve any contributions to the discretionary subsidy policy described above.

NYPA conducted high and low hydroelectric generation sensitivities for 2008 and 2009 that estimated the potential net revenues that could result over a range of hydroelectric generation occurrences. The generation range measured was the middle 50% of probability distribution outcomes. The effects on estimated net revenues, assuming all other factors remain unchanged, were as follows:

	<u>Low Generation</u>		<u>High Generation</u>	
	<u>Hydroelectric</u>	NYPA Net Revenue	<u>Hydroelectric</u>	NYPA Net Revenue
	<u>Generation</u>	<u>(in Millions)</u>	<u>Generation</u>	<u>(in Millions)</u>
2008	17.2 TWH	\$128.4	19.0 TWH	\$197.3
2009	17.8 TWH	\$163.0	19.9 TWH	\$251.4

Electric Price and Fuel Risk

The Authority dispatches power from its generating facilities in conjunction with the NYISO. The NYISO coordinates the reliable dispatch of power and operates markets for the sale of electricity and ancillary services within New York State. The NYISO collects charges associated with the use of the transmission facilities and the sale of energy, capacity, and services through the markets that it operates and remits those proceeds to the owners of the facilities in accordance with its tariff and to the sellers of the electricity and services in accordance with their respective bids and applicable NYISO market procedures. Under the NYISO Open Access Transmission Tariff, certain charges for ancillary services (which include NYISO operating costs), congestion, losses, and a portion of the Authority's transmission costs are assessed against the Authority and other entities responsible for serving ultimate customers. Because of the Authority's active participation in the NYISO markets, such costs are significant and are currently being passed through to most Authority customers.

Under NYISO procedures, Load Serving Entities ("LSEs") represent electricity end-users in dealings with the NYISO. The Authority is an LSE for large segments of its load in New York State and must ensure it has sufficient installed capacity to meet its customers' needs and NYISO reliability rules, either through ownership of such capacity, bilateral installed capacity purchase contracts or auction purchases conducted by the NYISO. As an LSE, the Authority is also obligated to ensure that it has enough energy to meet its customers' energy needs. These needs can be met in the NYISO regime through the Authority's own generation, bilateral purchases from others, or purchases of energy in the NYISO "day-ahead" market ("DAM") (wherein bids are submitted for energy to be delivered the next day) or in the NYISO "real time" market. A bilateral purchase is a transaction where a generator or a power marketer that has access to power and an LSE agree upon a specified amount of energy being supplied to the LSE by the generator or power marketer at specified prices.

This procedure has provided the Authority with economic benefits from its units' operation when selected by the NYISO and may do so in the future. However, such bids also obligate the Authority to supply the energy in question during a specified time period, which does not exceed two days, if the unit is selected. If a forced outage occurs at the Authority plant which is to supply such energy, then the Authority is obligated to pay during the Short Term Period (1) in regard to the Excess Energy amount, the difference between the price of energy in the NYISO real time market and the Market Clearing Price in the DAM, and (2) in regard to the Contract Energy amount, the price of energy in the NYISO real time market which is offset by the Contract Price. This real time market price may be subject to more volatility than the DAM price. The risk attendant with this outage situation is that, under certain circumstances, the Market Clearing Price in the DAM and the Contract Price may be well below the price in the NYISO real time market, with the Authority having to pay the difference. In times of maximum energy usage, this cost could be substantial. This outage cost risk is primarily of concern to the Authority in the case of its Poletti unit and the 500-MW Project because of their size, nature, and location.

In addition to the risk associated with Authority generation bids into the DAM, the Authority could incur substantial costs in times of maximum energy usage in purchasing replacement energy for its customers in the DAM or through other supply arrangements to make up for lost energy due to an extended outage of its units and non-performance of counterparties to energy supply contracts.

In April 2002, the Authority created the position of Vice President, Chief Risk Officer—Energy Risk Assessment and Control. This officer reports to the Executive Vice President and Chief Financial Officer and is responsible for establishing policies and procedures for identifying, reporting and controlling energy-price- and fuel-price-related risk exposure and risk exposure connected with energy- and fuel-related hedging transactions. This type of assessment and control has assumed greater importance in light of the Authority's participation in the NYISO energy markets and the sale of its two nuclear plants, and the commercial operation of its 500-MW Project. In recent years, the Authority has increased its dependence on purchased power to meet its customers' needs. This has made the Authority more susceptible to risks posed by increases in purchased power costs and fuel costs. To deal with this greater risk, the Authority has obtained and is in the process of obtaining power purchase agreements (or their financial equivalents) to meet a significant portion of its customer load. Even with these planned arrangements, the Authority will still have exposure to purchased power price risks to the extent it purchases power in the NYISO day-ahead and real-time markets. Also, with the addition of the Authority's 500-MW Project, the Authority will face increased fuel price risk to the extent it uses its own fossil-fuel generation to meet its customers' needs. The risk management program implemented by the Vice President, Chief Risk Officer—Energy Risk Assessment and Control is designed to mitigate such risks. The Authority is also pursuing an initiative to develop and implement a comprehensive enterprise-wide risk management program.

Litigation Risk

In 1982 and again in 1989, several groups of St. Regis Mohawk Indians filed lawsuits against the State, the Governor of the State, St. Lawrence and Franklin counties, the St. Lawrence Seaway Development Corporation, the Authority and others, claiming ownership to certain lands in St. Lawrence and Franklin counties and to Barnhart, Long Sault and Croil islands. These islands are within the boundary of the Authority's St. Lawrence-FDR project and significant project facilities are located on Barnhart Island. Settlement discussions were held periodically between 1992 and 1998. In 1998, the Federal government intervened on behalf of the Mohawk Indians.

On May 30, 2001, the United States District Court (the Court) denied, with one minor exception, the defendants' motion to dismiss the land claims. However, the Court barred the Federal government and one of the tribal plaintiffs, the American Tribe of Mohawk Indians (the Tribe) from re-litigating a claim to 144 acres on the mainland which had been lost in the 1930s by the Federal government. The Court rejected the State's broader defenses, allowing all plaintiffs to assert challenges to the islands and other mainland conveyances in the 1800s, which involved thousands of acres.

On August 3, 2001, the Federal government sought to amend its complaint in the consolidated cases to name only the State and the Authority as defendants. The State and the Authority advised the Court that they would not oppose the motion but reserved their right to challenge, at a future date, various forms of relief requested by the Federal government.

The Court granted the Federal government's motion to file an amended complaint. The tribal plaintiffs still retain their request to evict all defendants, including the private landowners. Both the State and the Authority answered the amended complaint. In April 2002, the tribal plaintiffs moved to strike certain affirmative defenses and, joined by the Federal government, moved to dismiss certain defense counterclaims. In an opinion, dated July 28, 2003, the Court left intact most of the Authority's defenses and all of its counterclaims.

Thereafter settlement discussions produced a land claim settlement, which if implemented would include, among other things, the payment by the Authority of \$2 million a year for 35 years to the tribal plaintiffs, the provision of up to 9 MW of low cost Authority power for use on the reservation, the transfer of two Authority-owned islands, Long Sault and Croil, and a 215-acre parcel on Massena Point to the tribal plaintiffs, and the tribal plaintiffs withdrawing any judicial challenges to the Authority's new license, as well as any claims to annual fees from the St. Lawrence-FDR project. Members of all tribal entities voted to approve the settlement, which was executed by them, the Governor, and the Authority on February 1, 2005. The settlement required, among other things, Federal and State legislation to become effective which has not yet been enacted.

Litigation in the case had been stayed to permit time for passage of such legislation and to await decisions of appeals in two relevant New York land claims litigations, involving the Cayuga and Oneida Nations, to which the Authority was not a party. In May 2006, the U.S. Supreme Court declined to review the U.S. Court of Appeals' (Second Circuit) decision in Cayuga Indian Nation et al. v Pataki et al. (2005) that had reversed a verdict awarding the Cayugas \$248 million in damages and also dismissed the Cayuga land claim. The basis for the Second Circuit's dismissal of the land claim was that the Cayugas had waited too long to bring their land claim (laches). The Authority had raised the defense of laches in its answer in the St. Regis litigation and on November 26, 2006 the Authority and the State moved to

dismiss the St. Regis Mohawks complaints as well as the United States' complaint on similar delay grounds. The Mohawks and the Federal government filed papers opposing those motions in July 2007. The Authority and the State will file reply papers when the Magistrate sets a schedule for further proceedings in the case.

(e) Revised Forecast of 2007 Budget

(in Millions)

	Original Budget	Forecast	Variance
	<u>2007</u>	<u>2007</u>	Better/(Worse)
			<u>2007</u>
<u>Operating Revenues:</u>			
Customer Revenues	\$1,850.1	\$1,854.2	\$4.1
NYISO Market Revenues	<u>\$919.0</u>	<u>\$949.9</u>	<u>\$30.9</u>
Total Operating Revenues	\$2,769.2	\$2,804.1	\$34.9
<u>Operating Expenses:</u>			
Purchased Power	(\$1,059.6)	(\$1,137.5)	(\$77.9)
Fuel oil and gas	(\$522.7)	(\$506.6)	\$16.1
Wheeling Expenses	(\$323.7)	(\$327.6)	(\$3.9)
O&M Expenses	(\$268.5)	(\$268.5)	\$0.0
Other Expenses	(\$137.6)	(\$146.0)	(\$8.4)
Depreciation and Amortization	<u>(\$176.5)</u>	<u>(\$178.5)</u>	<u>(\$2.0)</u>
Total Operating Expenses	(\$2,488.5)	(\$2,564.6)	(\$76.1)
NET OPERATING REVENUES	\$280.6	\$239.5	(\$41.1)
<u>Other Income:</u>			
Investment Income	\$27.2	\$47.5	\$20.3
Other Income	<u>\$28.5</u>	<u>\$23.6</u>	<u>(\$4.9)</u>
Total Other Income	\$55.7	\$71.1	\$15.4
<u>Interest Expense:</u>			
Interest Expense	<u>(\$129.2)</u>	<u>(\$115.5)</u>	<u>\$13.7</u>
Total Interest Expense	(\$129.2)	(\$115.5)	\$13.7
NET REVENUES	\$207.2	\$195.0	(\$12.2)

(f) Reconciliation of 2007 Budget and 2007 Revised Forecast

Estimates of 2007 Net Revenues have decreased mainly due to lower forecasted hydro generation (19.34 TWH compared to 20.38 TWH in current year's budget) at the Niagara and St. Lawrence-FDR projects. The lower hydro generation results in reduced market sales from these projects as well as increased purchased power costs in the form of substitute and alternative market purchases for a number of the projects' customers.

Offsetting the effects of the lower hydro generation are increased revenues from investment income, and lower interest expense and fuel expense. The investment income increase is due to higher returns and higher than anticipated fund balances. Lower interest expense results from lower variable interest rates and the accelerated retirement of some debt. Fuel commodity prices are trending below those anticipated in the budget.

(g) Statement of 2006 Financial Performance
(in Millions)

	Original Budget <u>2006</u>	Actual <u>2006</u>	Variance Better/(Worse) <u>2006</u>
<u>Operating Revenues:</u>			
Customer Revenues	\$1,829.0	\$1,729.8	(\$99.2)
NYISO Market Revenues	<u>\$1,092.1</u>	<u>\$930.1</u>	<u>(\$161.9)</u>
Total Operating Revenues	\$2,921.1	\$2,659.9	(\$261.2)
<u>Operating Expenses:</u>			
Purchased Power	(\$1,290.8)	(\$1,060.8)	\$230.0
Fuel oil and gas	(\$623.6)	(\$523.1)	\$100.6
Wheeling Expenses	(\$302.1)	(\$295.5)	\$6.6
O&M Expenses	(\$251.2)	(\$256.0)	(\$4.8)
Other Expenses	(\$137.9)	(\$177.4)	(\$39.5)
Depreciation and Amortization	<u>(\$176.4)</u>	<u>(\$173.4)</u>	<u>\$3.0</u>
Total Operating Expenses	(\$2,782.0)	(\$2,486.1)	\$296.0
NET OPERATING REVENUES	\$139.0	\$173.8	\$34.8
<u>Other Income:</u>			
Investment Income	\$26.7	\$36.5	
Other Income	<u>\$35.1</u>	<u>\$35.9</u>	
Total Other Income	\$61.8	\$72.4	\$10.6
<u>Interest Expense:</u>			
Interest Expense	<u>(\$114.9)</u>	<u>(\$108.6)</u>	<u>\$6.3</u>
Total Interest Expense	(\$114.9)	(\$108.6)	\$6.3
NET REVENUES	\$85.9	\$137.6	\$51.7

(h) Employee Data – number of employees, full-time, FTEs and functional classification

NYPA AUTHORIZED POSITIONS

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Headquarters	617	617	617	617
Power Generation*	813	813	774	774
Transmission	<u>200</u>	<u>200</u>	<u>200</u>	<u>200</u>
TOTAL	1630	1630	1591	1591

* Includes the anticipated retirement of the Poletti plant in 2010.

(i) Gap-Closing Initiatives – revenue enhancement or cost-reduction initiatives

As the Authority is projecting positive net revenues for the 2008-2011 financial plan period, there are no planned gap-closing programs.

(j) Material Non-recurring Resources – source and amount

See discussion in “Other Income” section.

(k) Shift in Material Resources

There are no anticipated shifts in material resources from one year to another.

(l) Debt Service

Projected Debt Outstanding (FYE)
(in Thousands)

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
<u>Revenue Bonds</u>				
Series 1998A	22,850	16,975	15,265	13,040
Series 2000A	77,215	77,215	77,215	77,215
Series 2001A	-	-	-	-
Series 2002A	435,705	412,675	388,580	363,645
Series 2003A	209,090	204,785	200,310	195,645
Series 2006A	154,340	144,315	133,845	122,970
Series 2007A	<u>341,940</u>	<u>337,480</u>	<u>332,790</u>	<u>327,860</u>
Total Revenue Bonds	1,241,140	1,193,445	1,148,005	1,100,375
<u>Adjustable Rate Tender Notes</u>	143,995	137,505	130,500	122,935
<u>Auction Rate Notes</u>				
Series 3	36,050	34,625	33,150	31,625
Series 4	<u>36,050</u>	<u>34,625</u>	<u>33,150</u>	<u>31,625</u>
Total Auction Rate Notes	72,100	69,250	66,300	63,250
<u>Commercial Paper Notes</u>				
Series 1	300,000	300,000	300,000	300,000
Series 2	242,150	196,590	127,590	81,815
Series 3	215,707	210,914	198,712	184,885
Extendible - Series 1	<u>85,000</u>	<u>80,000</u>	<u>75,000</u>	<u>70,000</u>
Total Commercial Paper Notes	842,857	787,504	701,302	636,700
GRAND TOTAL	2,300,092	2,187,704	2,046,107	1,923,260

Planned Use of Debt Issuances
(in Thousands)

<u>TYPE</u>	<u>Amount</u>	<u>Assumed Interest Rate</u>	<u>Project / Description</u>
<u>Period January 1, 2008 - December 31, 2008</u>			
	<u>\$28,229.0</u>		
Tax Exempt Commercial Paper		4.15%	Energy Services Program
Taxable Commercial Paper	\$16,000.0	5.75%	Tri-Lakes Transmission
	<u>\$5,317.0</u>	5.75%	Energy Services Program
Total Taxable Commercial Paper	\$21,317.0		
	\$49,546.0		
TOTAL ISSUED 2008			
<u>Period January 1, 2009 - December 31, 2009</u>			
	\$4,799.6	5.75%	Tri-Lakes Transmission
	<u>\$4,830.0</u>	5.75%	Energy Services Program
Total Taxable Commercial Paper	\$9,629.6		
	\$9,629.6		
TOTAL ISSUED 2009			
<u>Period January 1, 2010 - December 31, 2010</u>			
Taxable Commercial Paper	\$3,705.0	5.75%	Energy Services Program
	\$3,705.0		
TOTAL ISSUED 2010			
<u>Period January 1, 2011 - December 31, 2011</u>			
Taxable Commercial Paper	\$2,940.0	5.75%	Energy Services Program
	\$2,940.0		
TOTAL ISSUED 2011			

Note: The full faith and credit of the Authority are pledged for the payment of bonds and notes in accordance with their terms and provisions of their respective resolutions. The Authority has no taxing power and its obligations are not debts of the State or any political subdivision of the State other than the Authority. The Authority's debt does not constitute a pledge of the faith and credit of the State or of any political subdivision thereof, other than the Authority.

Debt Service as Percentage of Pledged Revenues (Accrual Based)
(in Thousands)

	<u>2008</u>		<u>2009</u>		<u>2010</u>		<u>2011</u>	
	<u>Debt Service</u>	<u>% of Rev.</u>						
Revenue Bonds								
Series 1998A	\$10,172	0.34%	\$3,092	0.10%	\$2,928	0.09%	\$3,081	0.10%
Series 2000A	\$4,054	0.13%	\$4,054	0.12%	\$4,054	0.13%	\$4,054	0.13%
Series 2001A	\$38,740	1.28%	\$0	0.00%	\$0	0.00%	\$0	0.00%
Series 2002A	\$44,592	1.48%	\$44,591	1.37%	\$44,561	1.39%	\$44,344	1.40%
Series 2003A	\$15,741	0.52%	\$15,742	0.48%	\$15,741	0.49%	\$15,741	0.50%
Series 2006A	\$17,231	0.57%	\$17,231	0.53%	\$17,232	0.54%	\$17,235	0.54%
Series 2007A	<u>\$21,950</u>	<u>0.73%</u>	<u>\$21,950</u>	<u>0.67%</u>	<u>\$21,950</u>	<u>0.68%</u>	<u>\$21,950</u>	<u>0.69%</u>
Total Revenue Bonds	\$152,480	5.06%	\$106,660	3.28%	\$106,466	3.32%	\$106,405	3.36%
Adjustable Rate Tender Notes	\$12,209	0.40%	\$12,463	0.38%	\$12,738	0.40%	\$13,037	0.41%
Auction Rate Notes								
Series 3	\$2,777	0.09%	\$2,774	0.09%	\$2,769	0.09%	\$2,828	0.09%
Series 4	<u>\$2,777</u>	<u>0.09%</u>	<u>\$2,774</u>	<u>0.09%</u>	<u>\$2,769</u>	<u>0.09%</u>	<u>\$2,828</u>	<u>0.09%</u>
Total Auction Rate Notes	\$5,554	0.18%	\$5,548	0.17%	\$5,538	0.17%	\$5,655	0.18%
Commercial Paper Notes								
Series 1	\$12,279	0.41%	\$12,450	0.38%	\$12,450	0.39%	\$12,450	0.39%
Series 2	\$50,156	1.66%	\$74,517	2.29%	\$54,782	1.71%	\$24,559	0.77%
Series 3	\$15,682	0.52%	\$27,847	0.86%	\$27,240	0.85%	\$27,239	0.86%
Extendible - Series 1	<u>\$8,735</u>	<u>0.29%</u>	<u>\$8,528</u>	<u>0.26%</u>	<u>\$8,320</u>	<u>0.26%</u>	<u>\$8,113</u>	<u>0.26%</u>
Total Commercial Paper Notes	\$86,852	2.88%	\$123,342	3.79%	\$102,792	3.20%	\$72,361	2.28%
Grand Total Debt Service	<u>\$257,095</u>	<u>8.52%</u>	<u>\$248,013</u>	<u>7.62%</u>	<u>\$227,534</u>	<u>7.09%</u>	<u>\$197,458</u>	<u>6.23%</u>

Note: NYPA has no legal limit with regards to debt issuance.

Scheduled Debt Service Payments (Accrual Based)

Outstanding (Issued) Debt

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	143,539,938	112,770,948	256,310,886
2009	140,346,372	105,960,134	246,306,507
2010	125,845,806	99,736,651	225,582,457
2011	101,159,254	94,155,987	195,315,240

Proposed Debt

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	-	783,616	783,616
2009	-	1,706,094	1,706,094
2010	-	1,951,475	1,951,475
2011	-	2,142,519	2,142,519

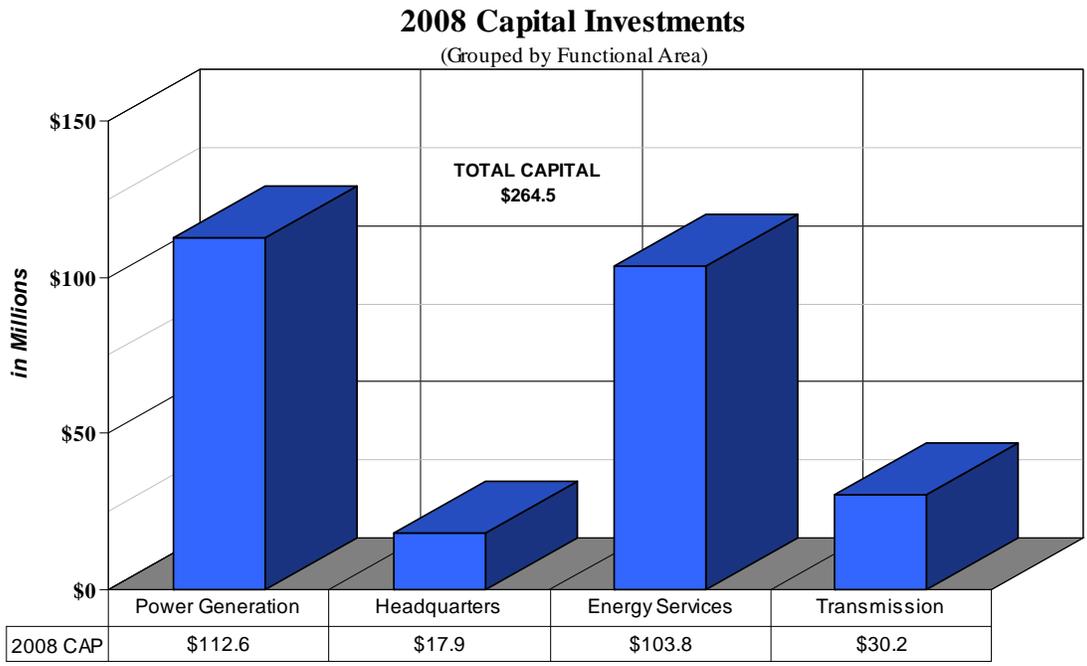
Total Debt

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	143,539,938	113,554,563	257,094,501
2009	140,346,372	107,666,228	248,012,600
2010	125,845,806	101,688,126	227,533,932
2011	101,159,254	96,298,505	197,457,759

(m) Capital Investments and Sources of Funding

The Authority currently estimates that it will expend approximately \$1.06 billion for various capital improvements over the financial plan period 2008-2011. The Authority anticipates that these expenditures will be funded using existing construction funds, internally-generated funds and additional borrowings. Such additional borrowings are expected to be accomplished through the issuance of additional commercial paper notes and/or the issuance of long-term fixed rate debt. Projected capital requirements during this period include:

<i>(in Millions)</i>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Niagara Relicensing	\$24.3	\$25.0	\$25.5	\$24.7
St. Lawrence Relicensing	\$16.4	\$7.9	\$2.5	\$2.2
Niagara LPGP and STL-FDR Life Extension and Modernization	\$17.0	\$20.5	\$30.3	\$30.1
Blenheim-Gilboa Life Extension and Modernization	\$23.0	\$23.1	\$23.2	\$8.0
Energy Services & Technology	\$103.8	\$105.5	\$115.2	\$113.1
Other	<u>\$80.0</u>	<u>\$99.3</u>	<u>\$73.7</u>	<u>\$65.8</u>
TOTAL	\$264.5	\$281.3	\$270.4	\$243.9



**Certification of Assumptions and Method of Estimation for
Budget and Financial Plan 2008-2011 in accordance with the
Comptroller's Regulation § 203.9 Certification**

September 25, 2007

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

To the best of my knowledge and belief after reasonable inquiry, I, the undersigned, certify that the "Authority's Method of Estimation for Budget and Financial Plan 2008-2011" is based on reasonable assumptions and methods of estimation and that the regulations enumerated in Part 203, "Budget and Financial Plan Format, Supporting Documentation and Monitoring - Public Authorities" have been satisfied.



Roger B. Kelley
President and Chief Executive Officer

12. Budget Information Pursuant to Section 2801 of the Public Authorities Law

The President and Chief Executive Officer submitted the following report:

SUMMARY

“The Trustees are requested to authorize the Corporate Secretary to submit budget information to the Governor and legislative leaders pursuant to Section 2801 of the Public Authorities Law.

BACKGROUND

“In January 2006, the Public Authorities Accountability Act of 2005 (‘PAAA’) was signed into law, reflecting the State’s commitment to maintaining public confidence in public authorities by ensuring that the essential governance principles of accountability, transparency and integrity are followed at all times. To facilitate these objectives, the PAAA established an Authority Budget Office (‘ABO’) that monitors and evaluates the compliance of State authorities with the requirements of the Act. Among other things, the PAAA amended Section 2801 of the Public Authorities Law to require that budget reports by a State authority be submitted to designated governmental officials 90 days, rather than 60 days, before the start of the Authority’s fiscal year.

DISCUSSION

“The Trustees are requested to authorize the Corporate Secretary to file the attached budget information (Exhibit ‘12-A’) pursuant to Section 2801(1) of the Public Authorities Law, which provides as follows:

State authorities. Every state authority or commission heretofore or hereafter continued or created by this chapter or any other chapter of the laws of the State of New York shall submit to the governor, chairman and ranking minority member of the senate finance committee, and chairman and ranking minority member of the assembly ways and means committee, for their information, annually not less than ninety days before the commencement of its fiscal year, in the form submitted to its members or trustees, budget information on operations and capital construction setting forth the estimated receipts and expenditures for the next fiscal year and the current fiscal year, and the actual receipts and expenditures for the last completed fiscal year.

“As provided in Executive Order No. 173, this information will also be submitted to the State Division of the Budget.

FISCAL INFORMATION

“There is no anticipated fiscal impact.

RECOMMENDATION

“The Vice President – Controller recommends that the Trustees authorize submittal of the attached budget information (Exhibit ‘12-A’) as discussed herein.

“The Executive Vice President, General Counsel and Chief of Staff, the Executive Vice President and Chief Financial Officer and I concur in this recommendation.”

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

RESOLVED, That pursuant to Section 2801 of the Public Authorities Law, the Corporate Secretary be, and hereby is, authorized to submit to the Governor, the Chairman and Ranking Minority Member of the Senate Finance Committee, the Chairman and Ranking Minority Member of the Assembly Ways and Means Committee, the Division of the Budget and the Authority Budget Office the attached budget information on operations and capital construction setting forth the estimated receipts and expenditures for the next fiscal year and the current fiscal year, and the actual receipts and expenditures for the last completed fiscal year in accordance with 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 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, General Counsel and Chief of Staff.

Power Authority of the State of New York
Estimated Receipts and Expenditures 2007 and 2008
Actual Receipts and Expenditures 2006
(in millions)

	Actuals <u>2006</u>	Forecast <u>2007</u>	Estimated <u>2008</u>
<u>Revenue Receipts :</u>			
Sale of Power, Use of Transmission Lines, Wheeling Charges and other receipts	\$2,674.7	\$2,804.1	\$2,973.6
Earnings on Investments and Time Deposits	<u>\$31.8</u>	<u>\$42.5</u>	<u>\$42.8</u>
Total Revenues	\$2,706.5	\$2,846.6	\$3,016.4
<u>Expenses:</u>			
Operation and Maintenance, including Transmission of Electricity by others, Purchased Power and Fuel Purchases	(\$2,306.1)	(\$2,572.0)	(\$2,571.9)
<u>Debt Service :</u>			
Interest on Bonds and Notes / Commercial Paper Paydown	(\$105.4)	(\$107.3)	(\$116.4)
General Purpose Bonds Retired	(\$310.7)	(\$132.0)	(\$147.0)
Notes Retired	<u>(\$5.7)</u>	<u>(\$6.1)</u>	<u>(\$6.0)</u>
Total Debt Service	(\$421.8)	(\$245.4)	(\$269.4)
Total Requirements	(\$2,727.9)	(\$2,817.4)	(\$2,841.3)
Net Operations	(\$21.4)	\$29.2	\$175.1
<u>Capital Receipts :</u>			
Sale of Bonds, Promissory Notes & Commercial Paper	\$386.4	\$600.6	\$112.2
Less : Repayments / Commercial Paper Paydown	(\$227.1)	(\$138.1)	(\$49.3)
Earnings on Construction Funds	\$4.9	\$6.0	\$8.5
DSM Recovery Receipts	\$58.0	\$43.5	\$60.7
Other	<u>\$93.7</u>	<u>\$93.7</u>	<u>\$30.0</u>
Total Capital Receipts	\$315.9	\$605.7	\$162.1
<u>Capital Additions & Refunds :</u>			
Additions to Electric Plant in Service and Construction Work in Progress, and Other costs	(\$167.4)	(\$351.1)	(\$255.0)
Construction Escrow	\$101.9	(\$80.6)	\$34.6
Total Capital Additions & Refunds	(\$65.5)	(\$431.7)	(\$220.4)
Net Capital	\$250.4	\$174.0	(\$58.3)
Net Increase/(Decrease)	\$229.0	\$203.2	\$116.8

13. Procurement (Services) Contracts – Business Units and Facilities – Awards

SUMMARY

“The Trustees are requested to approve the award and funding of the multiyear procurement contracts listed in Exhibit ‘13-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 non-personal services, construction 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.

DISCUSSION

“The terms of these contracts will be more than one year; therefore, the Trustees’ approval is required. Except as noted, all of 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 all contracts, which range in estimated value from \$25,000 to \$9,657,259. Except as noted, these contract awards do not obligate the Authority to a specific level of personnel resources or expenditures.

“The issuance of multiyear contracts is recommended from both cost and efficiency standpoints. In many cases, reduced prices can be negotiated for these long-term contracts. Since these services are typically required on a continuous basis, it is more efficient to award long-term contracts than to re-bid these services annually.

Contracts in Support of Business Units/Departments and Facilities:

Business Services

“Due to the need to commence services immediately, the contract with **R. W. Beck, Inc. (4500145933)** became effective on September 5, 2007, subject to the Trustees’ subsequent approval as soon as practicable, in accordance with the Authority’s procurement policies and EAPs. The purpose of this contract is to provide for consulting services for the development and implementation of an Enterprise-wide Risk Management (‘EWRM’) function and a Disaster Recovery/Business Continuity Planning Process for the Authority. Such services include, but are not limited to, assessing the Authority’s current risk management practices and processes, identifying and prioritizing major risks facing the Authority, performing analyses and recommending metrics to monitor and measure EWRM risks, in order to assist the Authority in developing and implementing strategies and risk profiles to manage the identified major risks facing the Authority. Bid documents were downloaded electronically from the Authority’s Procurement website by 22 firms, including those that may have responded to a notice in the New York State Contract Reporter. Seven proposals were received and evaluated. Based on the responsiveness of their proposals, technical qualifications and overall experience, three finalists were invited to make presentations to Authority staff. In addition to the aforementioned criteria, based on further detailed review of the bids, superior presentation and level of understanding of the Authority and its needs, as well as satisfactory schedule for all phases of the work scope, staff recommended award of the subject contract to R. W. Beck, the most technically qualified firm with reasonable pricing. The intended term of this contract is up to three years, subject to the Trustees’ approval, which is hereby requested. Approval is also requested for the total amount expected to be expended for the term of the contract, \$430,000, including contingency for potential future additional work.

“The contracts with **AmSpec Services, LLC** and **Saybolt LP** (**‘AmSpec and Saybolt’**; **QFS-2007-43; PO#s TBA**) would become effective on January 1, 2008, subject to the Trustees’ approval. The purpose of these contracts is to provide for independent petroleum inspection services for No. 6 residual oil, distillate oil and biodiesel fuel within the New York Harbor and Long Island areas. Services include inspection, measurement and testing of bulk oil deliveries made via barge, tanker, pipeline or truck to the Authority’s generating stations and storage facilities situated within the aforementioned areas. The resulting data on oil quantity and quality provide the basis for both paying for oil delivered and assessing penalties for non-conforming oil, and evidence of compliance with environmental quality regulations. Since the existing contracts for such services expire at the end of the year, and the need for such services is ongoing, staff prepared a new Request for Proposals. Bid documents were sent to nine firms, including those that may have responded to a notice in the New York State Contract Reporter. Eight proposals were received and evaluated. Staff recommends award of contracts to AmSpec and Saybolt, the lowest-priced bidders that were responsive to the bid requirements and are qualified to perform the work. The benefits of awarding two contracts include increased operational flexibility and enhanced competitiveness, consistent with standard industry practice. The intended term of these contracts is three years, subject to the Trustees’ approval, which is hereby requested. Approval is also requested for the combined total amount expected to be expended for the term of the contracts, \$28,000.

Corporate Services and Administration

“The contract with **Kleinschmidt Associates, PA, PC** (**‘Kleinschmidt’**; **Q07-4119; PO# TBA**) would become effective on October 1, 2007, subject to the Trustees’ approval. The purpose of this contract is to provide for engineering design services for the Nichols Island and Little Sucker Brook Habitat Improvement Projects (**‘HIPs’**) at the St. Lawrence/FDR Power Project, in compliance with the requirements set forth in the New License and the Comprehensive Relicensing Settlement Accord. Services also include, but are not limited to, preparing operational manuals, providing permitting support, assisting Authority staff with the evaluation of construction bids (as needed), providing support during construction, and performing or arranging for the performance of technical studies to complete the design (as may be required). Bid documents were downloaded electronically from the Authority’s Procurement website by 36 firms, including those that may have responded to a notice in the New York State Contract Reporter. One proposal (from Kleinschmidt, with Gomez and Sullivan Engineers and Soil Metrics as subcontractors) was received and evaluated. The Authority’s evaluation team considered Kleinschmidt’s experience with similar projects, as well as the qualifications, experience, expertise and availability of the bidder’s proposed team, and the overall organization proposed for managing the work. Based on the initial evaluation, the evaluation team concluded that the bidder’s proposal demonstrated a thorough understanding of the work. After additional clarifications regarding Kleinschmidt’s proposed personnel/team and the roles of the subcontractors were submitted by the bidder, the evaluation team concluded that Kleinschmidt, in collaboration with the two subcontractors, was technically qualified to provide the design and support services required for the two HIPs. Staff therefore recommends award of a contract to Kleinschmidt, the sole responding bidder, which meets the bid requirements, is qualified to perform such services and has reasonable pricing. The intended term of this contract is three years and three months, subject to the Trustees’ approval, which is hereby requested. Approval is also requested for the total amount expected to be expended for the term of the contract, \$579,000 (including additional studies and contingency).

Energy Services and Technology

“The contract with **Bulcast LLC** (**Q02-4085; PO# TBA**) would become effective on October 1, 2007, subject to the Trustees’ approval. The purpose of this contract is to provide for the upgrade and repair of the existing active cathodic protection system for the Y-49 self-contained fluid-filled cable located in the Long Island Sound between New Rochelle and Hempstead, New York. The subject contract is awarded on a sole source basis, since Bulcast is the original equipment manufacturer that designed, developed, tested and installed the original system eight years ago and, as such, is uniquely qualified to assess the existing equipment and to perform the actual upgrade. A notice of the Authority’s intent to enter into a sole source contract for such services was published in the New York State Contract Reporter. The intended term of this contract is three years, 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, \$650,000 (including contingency). It should be noted that all costs will be recovered by the Authority from the Long Island Power Authority.

“The contract with **Veolia ES Technical Solutions, LLC (‘Veolia’, formerly known as Onyx Environmental Services, LLC) (Q07-4124; PO# TBA)** would become effective on November 1, 2007, subject to the Trustees’ approval. The purpose of this contract is to provide for recycling and disposal of lamps and light ballasts, as well as other mercury-containing equipment, batteries, small capacitors, etc., in connection with the Authority’s Energy Services Programs. Services include furnishing, or arranging for furnishing, all labor, supervision, material, equipment, laboratory facilities, transportation including vehicles, fuel, tolls, highway use taxes, insurance, spill prevention control and countermeasure equipment and materials and federal, state and local permits, licenses and other approvals necessary to manage the waste from its point(s) of generation within New York State to the point(s) of ultimate disposition. Bid documents were downloaded electronically from the Authority’s Procurement website by three firms, including those that may have responded to a notice in the New York State Contract Reporter. One proposal was received and evaluated. Staff recommends award of a contract to Veolia, the sole responding bidder, which is qualified to perform such services and meets the bid requirements. The intended term of this contract is up to four years, 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, \$700,000. It should be noted that all costs will be recovered by the Authority.

Internal Audit and Compliance

“Due to the need to commence services, the contract with **Pro-Comply (4500144569)** became effective on August 1, 2007, subject to the Trustees’ subsequent approval as soon as practicable, in accordance with the Authority’s procurement policies and EAPs. The purpose of this contract is to provide for Authority employee training on the Federal Energy Regulatory Commission (‘FERC’) Order No. 670 relating to Market Anti-Manipulation Regulations, via an online and DVD-based video training module customized for the Authority. Services also include, but are not limited to, providing a mechanism for the Authority to track the trainees’ completion, with the ability to generate written certification of participation and to create progress reports on demand, and other administrative functions. Bid documents were downloaded electronically from the Authority’s Procurement website by 12 firms, including those that may have responded to a notice in the New York State Contract Reporter. Two proposals were received and evaluated. Staff recommended award of a contract to Pro-Comply, the lowest-priced qualified bidder that met the bid requirements and is qualified to provide such services. The intended term of this contract is up to two years, subject to the Trustees’ approval, which is hereby requested. Approval is also requested for the total amount expected to be expended for the term of the contract, \$25,000.

Power Generation

“Due to the need to commence services, the contract with **Coverco Inc. (4600001808)** became effective on July 1, 2007, subject to the Trustees’ subsequent approval as soon as practicable, in accordance with the Authority’s procurement policies and EAPs. The purpose of this contract is to provide for plumbing pipe insulation services for the Niagara Power Project. Services include all supervision, labor, equipment and materials to insulate piping and valves to retrofit equipment or re-insulate deteriorated piping and valves, on an as ‘needed basis’. Bid documents were sent to eight firms, including those that may have responded to a notice in the New York State Contract Reporter. Three proposals were received and evaluated. Staff recommended award of the subject contract to Coverco, the lowest-priced evaluated bidder that is qualified to perform such work. The intended term of this contract is up to four years, subject to the Trustees’ approval, which is hereby requested. Approval is also requested for the total amount expected to be expended for the term of the contract, \$30,000.

“The contract with **FPI Mechanical, Inc. (Q07-4120; PO# TBA)** would become effective on or about September 26, 2007, subject to the Trustees’ approval. The purpose of this contract is to provide for the services of an experienced HVAC contractor to furnish, deliver and install four identical air-handling units to upgrade the Isolated-Phase Bus Cooling Systems at the Blenheim-Gilboa Power Project, as part of the Life Extension and Modernization program. Services also include, but are not limited to, demolition of the existing air-handling units and related ductwork, as well as system testing, adjusting, balancing, commissioning, startup, training and final reporting. Bid documents were downloaded electronically from the Authority’s Procurement website by 24 firms, including those that may have responded to a notice in the New York State Contract Reporter. Two proposals were received and evaluated. Staff recommends award of the subject contract to FPI Mechanical, the lowest-priced bidder that meets the bid requirements and is qualified to provide such equipment and services. The intended term of

this contract is up to three years, 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, \$663,383.

"The contract with **GE Energy Services ('GE Energy'; Q07-4115; PO# TBA)** would become effective on or about September 26, 2007, subject to the Trustees' approval. The purpose of this contract is to provide for the rehabilitation/upgrade of the remaining three motor-generator ('M-G') units and associated starting motors at the Blenheim-Gilboa Power Project, as part of the Life Extension and Modernization program. Services include, but are not limited to, refurbishing of M-G rotor poles and replacement of associated bus, cleaning of M-G rotor and stator, testing/measuring/re-rounding of M-G stator, as well as cleaning, minor repair and testing of two starting motors and complete refurbishment (rewind) of the starting motor for Unit 4. Bid documents were downloaded electronically from the Authority's Procurement website by 17 firms, including those that may have responded to a notice in the New York State Contract Reporter. Two proposals were received and evaluated. Staff recommends award of the subject contract to GE Energy, the lowest-priced bidder that is qualified to perform the work and meets the bid requirements. The intended term of this contract is up to three years, 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, \$9,657,259.

"Due to schedule constraints, the need to commence services and the criticality of completing this work, the contract with **GE Packaged Power, Inc. (4500145410)** became effective on September 1, 2007, subject to the Trustees' subsequent approval as soon as practicable, in accordance with the Authority's procurement policies and EAPs. The purpose of this contract is to provide for Hot Section Overhauls and Service Bulletin implementation for three of the Authority's Small Clean Power Plant LM6000 gas turbines. Two firms were invited to bid on an expedited basis, since they were the only known firms qualified to perform such work. This work is typically performed by the original equipment manufacturer, which has the proprietary design information for the equipment, but the other firm also has this capability as a licensed agent (the only one in North America). Due to the aforementioned reasons, no notice was published in the New York State Contract Reporter. Two proposals were received and evaluated. Staff recommended award of the subject contract to GE Packaged Power, the lower-priced bidder and original equipment manufacturer. The intended term of this contract is approximately 16 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, \$4.5 million (including contingency for extra work as units are inspected in GE's shop, transportation costs and potential lease of a replacement engine during the repair period). The Authority's exposure for planning for and removal of the first engine by September 15, 2007 will not exceed \$300,000 prior to ratification and approval by the Trustees.

"The contract with **General Electric International Inc. ('GEII'; Q02-4062; PO# TBA)** would become effective on October 1, 2007, subject to the Trustees' approval. The purpose of this contract is to provide for Technical Assistance Services, on an 'as needed' basis, to support the Authority's 500 MW Combined Cycle Plant. The subject contract is awarded on a sole source basis, since GEII is the original equipment manufacturer and, as such, is uniquely qualified to provide such services. Rates for the field engineer and specialty rates will be based on GE's published rates in effect at the time of service. The intended term of this contract is three years and three 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, \$300,000.

"The contract with **Medicus, P.C. (Q07-4094; PO# TBA)** would become effective on January 1, 2008, subject to the Trustees' approval. The purpose of this contract is to provide for medical services, including a Consulting Medical Director, Medical Review Officer, Medical Doctor and staff to perform physical examinations, and a Medical Program Coordinator. Services will also include medical record retention and miniaturization services for all Authority headquarters offices and sites. Bid documents were downloaded electronically from the Authority's Procurement website by four firms, including those that may have responded to a notice in the New York State Contract Reporter. Three proposals were received and evaluated. Staff recommended award of the subject contract to Medicus, the lowest-priced bidder that meets the bid requirements and is qualified to provide the services. Medicus has a qualified licensed physician on staff who is board certified in occupational medicine and is certified as a Medical Review Officer. Medicus also has the personnel and facilities to handle and store the centralized medical records, and has a subcontracted record miniaturization service in place. Services also include coordinating a program of medical examinations for Authority employees and contractors, as required by applicable safety and health standards, federal or State requirements or Authority policy. Such examinations include, but are

not limited to the following: respirator clearance for users of respiratory equipment, exposure to asbestos or high noise, crane operators and specialized Coast Guard and Federal Aviation Administration examinations and executive physicals. The intended term of this contract is up to five years, 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, \$312,500.

“Due to the need to commence services, the contract with **Precision Actuation Systems ('PAS'; 4500142526)** became effective on June 18, 2007, subject to the Trustees' subsequent approval as soon as practicable, in accordance with the Authority's procurement policies and EAPs. The purpose of this contract is to provide for all labor, supervision, tools and equipment to perform repairs on Limatorque and AUMA actuators for the Charles Poletti and 500 MW Power Plants, on an 'as needed' basis. Services include troubleshooting and disassembly of actuators, providing written inspection reports with recommendations for repairs and providing machine shop facilities with the capability to perform such repairs on- or offsite. Bid documents were downloaded electronically from the Authority's Procurement website by 10 firms, including those that may have responded to a notice in the New York State Contract Reporter. Two proposals were received and evaluated. Staff recommended award of the subject contract to PAS, the lower-priced evaluated bidder, which is qualified to provide such services. The intended term of this contract is up to three years, 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, \$300,000.

“Due to the need to commence services immediately, the two contracts with **S.M. Electric Company, Inc. and Eaton Electrical Services & Systems, respectively ('SME' and 'Eaton'; Q07-4107; 4600001838 and 4600001837)**, became effective on September 17, 2007, subject to the Trustees' subsequent approval as soon as practicable, in accordance with the Authority's procurement policies and EAPs. The purpose of these contracts is to provide for the installation of electrical equipment, wiring, and materials to support the plant Control Systems Integration (CSI) work associated with the upgrade of Units 1, 3 and 4 at the Blenheim-Gilboa Power Project ('B-G'), as part of the Life Extension and Modernization program. (B-G Unit 2 was completed in May 2007 under a different contract.) Services include, but are not limited to, furnishing and installation of cable trays and conduits; interconnecting wiring from the various electrical equipment being upgraded to the Unit Control Boards; replacement of the existing rotating exciter with a new Authority-provided static excitation system; modifications and/or replacement of Unit Control Board devices and installation of other Authority-provided miscellaneous electrical equipment. Bid documents were downloaded electronically from the Authority's Procurement website by 25 firms, including those that may have responded to a notice in the New York State Contract Reporter. Two proposals were received and evaluated: one from Eaton and one from SME. Following receipt of the original proposals, a Post-Bid Addendum was issued to both bidders to seek alternate pricing for splitting the various tasks between the two firms, in order to optimize the schedule and potentially reduce overall costs. Based on a detailed review of both proposals for the entire work scope, as well as splitting various tasks between the two bidders, it became evident that there was a significant cost reduction to the Authority if the award was split between the two bidders. The estimated total potential savings exceed \$450,000 for all three B-G Units. Staff therefore recommended the award of two contracts, one to SME and one to Eaton, for different tasks that collectively comprise the entire scope of work. The intended term of these contracts is up to three years, 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 contracts, \$457,253 for SME and \$2,236,574 for Eaton (including contingency).

“Due to the need to commence services, the contract with **TRC Environmental Corp. ('TRC'; 4500143289)** became effective on August 1, 2007, subject to the Trustees' subsequent approval as soon as practicable, in accordance with the Authority's procurement policies and EAPs. The purpose of this contract is to provide for Relative Accuracy Test Audit ('RATA') services of the continuous emissions monitoring system and to test for nitrous oxide, oxygen, carbon monoxide and ammonia at six of the Authority's Small Clean Power Plant LM6000 gas turbine sites in compliance with all applicable regulatory requirements. Bid documents were downloaded electronically from the Authority's Procurement website by 13 firms, including those that may have responded to a notice in the New York State Contract Reporter. Five proposals were received and evaluated. Staff recommended award of the subject contract to TRC, the lowest-priced bidder that is qualified to perform the work. The intended term of this contract is up to three years, 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, \$150,000.

“The contract with **United Industrial Services (a Division of United Oil Recovery) (‘UIS’; Q07-4092; PO# TBA)** would become effective on October 1, 2007, subject to the Trustees’ approval. The purpose of this contract is to provide for transportation of hazardous materials, as well as hazardous, universal and industrial waste, from designated Authority and customer facilities, on an ‘as needed’ basis. Services include all labor, supervision, material, equipment, transportation vehicles, fuel, tolls, highway use taxes, insurance, spill prevention control and countermeasure equipment and materials, as well as federal, State and local permits, licenses and other approvals necessary to transport waste from the point(s) of generation within New York State to the point(s) of ultimate disposition of the waste. Bid documents were downloaded electronically from the Authority’s Procurement website by 17 firms, including those that may have responded to a notice in the New York State Contract Reporter. Two proposals were received and evaluated. Staff recommends award of the subject contract to UIS, the lower-priced bidder, which is qualified to provide such services. The intended term of this contract is up to three years, 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, \$90,000.

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 project’s Capital Expenditure Authorization Request. Payment for the contract in support of Energy Services Programs will be made from the Energy Conservation Effectuation and Construction Fund. All costs, including Authority overheads and the cost of advancing funds, will be recovered by the Authority consistent with other Energy Services and Technology Programs.

RECOMMENDATION

“The Senior Vice President – Public and Governmental Affairs, the Senior Vice President – Energy Resource Management and Strategic Planning, the Vice President – Procurement and Real Estate, the Vice President – Engineering, the Vice President – Project Management, the Vice President – Environment, Health and Safety, the Vice President and Chief Risk Officer, the Director – Energy Services, the Chief Technology Development Officer, the Director – Corporate Support Services, the Manager – Internal Audits, the Regional Manager – Northern New York, the Regional Manager – Western New York, the Regional Manager – Central New York and the Regional Manager – Southeastern New York recommend the Trustees’ approval of the award of multiyear procurement contracts to the companies listed in Exhibit ‘13-A’ for the purposes and in the amounts set forth above.

“The Executive Vice President, General Counsel and Chief of Staff, 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 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 multiyear procurement services contracts set forth in Exhibit “13-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, General Counsel and Chief of Staff.

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

EXHIBIT "A"
 September 25, 2007

<u>Plant Site</u>	<u>Company Contract #</u>	<u>Start of Contract</u>	<u>Description of Contract</u>	<u>Closing Date</u>	<u>Award Basis¹ Contract Type²</u>	<u>Compensation Limit</u>	<u>Amount Expended To Date</u>	<u>Authorized Expenditures For Life Of Contract</u>
BUS SERV - ERAC + CORP SERV & ADMIN - CorpSuppServ	R.W. BECK, INC. (4500145933)	09/05/07	Provide for consulting services for development and implementation of an Enterprise-wide Risk Management function and a Disaster Recovery / Business Continuity planning process for the Authority	09/04/10	B/P	\$344,073 *Note: represents total for 3-year term (including contingency)	\$0	\$430,000*
BUS SERV - ERM	QFS-2007-43; 2 awards: 1. AMSPEC SERVICES 2. SAYBOLT LP (PO#s TBA)	01/01/08	Provide for independent petroleum inspection services	12/31/10	B/P	*Note: represents total for 3-year term		\$28,000*

CORP SERV & ADMIN - Pub&GovAffairs/RegulatoryAffairs & STL	KLEINSCHMIDT ASSOCIATES, PA, PC (Q07-4119; PO# TBA)	10/01/07	Provide for engineering design services for Nichols Island and Little Sucker Brook Habitat Improvement Projects at STL	12/31/10	B/P	*Note: represents combined total for 3.25-year term (including additional studies and contingency)		\$579,000*

ES&T - R&TD	BULCAST LLC (Q02-4085; PO# TBA)	10/01/07	Provide for upgrade and repair of existing active cathodic protection system in Long Island Sound	09/30/10	S/C	*Note: represents total for 3-year term (including contingency) All costs will be recovered by the Authority.		\$650,000*
ES&T - Energy Services + POWER GEN – EH&S	VEOLIA ES TECHNICAL SOLUTIONS, LLC (Q07-4124; PO# TBA)	11/01/07	Provide for recycling and disposal of lamps and light ballasts for Energy Services Programs	10/31/11	B/S	*Note: represents total for 4-year term All costs will be recovered by the Authority.		\$700,000*

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

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

EXHIBIT "A"
September 25, 2007

<u>Plant Site</u>	<u>Company Contract #</u>	<u>Start of Contract</u>	<u>Description of Contract</u>	<u>Closing Date</u>	<u>Award Basis¹ Contract Type²</u>	<u>Compensation Limit</u>	<u>Amount Expended To Date</u>	<u>Authorized Expenditures For Life Of Contract</u>
INTERNAL AUDIT & COMPLIANCE	PRO-COMPLY (4500144569)	08/01/07	Provide for online and video employee training module re FERC Order No. 670, Market Anti-Manipulation Regulations	07/31/08 (+ option for one additional year)	B/P	\$19,500 *Note: represents total for 2-year term	\$0	\$25,000*
POWER GEN - NIAGARA	COVERCO INC. (4600001808)	07/01/07	Provide for plumbing pipe insulation services, as needed, at NIA	06/30/11	B/S	\$30,000 ("Target Value") *Note: represents total for 4-year term	\$0	\$30,000*
POWER GEN - PROJ MGMT + B-G	FPI MECHANICAL, INC. (Q07-4120; PO# TBA)	09/26/07 (on or about)	Provide for upgrade of Isolated-Phase Bus Cooling System at B-G	09/30/10	B/C	*Note: represents total for 3-year term		\$663,383*
POWER GEN - PROJ MGMT + B-G	GE ENERGY SERVICES (Q07-4115; PO# TBA)	09/26/07 (on or about)	Provide for Rehabilitation / Upgrade of 3 Motor-Generator units at B-G	09/30/10	B/C	*Note: represents total for 3-year term		\$9,657,259*
POWER GEN - SCPPs	GE PACKAGED POWER, INC. (4500145410)	09/01/07	Provide for Hot Section Overhauls & Service Bulletin implementation for three SCPP LM6000 gas turbines	12/31/08	B/S	\$3,000,000 *Note: represents total for 16-month term (but the Authority's initial exposure for planning & removal of the first engine is only \$300,000)	\$0	\$4,500,000*
POWER GEN - 500 MW	GENERAL ELECTRIC INTERNATIONAL INC. (Q02-4062; PO# TBA)	10/01/07	Provide for Technical Assistance Services for the 500 MW Plant	12/31/10	S/P	*Note: represents total for 3.25-year term		\$300,000*
POWER GEN - EH&S	MEDICUS, P.C. (Q07-4094; PO# TBA)	01/01/08	Provide for medical services including: Consulting Medical Director, Medical Review Officer, MD and staff to perform physicals,	12/31/10 (+ option for two additional years)	B/P	*Note: represents total for 5-year term		\$312,500*

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

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

EXHIBIT "A"
September 25, 2007

<u>Plant Site</u>	<u>Company Contract #</u>	<u>Start of Contract</u>	<u>Description of Contract</u>	<u>Closing Date</u>	<u>Award Basis¹ Contract Type²</u>	<u>Compensation Limit</u>	<u>Amount Expended To Date</u>	<u>Authorized Expenditures For Life Of Contract</u>
	MEDICUS cont'd		and a Medical Program Coordinator + medical record retention and miniaturization services for HQ & all Authority sites					
POWER GEN - POL & 500 MW	PRECISION ACTUATION SYSTEMS (4500142526)	06/18/07	Perform actuator repair services for POL & 500 MW, on- and off-site, as needed	06/17/10	B/S	\$100,000	\$0	\$300,000*
						*Note: represents total for 3-year term		
POWER GEN - PROJ MGMT + B-G	2 awards (Q07-4107): 1. SM ELECTRIC CO., INC. (4600001838) 2. EATON ELECTRICAL SERVICES & SYSTEMS (4600001837)	09/17/07	Provide for installation of electrical equipment & materials to support plant Control Systems Integration work associated with the upgrade of B-G Units 1, 3 & 4	09/30/10	B/C	\$457,253 ("Target Value")	\$0	\$457,253*
						\$2,236,574 " "	\$0	\$2,236,574*
						*Note: represents total for 3-year term (including contingency)		
POWER GEN - SCPPs	TRC ENVIRONMENTAL CORP. (4500143289)	08/01/07	Provide for Relative Accuracy Test Audit (RATA) of Continuous Emissions Monitoring System at 6 SCPP sites	07/31/10	B/S	\$50,000	\$0	\$150,000*
						*Note: represents total for 3-year term		
POWER GEN - EH&S	UNITED INDUSTRIAL SERVICES (Div of United Oil Recovery) (Q07-4092; PO# TBA)	10/01/07	Provide for transportation of hazardous materials and hazardous, universal and industrial waste from designated Authority & customer facilities, as needed	09/30/10	B/S			\$90,000*
						*Note: represents total for 3-year term		

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

14. Procurement (Services) Contracts – Business Units and Facilities – Extensions, Approval of Additional Funding and Increase in Compensation Ceiling

The President and Chief Executive Officer submitted the following report:

SUMMARY

“The Trustees are requested to approve the continuation and funding of the procurement (services) contracts listed in Exhibit ‘14-A’ in support of projects and programs for the Authority’s Business Units/Departments and Facilities. The Trustees are also requested to approve an increase in the aggregate compensation ceiling of the contracts with Chu & Gassman Constructing Engineers, PC, CDM Constructors, Inc., DMJM + Harris, Inc. and PB Power, Inc. Detailed explanations of the nature of such services, the reasons for extension, the additional funding required and the projected expiration dates are set forth 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 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 million.

DISCUSSION

“Although the firms identified in Exhibit ‘14-A’ have provided effective services, the issues or projects requiring these services have not been resolved or completed, and the need exists for continuing these contracts. The Trustees’ approval is required because the terms of these contracts exceed one year and/or because the cumulative change order limits will exceed the levels authorized by the EAPs in forthcoming change orders. All of the subject contracts contain provisions allowing the Authority to terminate the services at the Authority’s convenience, without liability other than paying for acceptable services rendered to the effective date of termination. These contract extensions do not obligate the Authority to a specific level of personnel resources or expenditures.

“Extension of each of the contracts identified in Exhibit ‘14-A’ is requested for one or more of the following reasons: (1) additional time is required to complete the current contractual work scope or additional services related to the original work scope; (2) to accommodate an Authority or external regulatory agency schedule change that has delayed, reprioritized or otherwise suspended required services; (3) the original consultant is uniquely qualified to perform services and/or continue its presence and re-bidding would not be practical or (4) the contractor provides a proprietary technology or specialized equipment, at reasonably negotiated rates, that the Authority needs to continue until a permanent system is put in place.

Contracts in Support of Business Units/Departments and Facilities:

Corporate Services and Administration

“At their meeting of March 30, 2004, the Trustees approved the award of a contract to **Bernier, Carr & Associates, PC** (‘**Bernier Carr**’; **4500087783**), in the amount of \$1.2 million, to provide for construction management and other related technical and administrative services in support of implementation of recreation and environmental improvements at the St. Lawrence/FDR Power Project, in compliance with the requirements set forth in the New License Settlement Agreement. The original award, which was competitively bid, became effective on April 1, 2004 for an initial term of 3.75 years, with an option to extend for up to two additional years. Bernier Carr

has satisfactorily provided these services for improvements to local recreation facilities (such as the Massena Intake boat launch, Whalen Park, Massena Country Club and Waddington Town Beach), shoreline stabilization work and several habitat improvement projects (such as Blandings turtle and grassland bird nesting habitat improvements, common loon and osprey nesting platforms and Coles Creek wetland improvements). Through 2009, Bernier Carr will provide similar services for improvements at the Wilson Hill Wildlife Management Area, as well as construction of four habitat improvement projects (such as a walleye spawning bed in Brandy Brook, sturgeon spawning beds in the St. Lawrence River, a controlled level pond at Little Sucker Brook Pond and at Nichols Island) and additional shoreline stabilization measures. A two-year extension is therefore requested to exercise the contract option in order to continue the aforementioned services through project completion. The current contract amount is \$1.2 million; it is anticipated that no additional funding will be required for the extended term. The Trustees are requested to approve the extension of the subject contract through December 31, 2009, with no additional funding requested.

Energy Services and Technology

“The contract with **Sebesta Blomberg & Associates, Inc. (4500129571)** provides for Leadership in Energy and Environmental Design (‘LEED’) accreditation training sessions for Authority employees, customers and other State agency/authority staff. The purpose of such training is to educate participants about sustainable design principles, as well as construction and green building operation practices embodied in the LEED rating system, familiarize them with programmatic requirements regarding the LEED certification process and prepare them for the LEED professional accreditation exam. The original award, which was competitively bid, became effective on September 15, 2006 for a term of up to one year. To date, the Authority has sponsored eight such one-day LEED training sessions for more than 200 participants, in various locations throughout the State. An interim extension to extend services through September 25, 2007 was subsequently authorized in accordance with the Authority’s Guidelines for Procurement Contracts and EAPs. A three-month extension is now requested in order to allow the Authority to host additional sessions, as needed. The current contract amount is \$126,000; it is anticipated that no additional funding will be required for the extended term. The Trustees are requested to approve the extension of the subject contract through December 31, 2007, with no additional funding requested.

Increase in Aggregate Compensation Ceiling:

“At their meeting of July 27, 2004, the Trustees approved the award of contracts to five firms, **Chu & Gassman Consulting Engineers, PC (4600001303)**, **CDM Constructors, Inc. (4600001308)**, **Consolidated Edison Solutions (4600001338)**, **DMJM + Harris, Inc. (4600001307)** and **PB Power, Inc. (4600001309)**, and an initial aggregate amount of \$150 million, to provide for program management and implementation services in connection with the Southeastern New York Energy Services Programs (‘SENY ESP’) for Governmental Customers. The contracts, which were competitively bid, became effective on August 1, 2004 for an initial term of three years, with an option to extend for two additional years. Such option was subsequently exercised for four of the subject contracts, with the exception of Consolidated Edison Solutions. The aforementioned Trustee Item also advised the Trustees that additional funding of up to \$100 million might be needed to complete the work assigned under these contracts, based on program participation, and the Trustees’ authorization for the release and allocation of such additional funding would be requested as such needs were identified. The current ‘Target Values’ total \$145,093,364; staff anticipates that an additional aggregate \$100 million (in excess of the originally approved \$150 million) will be required for projects to be completed during the remaining contract term. Such projects include, but are not limited to: New York City Housing Authority (‘NYCHA’) Rutgers Houses (\$7 million), Arthur Kill Correctional Facility (\$10 million), NYCHA Castle Hill Houses (\$13 million), City University of New York (‘CUNY’) College of Staten Island (\$11 million), Hot Water Storage Tank Replacements in various NYCHA developments – Releases 6 through 8 (\$18 million), Port Richmond Waste Water Treatment Plant (\$13 million), CUNY City College (\$13 million) and State University of New York at Purchase (\$6 million). The Trustees are requested to authorize the release and allocation of the additional funding requested from the previously approved Capital Expenditure Authorization Request (‘CEAR’), thereby increasing the aggregate compensation ceiling to \$250 million. It should be noted that all costs will be recovered by the Authority.

Power Generation

“Blueback herring has been identified by regulating agencies (U. S. Fish and Wildlife Service and the New York State Department of Environmental Conservation) as the key species requiring downstream passage protection at the Authority’s Crescent Hydroelectric Project (‘Crescent’) located on the Mohawk River in Albany County. To this end, the Authority proposed an underwater acoustic system that projected a high-frequency sound field outward from the powerhouse dam to guide downstream migrants away from the headrace toward bypasses located on the adjacent spillway dams. Pursuant to the Federal Energy Regulatory Commission’s (‘FERC’) order, the Authority solicited proposals to conduct a study of the effectiveness of its downstream passage facilities with respect to the migration of adult blueback herring at Crescent following the seasonal spawn, resulting in the award of a contract to **Kleinschmidt Associates (‘KA’; 4600001729)**. The original award became effective on November 20, 2006 for an initial term of less than one year (as noted in Change Order No. 2), with an option for an additional year, subject to the Trustees’ approval. During the initial term, a pilot study was conducted to determine if it was possible to effectively collect adult blueback herring above Crescent when they ascend the Mohawk River during the spring to spawn, implant in them a radio tag and track the tagged fish when they migrate downriver after spawning. Based on successful completion of the pilot study and FERC requirements, a comprehensive study would be conducted in the second year to assess the effectiveness of the Authority’s plan for providing downriver passage of adult blueback herring at Crescent. In the interim, the Authority proposed a change in its plan for downriver passage, involving the redesign and relocation of its acoustic system; such plan was recently approved by FERC. Since the acoustic system is scheduled to be installed in the summer of 2008 and since most adult blueback herring will have migrated downriver past Crescent by that time, the comprehensive study must be deferred until 2009 and, therefore, cannot be completed within the originally projected term. A 2.5-year extension is now requested in order to allow sufficient time to complete the comprehensive study, including resolution of any follow-up questions or issues that may be raised by the various regulatory agencies, which may further expand the scope of work and/or increase the cost of the study. The current ‘Target Value’ is \$407,857; staff estimates that an additional \$75,000 may be required for the extended term (\$25,000 for additional work or modified tasks based on results of the pilot study and for the term extension, and an estimated additional \$50,000 in contingency for addressing regulatory comments). The Trustees are requested to approve the extension of the subject contract through May 31, 2010, as well as the additional funding requested, including contingency. (A comprehensive study for juvenile blueback herring, also required by a recent FERC Order, will be performed under a separate contract.)

FISCAL INFORMATION

“Funds required to support contract services for various Headquarters Office 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 Project’s Capital Expenditure Authorization Request (‘CEAR’). Payment for the implementation contracts in support of the Energy Services Program will be made from the Energy Conservation Effectuation and Construction Fund. All costs, including Authority overheads and the cost of advancing funds, will be recovered by the Authority, consistent with other Energy Services and Technology Programs.

RECOMMENDATION

The Senior Vice President – Public and Governmental Affairs, the Vice President – Procurement and Real Estate, the Vice President – Environment, Health and Safety, the Executive Director – Licensing, Implementation and Compliance, the Director – Energy Services, the Regional Manager – Northern New York and the Regional Manager – Central New York recommend the Trustees’ approval of the extensions, additional funding and increase in aggregate compensation ceiling of the procurement contracts discussed within the item and/or listed in Exhibit ‘14-A.’

“The Executive Vice President, General Counsel and Chief of Staff, the Executive Vice President – Chief Financial Officer, the Executive Vice President - Corporate Services and Administration, the Senior Vice President

– Energy Services and Technology, 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, each of the contracts listed in Exhibit “14-A,” attached hereto, is hereby approved and extended 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 pursuant to the Authority’s Expenditure Authorization Procedures, an increase in the aggregate compensation ceiling of the contracts with Chu & Gassman Consulting Engineers, PC, CDM Constructors, Inc., DMJM + Harris, Inc. and PB Power, Inc., is hereby approved, as recommended in the foregoing report of the President and Chief Executive Officer, in the amounts and for the purposes listed below:

<u>Energy Conservation Effectuation & Construction Fund</u>	<u>Contract Approval (Increase in Compensation Ceiling)</u>	<u>Projected Closing Date</u>
Provide for program management and implementation services for SENY Energy Services Programs for Governmental Customers:		
Chu & Gassman Consulting Engineers, PC 4600001303		
CDM Constructors, Inc. 4600001308		
DMJM + Harris, Inc. 4600001307		
PB Power, Inc. 4600001309		
Previously approved aggregate Amount	\$ 150,000,000	07/31/09
Additional amount requested	<u>100,000,000</u>	
REVISED AGGREGATE COMPENSATION CEILING	<u>\$250,000,000</u>	

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, General Counsel and Chief of Staff.

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

<u>Plant Site/ Bus. Unit</u>	<u>Company Contract #</u>	<u>Start of Contract</u>	<u>Description of Contract</u>	<u>Closing Date</u>	<u>Award Basis¹ Contract Type²</u>	<u>Compensation Limit</u>	<u>Amount Expended To Date</u>	<u>Authorized Expenditures For Life Of Contract</u>
Contracts in support of Headquarters Business Units and the Facilities:								
CORP SERV & ADMIN - Pub&GovAffairs/Regulatory Affairs + STL	BERNIER, CARR & ASSOCIATES, PC 4500087783	04/01/04	Provide for construction management for recreation and environmental improvements at STL Project	12/31/09	B/P	\$1,200,000	\$654,553	\$1,200,000*
						*Note: represents original approved amount of \$1.2M; NO additional funding requested.		
ES&T - Energy Services	SEBESTA BLOMBERG & ASSOCIATES, INC. 4500129571	09/15/06	Provide for LEED certification training services for Authority employees, customers and other state agency/authority staff	12/31/07	B/P	\$126,000	\$71,800	\$126,000*
						*Note: represents original approved amount; NO additional funding requested.		
Increase in Aggregate Compensation Ceiling:								
ES&T - Energy Services	4 contracts: 1. CHU & GASSMAN 4600001303 2. CDM CONSTRUCTORS 4600001308 3. DMJM + HARRIS 4600001307 4. PB POWER INC. 4600001309	08/01/04	Provide for program management and implementation services for SENY Energy Services Programs for Governmental Customers	07/31/09 " " "	B/C	\$145,093,364 (aggregate "Target Value")	\$74,907,594 (“Released Amount”)	\$250,000,000*
						*Note: includes aggregate total of \$150M previously approved by the Trustees + CURRENT RELEASE & ALLOCATION OF PREVIOUSLY-APPROVED ADDITIONAL AGGREGATE FUNDING of \$100M. All costs will be recovered by the Authority.		
POWER GEN - EH&S & CentralRegion	KLEINSCHMIDT ASSOCIATES 4600001729	11/20/06	Provide for blueback herring studies at the Crescent Project	05/31/10	B/P	\$407,857 (“Target Value”)	\$245,073 (“Released Amount”)	\$482,857*
						*Note: represents original approved amount + additional funding + CURRENT INCREASE of \$75,000 (including contingency)		

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

15. Issuance of the Series 2007 A, 2007 B and 2007 C Revenue Bonds

Mr. Brian McElroy presented the highlights of staff's recommendations to the Trustees and Mr. Timothy Sheehan provided an overview of the resolutions the Trustees were being asked to vote on. President Kelley thanked staff for all of the work they had done in pulling this financing together, saying it was the result of a very good effort. In response to a question from Trustee James Besha, Mr. McElroy said that the Series B bonds were taxable because of the nature of the end uses for the funding.

POWER AUTHORITY OF THE STATE OF NEW YORK

Excerpts from the minutes of a regular meeting of the Power Authority of the State of New York (the "Authority") held at the Authority's offices at 123 Main Street, White Plains, New York 10601, on Tuesday, September 25, 2007, at 11:00 A.M.

There were present:

Frank S. McCullough, Jr., Chairman
Michael J. Townsend, Vice Chairman
Elise M. Cusack
Robert E. Moses
Thomas W. Scozzafava
James A. Besh, Sr.
Leonard N. Spano

constituting a majority of the trustees and a quorum.

Also present were:

Roger B. Kelley, President and Chief Executive Officer
Thomas J. Kelly, Executive Vice President, General Counsel and Chief of Staff
Edward A. Welz, Senior Vice President and Chief Engineer-- Power Generation
Joseph M. Del Sindaco, Executive Vice President and Chief Financial Officer
Donald A. Russak, Vice President – Finance
Brian McElroy, Treasurer
Timothy P. Sheehan, Principal Attorney II
Anne B. Cahill, Corporate Secretary
Michael Mace, Public Financial Management, Inc., Financial Advisor to the Authority
John V. Connorton, Jr. and Jeremy S. Colgan, of Hawkins Delafield & Wood LLP,
Bond Counsel to the Authority

Mr. McCullough, Jr., Chairman, presided and Ms. Cahill, Corporate Secretary, kept the minutes.

PLAN OF FINANCE IN CONNECTION WITH THE ISSUANCE OF DEBT

The Chairman stated that a matter to be presented at the meeting was consideration of a plan of finance comprised of a bond financing transaction to (1) current refund a portion of the Authority's outstanding Commercial Paper Notes and to finance a portion of the costs of the relicensing and modernization of the Authority's St. Lawrence-FDR Project and of the relicensing of the Niagara Project; (2) concomitantly terminate a related interest rate swap and pay or receive swap termination amounts depending on market conditions; (3) advance refund a portion of the Authority's outstanding Series 2002 A Revenue Bonds; and (4) enter into one or more interest rate swap agreement(s) in order to hedge potential savings associated with the refunding of the Series 2002 A Revenue Bonds.

Proposed Issuance of Series 2007 A and 2007 B Revenue Bonds to Current Refund Commercial Paper Notes and to Finance a Portion of the Costs of the Relicensing and Modernization of the Authority's St. Lawrence-FDR Project and of the Relicensing of the Niagara Project

The Authority proposes to issue not more than \$375,000,000 principal amount of Series 2007 A and 2007 B Revenue Bonds (respectively the "Series 2007 A Revenue Bonds" and the "Series 2007 B Revenue Bonds" and together with the Series 2007 C Revenue Bonds (as defined below) the "Bonds") in a fixed interest rate mode not to exceed seven and a half percent (7.5%).

The purposes for which the Series 2007 A Revenue Bonds may be issued shall include to (i) provide moneys to finance a portion of the costs of the relicensing of the Niagara Project and to refund the portion of its tax-exempt Commercial Paper Notes, Series 2 issued to finance the relicensing and modernization costs of the Niagara

Project, (ii) pay financing costs related to the issuance of the Series 2007 A Revenue Bonds, including underwriters' discount, structuring fees, any insurance premiums related to the purchase of any municipal bond insurance policy determined to be necessary or desirable and other costs incurred by the Authority.

The purposes for which the Series 2007 B Revenue Bonds may be issued shall include to (i) provide moneys to finance a portion of the costs of the relicensing and modernization of the Authority's St. Lawrence-FDR Project and the relicensing of the Niagara Project and to refund the portion of its taxable Commercial Paper Notes, Series 3 issued to finance the relicensing and modernization of the Authority's Niagara Project, (ii) pay the termination amount, if any, incurred in connection with the termination of the 2006 Swap Agreement (defined below) and (iii) pay financing costs related to the issuance of the Series 2007 B Revenue Bonds, including underwriters' discount, structuring fees, any insurance premiums related to the purchase of any municipal bond insurance policy determined to be necessary or desirable and other costs incurred by the Authority.

Proposed Termination of the 2006 Swap Agreement

The Authority also intends to contemporaneously terminate at the time of pricing of the Series 2007 B Revenue Bonds and in any event not later than the mandatory termination date of October 16, 2007, a floating-to-fixed interest rate swap agreement dated February 15, 2006, in the aggregate notional amount of \$290,000,000 with Goldman Sachs Mitsui Marine Derivative Products, L.P. (Swaps Transaction LTAA1705611999.1 / 00683699301) (the "2006 Swap Agreement"). The Authority entered into the 2006 Swap Agreement to manage interest rate volatility in connection with the proposed issuance of the Series 2007 B Revenue Bonds being authorized at this meeting.

Under current market conditions, the termination of the 2006 Swap Agreement would result in a payment to the Authority by Goldman Sachs Mitsui Marine Derivative Products, L.P. (the "Counterparty"). However, it is possible that market conditions could change and result in the Authority being required to make a termination payment to the Counterparty which could be substantial depending on market conditions at the time. In such case, the termination payment would be funded from the proceeds of the Series 2007 B Revenue Bonds. If, consistent with current market conditions, the Authority receives a termination payment, such payment will be applied either to reduce the principal amount of Series 2007 B Revenue Bonds to be issued or to refund project costs or costs incurred in connection with the issuance of the Series 2007 B Revenue Bonds.

Proposed Issuance of Series 2007 C Revenue Bonds to Advance Refund Series 2002 A Revenue Bonds

The Authority issued \$532,250,000 of Series 2002 A Revenue Bonds (the "Series 2002 A Bonds") to (i) finance the costs of construction of the 500-MW combined-cycle electric generating plant located in New York City and (ii) refund related Commercial Paper Notes. The proposed issuance of the Series 2007 C Revenue Bonds (as defined below) contemplates the refunding and legal defeasance of up to \$278,000,000 principal amount of the outstanding \$479,205,000 principal amount of Series 2002 A Bonds. Such bonds are callable at par on or after November 15, 2012.

To effect the refunding, the Authority expects to issue not more than \$300,000,000 principal amount of Series 2007 C Revenue Bonds (the "Series 2007 C Revenue Bonds") in a fixed rate interest rate mode. The Authority's senior finance staff in consultation with The PFM Group (the "Financial Advisor") do not intend to issue the Series 2007 C Revenue Bonds unless (i) present value savings realized by the Authority meets or exceeds 3% of the principal amount of the Series 2002 A Bonds to be refunded, and (ii) unless individual maturities of the Series 2002 A Bonds so refunded generate positive present value savings.

The proceeds of Series 2007 C Revenue Bonds and/or monies already accrued in the Operating Fund for such purpose will be used to purchase Defeasance Securities (as defined in the General Resolution) to be held in escrow, together with any available monies, and to be sufficient in timing and amount to pay the redemption price of the refunded Series 2002 A Bonds on November 15, 2012.

The proceeds of the Series 2007 C Revenue Bonds will also be used to pay the termination amount, if any, incurred in connection with the termination of the 2007 Swap Agreement(s) (as defined below) and financing costs related to the issuance of the Series 2007 C Revenue Bonds, including underwriters' discount, structuring fees, any

insurance premiums related to the purchase of any municipal bond insurance policy determined to be necessary or desirable and other costs incurred by the Authority.

Proposed Execution of one or more Interest Rate Swaps Associated with the Issuance of the Series 2007 C Revenue Bonds to Advance Refund a Portion of the Series 2002 A Revenue Bonds

Subject to market conditions, the Authority may execute one or more floating-to-fixed rate, interest rate swap agreements to hedge the interest rate volatility associated with the refunding of the Series 2002 A Bonds prior to pricing the Series 2007 C Revenue Bonds (the "2007 Swap Agreement(s)"). The proposed agreements would consist of at least one Securities Industry and Financial Markets Association ("SIFMA") Municipal Swap Index based swap in an aggregate notional amount not to exceed \$278 million. The 2007 Swap Agreement(s) would be awarded through a competitive bidding process that would be managed on behalf of the Authority by Public Financial Management-Asset Management LLC ("PFM-AM"), a wholly owned subsidiary of the Authority's Financial Advisor.

Under the proposed 2007 Swap Agreement(s), the Authority would pay the counterparty(ies), during the term of the swap commencing on or after September 25, 2007, a fixed rate of not greater than 5.5% on the notional amount of the swap(s) relating to the Series 2002 A Bonds. The counterparty(ies), in turn, would pay the Authority payments equal to the notional amount of the related swaps multiplied by the SIFMA Municipal Swap Index.

It may be advisable in connection with the 2007 Swap Agreement(s) to execute credit support annexes ("CSAs"). The CSAs would obligate the Authority and the counterparties to provide collateral to support the 2007 Swap Agreement(s) if the Authority's or the counterparties' credit ratings were downgraded. Such CSAs would contain provisions that would limit the aggregate amount of collateral to be transferred without further approval by the Trustees to \$25 million. If the Trustees were to decline to approve such additional collateral, the counterparty to the 2007 Swap Agreement in question would have the option to terminate the swap agreement, with payment to be made in accordance with whether market conditions favored the Authority or the counterparty.

As the 2007 Swap Agreement(s) would be executed to hedge interest rate volatility, the Authority expects to terminate the 2007 Swap Agreement(s) when the Bonds are priced. Accordingly, at the time of such termination, if interest rates are higher than the fixed payer rate of the swaps, the Authority would be the recipient of a termination payment by the counterparty(ies). The Authority would then issue fixed-rate bonds (reduced by an amount equal to the swap termination payment received) in the higher interest rate environment. Conversely, if interest rates are lower, the Authority would be required to make a termination payment to the counterparty(ies). The Authority would issue fixed-rate bonds (increased by an amount equal to the swap termination payment payable) in the lower interest rate environment. In both cases, by virtue of entering into the proposed swap(s), it is expected that the Authority would have substantially hedged its interest rate risk.

The Authority's senior finance staff in consultation with the Financial Advisor and PFM-AM have analyzed and explained the risks to the Trustees associated with the 2007 Swap Agreement(s) including without limitation, risk associated with the spread between the different interest rates payable by the parties, the risk that the counterparty(ies) may default resulting in additional cost to the Authority and the risk that market conditions may delay or prevent the issuance of the Series 2007 C Revenue Bonds leaving the Authority in a position where a substantial termination amount may be payable without a source of bond proceeds.

AUTHORIZATION OF SERIES 2007 A, SERIES 2007 B AND SERIES 2007 C REVENUE BONDS

The Chairman stated that a matter to be presented at the meeting was consideration of the advisability of adopting the Eighth Supplemental Resolution Authorizing Series 2007 A, Series 2007 B and Series 2007 C Revenue Bonds (the "Eighth Supplemental Resolution"), which authorizes the issuance of (a) the Series 2007 A and 2007 B Revenue Bonds in an aggregate principal amount not to exceed \$375,000,000 such that the Series 2007 A Revenue Bonds are to be used to (i) provide moneys to finance a portion of the costs of the relicensing of the Niagara Project and to refund the portion of its tax-exempt Commercial Paper Notes, Series 2 issued to finance the relicensing and modernization of the Niagara Project, (ii) pay certain costs and expenses associated with the issuance of the Series 2007 A Revenue Bonds, including underwriters' discount, structuring fees, municipal bond insurance premium costs and reimbursement of costs and expenses expended by the Authority in connection therewith; and the Series 2007 B

Revenue Bonds are to be used to (i) provide moneys to finance a portion of the costs of the relicensing and modernization of the Authority's St. Lawrence-FDR Project and the relicensing of the Niagara Project and to refund the portion of its taxable Commercial Paper Notes, Series 3 issued to finance the relicensing and modernization of the Authority's Niagara Project, (ii) pay the termination amount, if any, incurred in connection with the termination of the 2006 Swap Agreement and (iii) pay financing costs related to the issuance of the Series 2007 B Revenue Bonds, including underwriters' discount, structuring fees, any insurance premiums related to the purchase of any municipal bond insurance policy determined to be necessary or desirable and other costs incurred by the Authority and (b) the Series 2007 C Revenue Bonds in an aggregate principal amount not to exceed \$300,000,000 in order to (i) provide moneys to redeem a portion of the Authority's Series 2002 A Revenue Bonds, including the redemption price of, and accrued interest to the date of redemption on, such bonds, (ii) pay the termination amount, if any, incurred in connection with the termination of the 2007 Swap Agreement(s) and (iii) pay certain costs and expenses associated with the issuance of the Series 2007 C Revenue Bonds, including underwriters' discount, structuring fees, municipal bond insurance premium costs and reimbursement of costs and expenses expended by the Authority in connection therewith. The respective principal amounts of the Series 2007 A, 2007 B and 2007 C Revenue Bonds will be determined at the time of the pricing of the Bonds, subject to the overall caps stated above.

On motion duly made and seconded, the Eighth Supplemental Resolution (attached hereto as **Exhibit A-1**), together with such changes, insertions, deletions and amendments thereto as the Chairman or President and Chief Executive Officer of the Authority may approve, which shall be deemed to be part of such resolutions as adopted, was unanimously adopted.

**CONTRACT OF PURCHASE, PRELIMINARY OFFICIAL STATEMENT
AND OFFICIAL STATEMENT FOR SERIES 2007 A, 2007 B AND 2007 C REVENUE BONDS**

The Chairman presented a copy of a form of Contract of Purchase proposed to be entered into with Citigroup Global Markets Inc., J.P. Morgan Securities Inc., Goldman Sachs & Co. and Merrill Lynch & Co. providing for the sale of the Series 2007 A, 2007 B and 2007 C Revenue Bonds to said purchasers. The Chairman also presented a draft form of the Preliminary Official Statement relating to the Bonds (attached hereto as **Exhibit A-2**). Said proposed Contract of Purchase and draft form of the Preliminary Official Statement were considered by the Trustees, and thereupon, on motion duly made and seconded, the following resolutions were unanimously adopted:

RESOLVED, that one or more series of the Bonds shall be sold, subject to the limitations described below, to Citigroup Global Markets Inc., J.P. Morgan Securities Inc., Goldman Sachs & Co. and Merrill Lynch & Co., or such other purchasers that may be approved by the Chairman or President and Chief Executive Officer (collectively, the "Underwriters"), at such prices, with accrued interest, if any, on such Bonds from the date of issue of said Bonds to the date of delivery and payment for said Bonds, as the Chairman or President and Chief Executive Officer may accept and as will be in compliance with the requirements of the Eighth Supplemental Resolution, pursuant to a Contract of Purchase, in substantially the form of the Contract of Purchase relating to the Bonds submitted at this meeting (attached hereto as **Exhibit A-3**), as such Contract may be modified as hereinafter provided, and upon the basis of the representations therein set forth; and

FURTHER RESOLVED, that the Chairman, President and Chief Executive Officer, Executive Vice President and Chief Financial Officer, Vice President-Finance, Treasurer and Deputy Treasurer be, and each of them hereby is, authorized on behalf of the Authority, subject to the limitations described below, to execute a Contract of Purchase substantially in the form submitted at this meeting, providing for the sale of one or more series of the Bonds to said purchasers, with such changes, insertions, deletions, amendments and supplements as the Chairman, President and Chief Executive Officer, Executive Vice President and Chief Financial Officer, Vice President-Finance, Treasurer or Deputy Treasurer may approve, subject to the requirements of the Eighth Supplemental Resolution, and to deliver it to said purchasers; and that said officers and all other officers of the Authority are hereby authorized and directed to carry out or cause to be carried out all obligations of the Authority set forth in said Contract of Purchase upon execution thereof and that the execution of the Contract of Purchase relating to the Bonds by said authorized officers be conclusive evidence that any conditions imposed by the Trustees have been satisfied and the sale and issuance of the Bonds has been authorized by the Authority's Board of Trustees; and

FURTHER RESOLVED, that the Chairman, President and Chief Executive Officer, Executive Vice President and Chief Financial Officer, Vice President-Finance, Treasurer and Deputy Treasurer be, and each of them hereby is, authorized to make such changes, insertions, deletions, amendments and supplements, to or from the draft form of the Preliminary Official Statement relating to the Bonds as may be approved by such officer, and upon the completion of any such modifications, such officer is authorized to execute such certificates as may be requested by the Underwriters to certify on behalf of the Authority that such Preliminary Official Statement is "deemed final" for purposes of Rule 15c2-12 under the Securities Exchange Act of 1934, subject to the omission of such information as is permitted by the Rule, and the distribution of the Preliminary Official Statement relating to the Bonds of the Authority is hereby approved to all interested persons in connection with the sale of such Bonds; and

FURTHER RESOLVED, that the Chairman, President and Chief Executive Officer, Executive Vice President and Chief Financial Officer and Vice President-Finance be, and each of them hereby is, authorized to adopt and execute on behalf of the Authority a final Official Statement of the Authority relating to the Bonds, in such form and substance as the Chairman or President and Chief Executive Officer deems necessary or desirable, and the delivery of said Official Statement to the purchasers of said Bonds is hereby authorized, and the Authority hereby authorizes said Official Statement and the information contained therein to be used in connection with the sale and delivery of the Authority's Bonds; and

FURTHER RESOLVED, that, if it is determined to be necessary or advisable, the Chairman, President and Chief Executive Officer, Executive Vice President and Chief Financial Officer, Executive Vice President, General Counsel and Chief of Staff, Vice President-Finance, Treasurer, Deputy Treasurer and all other officers of the Authority be, and each of them hereby is, authorized on behalf of the Authority to obtain one or more commitment letter(s) and municipal bond insurance policy(ies) for the Bonds with such terms and conditions as such officer deems necessary or advisable from such municipal bond insurance issuer(s) as the President and Chief Executive Officer or Chairman may select, covering scheduled payments of principal of and interest on such Bonds, including mandatory sinking fund redemption payments; and

FURTHER RESOLVED, that the Chairman, President and Chief Executive Officer, Executive Vice President and Chief Financial Officer, Executive Vice President, General Counsel and Chief of Staff, Vice President-Finance, Treasurer, Deputy Treasurer and all other officers of the Authority be, and each of them hereby is, authorized and directed, for and in the name and on behalf of the Authority, to do any and all things and take any and all actions and execute and deliver any and all certificates, agreements and other documents, including but not limited to those actions, certificates, agreements and other documents described in the Eighth Supplemental Resolution, the Contract of Purchase and the other documents approved today or required in connection with the obtaining of one or more municipal bond insurance policy, which they, or any of them, may deem necessary or advisable in order to (i) consummate the lawful sale, issuance and delivery of the Bonds, (ii) implement any action permitted to be taken by the Authority under the Eighth Supplemental Resolution, the Contract of Purchase relating to the Bonds and the other agreements and documents approved today following the issuance of the Bonds, and (iii) effectuate the purposes of the transactions and documents approved today.

APPOINTMENT OF REGISTRAR, PAYING AGENT AND ESCROW AGENT UNDER GENERAL RESOLUTION

RESOLVED, that The Bank of New York Trust Company, N.A. is hereby appointed as Registrar and Paying Agent for the Series 2007 A, 2007 B and 2007 C Revenue Bonds under the General Resolution and as Escrow Agent for the refunded Series 2002 A Revenue Bonds.

AUTHORIZATION OF CONTINUING DISCLOSURE AGREEMENTS

RESOLVED, that the Chairman, President and Chief Executive Officer, Executive Vice President and Chief Financial Officer, Vice President-Finance, Treasurer and Deputy Treasurer be, and each of them hereby is, authorized to execute a Continuing Disclosure Agreement relating to the Series 2007 A, 2007 B and 2007 C Revenue Bonds, between the Authority and The Bank of New York Trust Company, N.A., as Trustee under the General Resolution, in substantially the form set forth in Appendix C to Part 1 of the draft Preliminary Official Statement to be issued in connection with the sale of the Series 2007 A, 2007 B and 2007 C Revenue Bonds, submitted at this meeting, each with such changes, insertions, deletions, and supplements, as such authorized

executing officer deems in his discretion to be necessary or appropriate, such execution to be conclusive evidence of such approval.

ESCROW DEPOSIT AGREEMENT

RESOLVED, that the Chairman, President and Chief Executive Officer, Executive Vice President and Chief Financial Officer, Vice President–Finance, Treasurer and Deputy Treasurer be, and each of them hereby is, authorized on behalf of the Authority to execute one or more Escrow Deposit Agreements between the Authority and The Bank of New York Trust Company, N.A., for the purpose of accomplishing the refunding of a portion of the Authority’s Series 2002 A Revenue Bonds in accordance with the Eighth Supplemental Resolution, such execution to be conclusive evidence of such approval.

2006 SWAP AGREEMENT

RESOLVED, that the Chairman, President and Chief Executive Officer, Executive Vice President and Chief Financial Officer, Executive Vice President, General Counsel and Chief of Staff, Vice President-Finance, Treasurer and Deputy Treasurer be, and each of them hereby is, authorized to terminate the Authority’s interest rate swap agreement dated February 15, 2006 with Goldman Sachs Mitsui Marine Derivative Products, L.P. (Swaps Transaction LTAA1705611999.1 / 00683699301) in the aggregate notional amount of \$290,000,000 and pay any termination amounts from the proceeds of the Series 2007 B Revenue Bonds.

2007 SWAP AGREEMENT(S)

RESOLVED, That the Chairman, President and Chief Executive Officer, the Executive Vice President and Chief Financial Officer, the Vice President-Finance, and the Treasurer be, and each hereby is, authorized to execute on behalf of the Authority one or more floating-to-fixed-rate, interest rate swap agreements with entities to be selected by the Vice President-Finance or the Treasurer as a result of a competitive bidding process, provided that: (1) the agreements shall consist of at least one swap based on the Securities Industry and Financial Markets Association (‘SIFMA’) Municipal Swap Index in an aggregate notional amount not to exceed \$278 million as a hedge for the Series 2007 C Revenue Bond issuance being contemplated for October 2007; (2) the term of the agreements shall not exceed November 15, 2021; (3) during the term of the agreements, the Authority shall not pay a fixed rate greater than 5.5% on the notional amount of the swap(s), and the counterparty(ies), in turn, shall pay the Authority payments equal to the notional amount of the swaps multiplied by the SIFMA Municipal Swap Index; (4) any credit support annexes shall allow for transfer of up to an aggregate of \$25 million in collateral without further approval of the Trustees; (5) the swap agreements may provide for their termination if the Authority declines to provide additional collateral beyond the \$25 million discussed in clause (4) above; and (6) such agreements shall have such terms and conditions, not inconsistent with the requirements set forth in clauses (1)-(5) above, as the Executive Vice President and Chief Financial Officer, the Vice President - Finance or the Treasurer each in his discretion shall deem necessary or advisable, with execution of the agreements constituting conclusive evidence of such approval; and be it further

RESOLVED, That the Chairman, President and Chief Executive Officer, the Executive Vice President and Chief Financial Officer, the Vice President-Finance, the Treasurer, the Deputy Treasurer and each of them hereby is, authorized to terminate on behalf of the Authority the 2007 Swap Agreement(s) and pay any termination amounts from the Series 2007 C Revenue Bond proceeds or from the Operating Fund;

RESOLVED, That prior to the release of any monies from the Operating Fund for the payment of collateral under any credit support annexes, the Executive Vice President and Chief Financial Officer, the Vice President-Finance or the Treasurer shall certify that any such amount to be withdrawn for such purpose shall not be needed for any of the purposes specified in Section 503(1)(a)-(c) of the Authority’s General Resolution Authorizing Revenue Obligations, as amended and supplemented; and be it further

RESOLVED, That the President and Chief Executive Officer, the Executive Vice President and Chief Financial Officer, the Vice President - Finance, the Treasurer, the Deputy Treasurer and all other Authority officers be, 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 certificates, agreements and other documents to effectuate this

resolution, subject to the approval of the form thereof by the Executive Vice President, General Counsel and Chief of Staff.

AGREEMENTS FOR BOND AND SPECIAL COUNSEL SERVICES

RESOLVED, that the Executive Vice President, General Counsel and Chief of Staff be, and hereby is, authorized on behalf of the Authority to execute letter agreements between the Authority and the law firm of Hawkins Delafield & Wood LLP for the provision by such firm of bond counsel services to the Authority, and with the law firm of Nixon Peabody LLP for the provision by such firm of special counsel services to the Authority, all in connection with the Series 2007 A, 2007 B and 2007 C Revenue Bonds and the related transactions authorized hereby, with such agreements having such terms and conditions as the Executive Vice President, General Counsel and Chief of Staff may approve.

ADDITIONAL AUTHORIZATION

RESOLVED, that the Chairman, President and Chief Executive Officer, Executive Vice President and Chief Financial Officer, Executive Vice President, General Counsel and Chief of Staff, Vice President-Finance, Treasurer, Deputy Treasurer and all other officers of the Authority be, and each of them hereby is, authorized and directed, for and in the name and on behalf of the Authority, to do any and all things and take any and all actions and execute and deliver any and all certificates, agreements and other documents, which they, or any of them, may deem necessary or advisable in order to effectuate the foregoing resolutions.

EXHIBITS

- Exhibit A-1 Eighth Supplemental Resolution Authorizing Series 2007 A Revenue Bonds, Series 2007 B Revenue Bonds and Series 2007 C Revenue Bonds
- Exhibit A-2 Draft Preliminary Official Statement
- Exhibit A-3 Draft Contract of Purchase

**POWER AUTHORITY OF THE STATE
OF NEW YORK**

EIGHTH SUPPLEMENTAL RESOLUTION

authorizing

SERIES 2007 A, SERIES 2007 B and SERIES 2007 C REVENUE BONDS

Adopted on September 25, 2007

TABLE OF CONTENTS

Page

ARTICLE I

DEFINITIONS AND STATUTORY AUTHORITY

101. Supplemental Resolution; Authority 1
102. Definitions..... 1

ARTICLE II

AUTHORIZATION OF BONDS

201. Principal Amount, Designation and Series..... 3
202. Purposes 3
203. Details of the Bonds 4
204. Delegation of Authority 7
205. Form of Bonds and Trustee’s Authentication Certificate..... 8
206. Execution and Authentication of Bonds..... 8

ARTICLE III

SERIES 2007 A, SERIES 2007 B and SERIES C CREDIT FACILITIES

301. Series 2007 A Credit Facility 9
302. Series 2007 B Credit Facility 9
303. Series 2007 C Credit Facility 9

ARTICLE IV

ADDITIONAL AUTHORIZATIONS; MISCELLANEOUS

401. Tax Covenant 10
402. Certain Findings and Determinations..... 10
403. Notice to Owners upon Event of Default 11
404. Further Authority..... 12
405. Effective Date..... 12
APPENDIX A..... 1

EIGHTH SUPPLEMENTAL RESOLUTION

authorizing

SERIES 2007 A, SERIES 2007 B AND SERIES 2007 C REVENUE BONDS

BE IT RESOLVED by the Trustees of the Power Authority of the State of New York as follows:

ARTICLE I

DEFINITIONS AND STATUTORY AUTHORITY

101. Supplemental Resolution; Authority. This resolution (“**Eighth Supplemental Resolution**”) is supplemental to, and is adopted in accordance with Article VIII of a resolution adopted by the Authority on February 24, 1998 entitled “General Resolution Authorizing Revenue Obligations” (“**General Resolution**”, and as heretofore amended and supplemented and collectively with the Eighth Supplemental Resolution, the “**Resolution**”), and is adopted pursuant to the provisions of the Act.

102. Definitions. 1. All terms which are defined in Section 101 of the General Resolution shall have the same meanings for purposes of this Eighth Supplemental Resolution.

2. In this Eighth Supplemental Resolution:

“**Beneficial Owner**” means, for any Bond which is held by a nominee, the beneficial owner of such Bond.

“**Bonds**” or “**Bonds of a Series**” and words of like import shall mean the Series 2007 A Revenue Bonds, the Series 2007 B Revenue Bonds and the Series 2007 C Revenue Bonds authorized by Section 201 hereof individually, or such three Series collectively, as the context may require.

“**Certificate of Determination**” shall mean any certificate of the President and Chief Executive Officer of the Authority or the Chairman of the Authority delivered pursuant to Section 204 of this Eighth Supplemental Resolution, setting forth certain terms and provisions of the Bonds.

“**Depository Participant**” means any Person for which the Securities Depository holds Bonds as securities depository.

“**DTC**” shall mean The Depository Trust Company, New York, New York, or its successors.

“**Escrow Agent**” means any escrow agent for the Bonds and its successor or successors and any other person which may at any time be substituted in its place.

“**Securities Depository**” shall mean DTC as the Securities Depository appointed pursuant to Section 203(f) hereof, or any substitute Securities Depository, or any successor to DTC or any substitute Securities Depository.

“Series 2007 A Bonds” shall mean the Series 2007 A Revenue Bonds authorized by Section 201 hereof.

“Series 2007 A Credit Facility” means, with respect to the Series 2007 A Bonds, a Credit Facility (as defined in the Resolution) issued in the form of a municipal bond insurance policy by the Series 2007 A Credit Facility Issuer, dated the Closing Date, which guarantees the payment of scheduled principal of and interest on the Series 2007 A Bonds when due (including mandatory sinking fund installments).

“Series 2007 A Credit Facility Issuer” means the issuer of the Series 2007 A Credit Facility specified in Section 301 hereof.

“Series 2007 B Bonds” shall mean the Series 2007 B Revenue Bonds authorized by Section 201 hereof.

“Series 2007 B Credit Facility” means, with respect to the Series 2007 B Bonds, a Credit Facility (as defined in the Resolution) issued in the form of a municipal bond insurance policy by the Series 2007 B Credit Facility Issuer, dated the Closing Date, which guarantees the payment of scheduled principal of and interest on the Series 2007 B Bonds when due (including mandatory sinking fund installments).

“Series 2007 B Credit Facility Issuer” means the issuer of the Series 2007 B Credit Facility specified in Section 302 hereof.

“Series 2007 C Bonds” shall mean the Series 2007 C Revenue Bonds authorized by Section 201 hereof.

“Series 2007 C Credit Facility” means, with respect to the Series 2007 C Bonds, a Credit Facility (as defined in the Resolution) issued in the form of a municipal bond insurance policy by the Series 2007 C Credit Facility Issuer, dated the Closing Date, which guarantees the payment of scheduled principal of and interest on the Series 2007 C Bonds when due (including mandatory sinking fund installments).

“Series 2007 C Credit Facility Issuer” means the issuer of the Series 2007 C Credit Facility specified in Section 302 hereof.

“2007 Revolving Credit Agreement” shall mean the 2007 Revolving Credit Agreement dated as of August 2, 2007 among the Authority, The Bank of Nova Scotia, acting through its New York Agency, as Administrative Agent, and the banks named in such Agreement.

ARTICLE II

AUTHORIZATION OF BONDS

201. Principal Amount, Designation and Series. Pursuant to the provisions of the General Resolution, three Series of Obligations entitled to the benefit, protection and security of such provisions are hereby authorized with the following designations: the Series 2007 A Revenue Bonds, the Series 2007 B Revenue Bonds and the Series 2007 C Revenue Bonds. The aggregate principal amount of each of the Series 2007 A Revenue Bonds, the Series 2007 B Revenue Bonds and the Series 2007 C Revenue Bonds shall be set forth in the Certificate of Determination relating to the respective Bonds; provided that the aggregate principal amount of the Series 2007 A and 2007 B Revenue Bonds to be issued shall not exceed \$375,000,000 and that the aggregate principal amount of the Series 2007 C Revenue Bonds to be issued shall not exceed \$300,000,000. Individual maturities of the Bonds or portions thereof may bear such additional designations, if any, as may be set forth in the related Certificate of Determination. In the event that any series of Bonds is not issued until 2008, the applicable Certificate of Determination may (i) redesignate the year and series of such Bonds and (ii) make any other conforming changes deemed necessary or appropriate to reflect the year of issuance.

202. Purposes. (a) The purposes for which the Series 2007 A Bonds are to be issued shall include such of the following as shall be specified in the applicable Certificate of Determination:

(i) provide moneys to finance a portion of the costs of the relicensing of the Niagara Project and to refund the portion of its tax-exempt Commercial Paper Notes, Series 2 issued to finance the relicensing and modernization of the Niagara Project, and

(ii) to pay certain costs and expenses associated with the issuance of the Series 2007 A Bonds, including underwriters' discount, structuring fees, municipal bond insurance premium costs and reimbursement of costs and expenses incurred by the Authority in connection therewith.

(b) The purposes for which the Series 2007 B Bonds are to be issued shall include such of the following as shall be specified in the applicable Certificate of Determination:

(i) provide moneys to finance a portion of the costs of the relicensing and modernization of the Authority's St. Lawrence-FDR Project and the relicensing of the Niagara Project and to refund the portion of its taxable Commercial Paper Notes, Series 3 (the "CP Notes") issued to finance the relicensing and modernization of the Authority's Niagara Project, and

(ii) to pay any termination fees in relation to the swap agreement entered into with Goldman Sachs Mitsui Marine Derivative Products, L.P. dated February 15, 2006; and

(iii) to pay certain costs and expenses associated with the issuance of the Series 2007 B Bonds, including underwriters' discount, structuring fees, municipal bond insurance premium costs and reimbursement of costs and expenses incurred by the Authority in connection therewith.

(c) The purposes for which the Series 2007 C Bonds are to be issued shall include such of the following as shall be specified in the applicable Certificate of Determination:

(i) provide moneys to refund a portion of its Series 2002 A Revenue Bonds issued to finance the costs of construction of a 500-MW combined-cycle electric generating plant located in New York City and issued to refund related Commercial Paper Notes, and

(ii) to pay any termination fees in relation to one or more swap agreements entered into in connection with the refunding of the Series 2002 A Revenue Bonds; and

(iii) to pay certain costs and expenses associated with the issuance of the Series 2007 C Bonds, including underwriters' discount, structuring fees, municipal bond insurance premium costs and reimbursement of costs and expenses incurred by the Authority in connection therewith

(d) Such portion of the proceeds of the Series 2007 A Bonds, Series 2007 B and Series 2007 C Bonds as may be specified in the applicable Certificate of Determination shall be applied for the purposes specified in subsection (a),(b) and (c) above respectively. All such proceeds shall be deposited and applied in accordance with the applicable Certificate of Determination.

203. Details of the Bonds. The following provisions set forth the details of the Bonds.

(a) Dates, Maturities and Interest. The Bonds shall be dated and shall bear interest from the date as may be specified by the President and Chief Executive Officer or the Chairman pursuant to Section 204 hereof. The Bonds shall mature on the dates and in the principal amounts, and bear interest, as the President and Chief Executive Officer or the Chairman shall specify in the applicable Certificate of Determination. Interest on the Bonds shall be payable semiannually on the interest payment dates and at the respective rates per annum specified in the applicable Certificate of Determination. The Series 2007 A Bonds and Series 2007 C Bonds shall be Tax-Exempt Obligations.

(b) Denominations. The Bonds shall be issued in the form of fully registered Bonds in the denomination of \$5,000 or any integral multiple of \$5,000.

(c) Designations. Unless the Authority shall otherwise direct, the Series 2007 A Bonds shall be lettered "2007A-" and numbered consecutively from one upward, the Series 2007 B Bonds shall be lettered "2007B-" and numbered consecutively from one upward and the Series 2007 C Bonds shall be lettered "2007C-" and numbered consecutively from one upward.

(d) Payment of Principal and Interest. Principal and Redemption Price of each Bond shall be payable at the Principal Office of the Trustee upon presentation and surrender of such Bond.

The Trustee shall indicate on the Bonds the date of their authentication as provided in Section 205 hereof. Interest on the Bonds shall be payable from the interest payment date next preceding the date of authentication to which interest shall have been paid, unless such date of authentication is an interest payment date, in which case from such date if interest has been paid to such date; provided, however, that interest shall be payable on the Bonds from such date as may be specified by the President and Chief Executive Officer or the Chairman pursuant to Section 204 hereof, if the date of authentication is prior to the first interest payment date therefor. Interest on the Bonds shall be payable on the interest payment dates specified in the applicable Certificate of Determination to the registered owner as of the close of business on the first day (whether or not a Business Day) of the calendar month in which the interest payment date occurs, such interest to be paid by the Trustee by check mailed to the registered

owner at his or her address as it appears on the books of registry; provided, however, that upon redemption of any Bond, the accrued interest payable upon redemption shall be payable at the Principal Office of the Trustee upon presentation and surrender of such Bond, unless the redemption date is an interest payment date, in which event the interest on such Bond so redeemed shall be paid by the Trustee by check mailed to the registered owner at his address as it appears on the books of registry.

The principal or Redemption Price of and interest on the Bonds shall also be payable at any other place which may be provided for such payment by the appointment of any other Paying Agent or Paying Agents as permitted by the General Resolution.

The foregoing provisions of this subsection (d) shall be subject to the provisions of subsection (f) of this Section.

The principal of and premium, if any, and interest on the Bonds shall be payable in any coin or currency of the United States of America which at the time of payment is legal tender for public and private debts.

(e) Trustee, Registrar, Paying Agent and Escrow Agent. The Bank of New York is the successor Trustee for the Obligations pursuant to Section 712 of the General Resolution. The Trustee is also hereby appointed as the Registrar and Paying Agent for the Bonds and as Escrow Agent for the Series 2002 A Revenue Bonds to be refunded by the Series 2007 C Bonds.

(f) Securities Depository. The Bonds when initially issued shall be registered in the name of Cede & Co., as nominee of DTC, in the form of a single fully registered Bond for each maturity of the Bonds with a different interest rate applicable thereto. DTC is hereby appointed initial Securities Depository for the Bonds, subject to the provisions of subsection (g) of this Section. So long as DTC or its nominee, as Securities Depository, is the registered owner of Bonds, individual purchases of beneficial ownership interests in Bonds may be made only in book-entry form by or through DTC participants, and purchasers of such beneficial ownership interests in Bonds will not receive physical delivery of bond certificates representing the beneficial ownership interests purchased.

So long as DTC or its nominee, as Securities Depository, is the registered owner of Bonds, payments of principal of and premium, if any, and interest on such Bonds will be made by wire transfer to DTC or its nominee, or otherwise as may be agreed upon by the Authority, the Trustee and DTC. Transfers of principal, premium, if any, and interest payments to DTC participants will be the responsibility of DTC. Transfers of such payments to Beneficial Owners of Bonds by DTC participants will be the responsibility of such participants and other nominees of such Beneficial Owners.

So long as DTC or its nominee, as Securities Depository, is the registered owner of Bonds, the Authority shall send, or cause the Trustee to send, or take timely action to permit the Trustee to send, to DTC notice of redemption of such Bonds and any other notice required to be given to registered owners of such Bonds pursuant to the Resolution, in the manner and at the times prescribed by the Resolution, except as may be agreed upon by the Authority, the Trustee (if applicable) and DTC.

Neither the Authority nor any Fiduciary shall have any responsibility or obligation to the DTC participants, Beneficial Owners or other nominees of such Beneficial Owners for (1) sending transaction statements; (2) maintaining, supervising or reviewing the accuracy of, any records maintained by DTC or any DTC participant or other nominees of such Beneficial Owners; (3) payment or the timeliness of payment by DTC to any DTC participant, or by any DTC participant or other nominees of

Beneficial Owners to any Beneficial Owner, of any amount due in respect of the principal of or redemption premium, if any, or interest on Bonds; (4) delivery or timely delivery by DTC to any DTC participant, or by any DTC participant or other nominees of Beneficial Owners to any Beneficial Owners, of any notice (including notice of redemption) or other communication which is required or permitted under the terms of the Resolution to be given to holders or owners of Bonds; (5) the selection of the Beneficial Owners to receive payment in the event of any partial redemption of Bonds; or (6) any action taken by DTC or its nominee as the registered owner of the Bonds.

Notwithstanding any other provisions of this Eighth Supplemental Resolution to the contrary, the Authority, the Registrar, Paying Agent, and the Trustee shall be entitled to treat and consider the person in whose name each Bond is registered in the books of registry as the absolute owner of such Bond for the purpose of payment of principal, Redemption Price, and interest with respect to such Bond, for the purpose of giving notices of redemption and other matters with respect to such Bond, for the purpose of registering transfers with respect to such Bond, and for all other purposes whatsoever. The Trustee shall pay all principal and Redemption Price of and interest on the Bonds only to or upon the order of the respective Owners, as shown in the books of registry as provided in this Eighth Supplemental Resolution, or their respective attorneys duly authorized in writing, and all such payments shall be valid and effective to fully satisfy and discharge the Authority's obligations with respect to payment of principal and Redemption Price of and interest on such Bonds to the extent of the sum or sums so paid.

Notwithstanding any other provisions of this Eighth Supplemental Resolution to the contrary, so long as any Bond is registered in the name of Cede & Co., as nominee of DTC, all payments with respect to principal and Redemption Price of, and interest on such Bond and all notices with respect to such Bond shall be made and given, respectively, pursuant to DTC's rules and procedures.

Payments by the DTC participants to Beneficial Owners will be governed by standing instructions and customary practices, as is now the case with municipal securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such DTC participant and not of DTC, the Trustee or the Authority, subject to any statutory and regulatory requirements as may be in effect from time to time.

Provisions similar to those contained in this subsection (f) may be made by the Authority in connection with the appointment by the Authority of a substitute Securities Depository, or in the event of a successor to any Securities Depository.

Authorized Officers are hereby authorized to enter into such representations and agreements as they deem necessary and appropriate in furtherance of the provisions of this subsection (f).

(g) Replacement Bonds. The Authority shall issue Bond certificates (the "Replacement Bonds") directly to the Beneficial Owners of the Bonds, or their nominees, in the event that DTC determines to discontinue providing its services with respect to the Bonds, at any time by giving notice to the Authority, and the Authority fails to appoint another qualified Securities Depository to replace DTC. In addition, the Authority also shall issue Replacement Bonds directly to the Beneficial Owners of the Bonds, or their nominees, in the event the Authority discontinues use of DTC as Securities Depository at any time upon determination by the Authority, in its sole discretion and without the consent of any other person, that Beneficial Owners of the Bonds shall be able to obtain certificated Bonds.

(h) Notices. In connection with any notice of redemption provided in accordance with Section 405 of the General Resolution, notice of such redemption shall also be sent by the Trustee by

first class mail, overnight delivery service or other secure overnight means, postage prepaid, to the appropriate Credit Facility Issuer, to any Rating Agency and to at least two (2) of the national Information Services (described below) that disseminate securities redemption notices, in each case not later than the mailing of notice required by the Resolution.

Information Services include: Bloomberg Municipal Repository, 100 Business Park Drive, Skillman, New Jersey 08558; DPC Data Inc., One Executive Drive, Fort Lee, New Jersey 07024; Interactive Data Pricing and Reference Data, Inc., Attn: NRMSIR, 100 William Street, 15th Floor, New York, New York 10038; and Standard and Poor's Securities Evaluations Inc., 55 Water Street, 45th Floor, New York, New York 10041; or, in accordance with then current guidelines of the Securities and Exchange Commission, such other addresses and/or such other services providing information with respect to called bonds, or any other such services as the Authority may designate in writing to the Trustee.

204. Delegation of Authority. There is hereby delegated to the President and Chief Executive Officer of the Authority and the Chairman of the Authority, and each of them hereby is authorized, subject to the limitations contained herein, with respect to the Bonds to determine and effectuate the following:

(a) the principal amount of the Bonds to be issued, provided that the aggregate principal amount of the Series 2007 A and Series 2007 B Bonds to be issued shall not exceed \$375,000,000 and the principal amount of the Series 2007 C Bonds to be issued shall not exceed \$300,000,000.

(b) the date or dates, maturity date or dates and principal amount of each maturity of the Bonds, the first interest payment date or dates of the Bonds, and the date or dates from which the Bonds shall bear interest;

(c) the interest rate or rates of the Bonds, provided, however, that such interest rate or rates shall result in a true interest cost (i.e., the rate, compounded semi-annually, necessary to discount the amounts payable on the respective principal and interest payment dates of such Bonds to the purchase price received therefor) to the Authority, based on the purchase price for which the Bonds are sold, not in excess of seven and a half percent (7.5%) per annum;

(d) the Sinking Fund Installments for any term Bond and the methodology to be applied to reduce such installments upon redemption by the Authority, if any, of any such term Bond;

(e) the portions of the proceeds of the Bonds and the amounts to be deposited and applied in accordance with Section 202 hereof;

(f) the redemption provisions of the Bonds;

(g) the definitive form or forms of the Bonds and the definitive form or forms of the Trustee's certificate of authentication thereon;

(h) additional or different designations, if any, for particular maturities of Bonds or portions thereof intended to distinguish such maturities or portions thereof from other Bonds; and

(i) provisions that are deemed necessary or advisable by the President and Chief Executive Officer or the Chairman of the Authority in connection with the implementation and delivery to the Trustee of a Credit Facility; and

(j) any other provisions deemed advisable by the President and Chief Executive Officer of the Authority or the Chairman of the Authority, not in conflict with the provisions hereof or of the General Resolution.

The President and Chief Executive Officer of the Authority or Chairman of the Authority shall execute one or more certificates evidencing determinations or other actions taken pursuant to the authority granted herein, an executed copy of which shall be delivered to the Trustee. Each such certificate shall be deemed a Certificate of Determination and shall be conclusive evidence of the action or determination of such officer as to the matters stated therein. The provisions of each Certificate of Determination shall be deemed to be incorporated in Article II hereof. No such Certificate of Determination shall, nor shall any amendment to this Eighth Supplemental Resolution, change or modify any of the rights or obligations of the Series 2007 A Credit Facility Issuer, the Series 2007 B Credit Facility Issuer or the Series 2007 C Credit Facility Issuer without their written assent thereto.

205. Form of Bonds and Trustee's Authentication Certificate. Subject to the provisions of the General Resolution and to any amendment or modifications thereto or insertions therein as may be approved by the President and Chief Executive Officer of the Authority or the Chairman of the Authority pursuant to Section 204 hereof, the form of the Bonds, form of assignment, and the Trustee's Certificate of Authentication shall be in substantially the form set forth in Appendix A hereto, with necessary or appropriate variations, omissions and insertions as are incidental to their series, numbers, denominations, maturities, interest rate or rates, registration provisions, redemption provisions, status of interest to owners thereof for Federal income tax purposes, and other details thereof and of their form or as are otherwise permitted or required by law or by the Resolution, including this Eighth Supplemental Resolution. Any portion of the text of any Bond may be set forth on the reverse thereof, with an appropriate reference thereto on the face of such Bond. Bonds may be typewritten, printed, engraved, lithographed or otherwise reproduced.

206. Execution and Authentication of Bonds. Notwithstanding the first sentence of paragraph 1 of Section 303 of the General Resolution, the Bonds shall be executed in the name of the Authority by the manual or facsimile signature of its Chairman, its Vice Chairman or its President and Chief Executive Officer and its corporate seal (or a facsimile thereof) shall be affixed, imprinted, engraved or otherwise reproduced, and attested by the manual or facsimile signature of its Secretary, a Deputy Secretary, or an Assistant Secretary, or in such other manner as may be required by law.

ARTICLE III

SERIES 2007 A, SERIES 2007 B and SERIES C CREDIT FACILITIES

301. Series 2007 A Credit Facility. The Authority may obtain the Series 2007 A Credit Facility issued in the form of a municipal bond insurance policy from such municipal bond insurance issuer as may be selected by the President and Chief Executive Officer or Chairman of the Authority and specified in the applicable Certificate of Determination with respect to the Series 2007 A Bonds, dated the Closing Date.

302. Series 2007 B Credit Facility. The Authority may obtain the Series 2007 B Credit Facility issued in the form of a municipal bond insurance policy from such municipal bond insurance issuer as may be selected by the President and Chief Executive Officer or Chairman of the Authority and specified in the applicable Certificate of Determination with respect to the Series 2007 B Bonds, dated the Closing Date.

303. Series 2007 C Credit Facility. The Authority may obtain the Series 2007 C Credit Facility issued in the form of a municipal bond insurance policy from such municipal bond insurance issuer as may be selected by the President and Chief Executive Officer or Chairman of the Authority and specified in the applicable Certificate of Determination with respect to the Series 2007 C Bonds, dated the Closing Date.

ARTICLE IV

ADDITIONAL AUTHORIZATIONS; MISCELLANEOUS

401. Tax Covenant. (a) The Authority shall not take or omit to take any action which would cause interest on any Series 2007 A Bonds and any Series 2007 C Bonds to be included in the gross income of any Owner thereof for Federal income tax purposes by reason of subsection (b) of Section 103 of the Internal Revenue Code of 1986 (Title 26 of the United States Code) as in effect on the date of original issuance of such Obligations. Without limiting the generality of the foregoing, no part of the proceeds of the Series 2007 A Bonds or Series 2007 C Bonds or any other funds of the Authority shall be used directly or indirectly to acquire any securities or obligations the acquisition of which would cause any Series 2007 A Bond or Series 2007 C Bonds to be an “arbitrage bond” as defined in section 148 of the Internal Revenue Code of 1986 (Title 26 of the United States Code) as then in effect and to be subject to treatment under subsection (b)(2) of Section 103 of the Code as an obligation not described in subsection (a) of said section. The Authority shall pay to the United States any amounts that are necessary for the purpose of compliance with the provisions of Section 148 of the Code.

(b) Notwithstanding any other provision of the Resolution to the contrary, upon the Authority’s failure to observe, or refusal to comply with, the above covenant in paragraph (a), the Owners, or the Trustee acting on their behalf, shall be entitled only to the right of specific performance of such covenant, and shall not be entitled to any of the other rights and remedies provided under Article X of the General Resolution.

402. Certain Findings and Determinations. The Trustees hereby find and determine:

(a) The General Resolution has not been amended, supplemented, or repealed since the adoption thereof except by the resolution of the Authority entitled “First Supplemental Resolution Authorizing Series 1998 Revenue Bonds” adopted February 24, 1998, by the resolution of the Authority entitled “Second Supplemental Resolution Authorizing Series 2000 A Revenue Bonds” adopted October 31, 2000, by the resolution of the Authority entitled “Third Supplemental Resolution Amending the General Resolution” adopted June 26, 2001, by the resolution of the Authority entitled “Fourth Supplemental Resolution Authorizing Series 2001 A Revenue Bonds and Series 2002 A Revenue Bonds” adopted September 25, 2001, by the resolution of the Authority entitled “Fifth Supplemental Resolution Authorizing Series 2002 A Revenue Bonds” adopted September 17, 2002, by the resolution of the Authority entitled “Sixth Supplemental Resolution Authorizing Series 2003 A Revenue Bonds” adopted November 25, 2003 and by the resolution of the Authority entitled “Seventh Supplemental Resolution Authorizing Series 2005 A and Series 2005 B Revenue Bonds” adopted September 20, 2005. This Eighth Supplemental Resolution supplements the General Resolution as heretofore amended and supplemented, constitutes and is a “Supplemental Resolution” within the meaning of such quoted term as defined and used in the General Resolution, and is adopted under and pursuant to the General Resolution.

(b) The Bonds constitute and are “Obligations” within the meaning of the quoted word as defined and used in the Resolution.

(c) Any municipal bond insurance policy issued by such municipal bond insurance issuer as may be selected by the President and Chief Executive Officer or Chairman of the Authority and specified in the applicable Certificate of Determination, dated the Closing Date, shall constitute and shall be required to be a “Credit Facility” within the meaning of the quoted words as defined and used in the

Resolution. Furthermore, any such municipal bond insurance policy, including any charges, fees, costs and expenses that the Series 2007 A or Series 2007 B or Series 2007 C Credit Facility Issuer may reasonably incur in the administration of the Series 2007 A or Series 2007 B or Series 2007 C Credit Facility, respectively, or in the pursuit of any remedies under the Resolution or otherwise afforded by law or equity, shall constitute and shall be required to be a “Subordinated Contract Obligation” within the meaning of the quoted words as defined and used in the Resolution, provided, however, each of the Series 2007 A, Series 2007 B and Series 2007 C Credit Facility Issuer shall, to the extent it makes any payment of principal of or interest on the Bonds, become subrogated to the rights of the recipients of such payments in accordance with the terms of the Series 2007 A, Series 2007 B and Series 2007 C Credit Facility, respectively.

(d) The Trust Estate is not encumbered by any lien or charge thereon or pledge thereof, other than the parity lien and charge thereon and pledge thereof securing the outstanding 1985 Notes, the notes issued pursuant to the 2007 Revolving Credit Agreement, and certain payments required to be made in connection with the Parity Swap Obligations entered into by the Authority in 1998 and the subordinate liens and charges thereon and subordinated pledge thereof created by the existing Subordinated Indebtedness and Subordinated Contract Obligations.

(e) There does not exist an “Event of Default” within the meaning of such quoted term as defined in Section 1001 of the Resolution, nor does there exist any condition which, after the giving of notice or the passage of time, or both, would constitute such an “Event of Default.”

403. Notice to Owners upon Event of Default. 1. If an Event of Default occurs of which the Trustee has or is deemed to have notice under Section 702(c)(6) of the General Resolution, the Trustee shall give by telecopier or other electronic means or by telephone (promptly confirmed in writing) notice thereof to the Authority. Within two Business Days thereafter (unless such Event of Default has been cured or waived), the Trustee shall give notice of such Event of Default to each Owner, provided, however, that except in the instance of an Event of Default under Section 1001(i) or (ii) of the General Resolution, the Trustee may withhold such notice to Owners if and so long as the Trustee in good faith determines that the withholding of such notice is in the interests of Owners, and provided, further, that notice to Owners of any Event of Default under Section 1001(ii) or (iii) of the General Resolution shall not be given until the grace period has expired.

2. For so long as the Bonds are registered solely in the name of the Securities Depository or its nominee, where the General Resolution provides for notice to the Owners of the Bonds of the existence of, or during the continuance of, any Event of Default, the Trustee shall: (i) establish a record date (the “Record Date”) for determining the identity of the Persons entitled to receive such notice; (ii) request a securities position listing from the Securities Depository showing the Depository Participants holding positions in the Bonds affected by such notice as of the Record Date for such notice; (iii) send by first-class, postage prepaid mail, copies of the notice as provided above to each Depository Participant identified in the securities position listing as holding a position in the Bonds as of the Record Date for the notice, to each nationally recognized municipal securities information repository and state information depository (within the meaning of Rule 15c2-12 of the United States Securities and Exchange Commission under the Securities Exchange Act of 1934), and to any Person identified to the Trustee as a non-objecting Beneficial Owner (a non-objecting Beneficial Owner is a Person for whom a Depository Participant acts as nominee, and who has not objected to the disclosure of his or her name and security position) pursuant to the immediately following clause; (iv) request that the Depository Participant retransmit the notice to all Persons for which it served as nominee on the Record Date, including non-objecting Beneficial Owners, or retransmit the notice to objecting Beneficial Owners and provide a listing

of non-objecting Beneficial Owners for whom the Depository Participant served as nominee on the Record Date to the Trustee and (v) provide as many copies of the notice as may be requested by any nominee owner of the Bonds. Any default in performance of the duties required by this paragraph shall not affect the sufficiency of notice to Owners given in accordance with the provisions of the General Resolution, nor the validity of any action taken under the General Resolution in reliance on such notice to Owners.

404. Further Authority. The Chairman, Vice Chairman, President and Chief Executive Officer, Executive Vice President, General Counsel and Chief of Staff, Executive Vice President and Chief Financial Officer, Vice President-Finance, Treasurer, or Deputy Secretary of the Authority, or any Authorized Officer (as defined in the General Resolution) are each hereby authorized to execute and deliver to the Trustee appointed pursuant to the General Resolution such documents and certifications as may be necessary to give effect to this Eighth Supplemental Resolution and the transactions contemplated hereby.

405. Effective Date. This Eighth Supplemental Resolution shall be fully effective in accordance with its terms upon the filing with the Trustee of a copy hereof certified by an Authorized Officer.

APPENDIX A

[FORM OF BONDS]

No. 2007 [A][B][C] - _____ \$ _____

POWER AUTHORITY OF THE STATE OF NEW YORK

Revenue Bonds, Series 2007 [A][B (Federally Taxable)][C]

Interest Rate

Maturity Date

CUSIP

Registered Owner: CEDE & CO.

Principal Amount: _____ **Dollars**

POWER AUTHORITY OF THE STATE OF NEW YORK (herein called the "Authority"), a body corporate and politic, a political subdivision and a corporate municipal instrumentality of the State of New York, organized and existing under and by virtue of the laws of the State of New York, acknowledges itself indebted to, and for value received hereby promises to pay, but solely from the Trust Estate and not otherwise, to the registered owner specified above or registered assigns, the Principal Amount specified above on the Maturity Date specified above (subject to the right of prior redemption hereinafter mentioned) in any coin or currency of the United States of America which at the time of payment is legal tender for the payment of public and private debts, and to pay to the registered owner hereof interest on such principal sum in like coin or currency and at the rate of interest per annum specified above. This Bond is dated as of _____, 200_, interest on this Bond shall be payable from the _____ or _____ next preceding the date of authentication to which interest shall have been paid, unless such date of authentication is a _____ or _____, in which case from such date if interest has been paid to such date; provided, however, that such interest shall be payable on this Bond from _____, 200_, if the date of authentication is prior to the first interest payment date therefor. Interest on this Bond shall be payable on _____, 200_ and semi-annually thereafter on _____ and _____, in each case to the registered owner as of the close of business on the first day (whether or not a Business Day) of the calendar month in which the interest payment date occurs, such interest to be paid by the Trustee by check mailed to the registered owner at his address as it appears on the books of registry; provided, however, that upon redemption of this Bond, the accrued interest payable upon redemption shall be payable at the Principal Office of the Trustee upon presentation and surrender of this Bond, unless the redemption date is an interest payment date, in which event the interest on this Bond so redeemed shall be paid by the Trustee by check mailed to the registered owner at his address as it appears on the books of registry.

This Bond is one of a duly authorized issue of obligations of the Authority designated as its "Obligations" issued and to be issued in various series under and pursuant to the Power Authority Act, Title 1 of Article 5 of the Public Authorities Law, Chapter 43-A of the Consolidated Laws of the State of New York, as amended (herein called the "Act"), and under and pursuant to a resolution of the Authority adopted on February 24, 1998, entitled "General Resolution Authorizing Revenue Obligations", and a supplemental resolution of the Authority adopted on September 25, 2007, and entitled "Eighth Supplemental Resolution Authorizing Series 2007 A, Series 2007 B and Series 2007 C Revenue Bonds"

(herein called the “Eighth Supplemental Resolution”). Said resolutions are herein collectively called the “Resolution”. Capitalized terms used herein and not otherwise defined herein shall have the meanings provided in the Resolution.

This Bond is one of a series of Obligations of various maturities designated as “Revenue Bonds, Series 2007 [A][B][C]” (herein called the “Bonds”) issued in the aggregate principal amount of \$_____ under the Resolution. Copies of the Resolution are on file at the office of the Authority and at the Principal Office of The Bank of New York, as Trustee under the Resolution, or its successor as Trustee (herein called the “Trustee”), in the Borough of Manhattan, City and State of New York. The Trustee is also the Registrar and Paying Agent for the Bonds.

The Obligations are payable as to principal, Redemption Price, and interest solely from and are equally and ratably secured solely by the Trust Estate, subject to the provisions of the Resolution permitting the application of such Trust Estate to the purposes and on the terms and conditions set forth in the Resolution, including, without limitation, the prior application of Revenues to the payment of Operating Expenses. The principal and Redemption Price of, and interest on, the Obligations shall not be payable from the general funds of the Authority nor shall the Obligations constitute a legal or equitable pledge, charge, lien, or encumbrance upon any of the property or upon any of the income, receipts, or revenues of the Authority, except the Trust Estate.

Reference is hereby made to the Resolution, copies of which are on file in the Principal Office of the Trustee, and to all of the provisions of which any holder of this Bond by his acceptance hereof hereby assents, for definitions of terms; the description of and the nature and extent of the pledge and covenants securing the Obligations, including this Bond; the Revenues and other moneys and securities constituting the Trust Estate pledged to the payment of the principal of and interest on the Obligations issued thereunder; the nature and extent and manner of enforcement of the pledge; the conditions upon which Obligations may hereafter be issued thereunder, payable on a parity from the Trust Estate and equally and ratably secured therewith; the conditions upon which the Resolution may be amended or supplemented with or without the consent of the Owners of the Obligations; the rights and remedies of the Owner hereof with respect hereto and thereto, including the limitations therein contained upon the right of an Owner hereof to institute any suit, action or proceeding in equity or at law with respect hereto and thereto; the rights, duties and obligations of the Authority and the Trustee thereunder; the terms and provisions upon which the pledges and covenants made therein may be discharged at or prior to the maturity or redemption of this Bond, and the Bond thereafter no longer be secured by the Resolution or be deemed to be Outstanding thereunder, if moneys or certain specified securities shall have been deposited with the Trustee sufficient and held in trust solely for the payment hereof; and for the other terms and provisions thereof.

As provided in the Resolution, Obligations may be issued from time to time pursuant to supplemental resolutions in one or more series, in various principal amounts, may mature at different times, may bear interest at different rates and may otherwise vary as in the Resolution provided. The aggregate principal amount of Obligations which may be issued under the Resolution is not limited except as provided in the Resolution, and all Obligations issued and to be issued under the Resolution are and will be equally secured by the pledge and covenants made therein, except as otherwise expressly provided or permitted in the Resolution.

To the extent and in the manner permitted by the terms of the Resolution, the provisions of the Resolution or any resolution amendatory thereof or supplemental thereto may be modified or amended by the Authority, with the written consent of the Owners of a majority in principal amount of

the Obligations then Outstanding, and, in case less than all of the Obligations will be affected thereby, with such consent of the Owners of at least a majority in principal amount of the Obligations so affected then Outstanding, at the time such consent is given; provided, however, that if such modification or amendment will, by its terms, not take effect so long as particular Obligations remain Outstanding, the consent of the Owners of such Obligations shall not be required and such Obligations shall not be deemed to be Outstanding for the purpose of any calculation of Outstanding Obligations under the Resolution.

This Bond is transferable, as provided in the Resolution, only upon the books of the Authority kept for that purpose at the above-mentioned office of the Registrar by the Owner hereof in person, or by his attorney duly authorized in writing, upon surrender of the Bond together with a written instrument of transfer satisfactory to the Registrar duly executed by the Owner or his duly authorized attorney, and thereupon a new registered Bond or Bonds, and in the same aggregate principal amount, Series, maturity and interest rate shall be issued to the transferee in exchange therefor as provided in the Resolution, and upon payment of the charges therein prescribed. The Authority and each Fiduciary may deem and treat the Person in whose name this Bond is registered as the absolute owner hereof for the purpose of receiving payment of, or on account of, the principal or Redemption Price hereof and interest due hereon and for all other purposes, and all such payments so made to any such registered owner or upon his order shall be valid and effectual to satisfy and discharge the liability upon such Bond to the extent of the sum or sums so paid, and neither the Authority nor any Fiduciary shall be affected by any notice to the contrary.

[Description of the applicable redemption provisions, as specified in the applicable Certificate of Determination, to be inserted here]

When the Trustee shall receive notice from the Authority of its election to redeem Obligations pursuant to the Resolution, and when redemption of Obligations is required by the Resolution, the Trustee shall give notice, in the name of the Authority, of the redemption of such Obligations, which notice shall specify the Series, maturities and, if any maturity shall include Obligations bearing different interest rates and all Obligations of such maturity are not being redeemed, interest rate of the Obligations to be redeemed, the redemption date and the place or places where amounts due upon such redemption will be payable and, if less than all of the Obligations of any like Series, maturity and interest rate are to be redeemed, the letters and numbers or other distinguishing marks of such Obligations so to be redeemed, and, in the case of Obligations to be redeemed in part only, such notice shall also specify the respective portions of the principal amount thereof to be redeemed, and, if applicable, that such notice is conditional and the conditions that must be satisfied. Such notice shall further state that on such date there shall become due and payable upon each Obligation to be redeemed the Redemption Price thereof, or the Redemption Price of the specified portions of the principal thereof in the case of Obligations to be redeemed in part only, together with interest accrued to the redemption date, and that from and after such date interest thereon shall cease to accrue and be payable. Such notice shall be given by first class mail, postage prepaid, not less than 30 days nor more than 45 days before the redemption date, to the Owners of any Obligations or portions of Obligations which are to be redeemed, at their last addresses, if any, appearing upon the registry books. Failure so to mail any such notice to any particular Owner shall not affect the validity of the proceedings for the redemption of Obligations not owned by such Owner and failure of any Owner to receive such notice shall not affect the validity of the proposed redemption of Obligations.

Any notice of optional redemption may state that it is conditional upon receipt by the Trustee of moneys sufficient to pay the Redemption Price of such Obligations or upon the satisfaction of any other condition, or that it may be rescinded upon the occurrence of any other event, and any

conditional notice so given may be rescinded at any time before payment of such Redemption Price if any such condition so specified is not satisfied or if any such other event occurs. Notice of such rescission shall be given by the Trustee to affected Owners of Obligations as promptly as practicable upon the failure of such condition or the occurrence of such other event.

The principal of the Bonds may be declared due and payable before the maturity thereof, and such declaration may be annulled, as provided in the Resolution.

The Act provides that neither the members of the Authority nor any person executing the Bonds shall be liable personally on the Bonds or be subject to any personal liability or accountability by reason of the issuance thereof.

Pursuant to Section 1011 of the Act, the Authority, as agent for the State of New York, does hereby pledge to and agree with the holder of this Bond that the State of New York will not limit or alter the rights vested in the Authority by the Act, as amended, until this Bond and each of the other Bonds, together with the interest hereon and thereon, have been fully met and discharged or adequate provisions have been made by law for protection of the holders of all such Bonds.

The Bonds shall not be a debt of the State of New York, and the State shall not be liable thereon.

It is hereby certified and recited that all conditions, acts and things required by law and the Resolution to exist, to have happened and to have been performed precedent to and in the issuance of this Bond, exist, have happened and have been performed and that the issuance of the Bonds, together with all other indebtedness of the Authority, is within every debt and other limit prescribed by the laws of the State of New York.

This Bond shall not be entitled to any benefit under the Resolution or be valid or become obligatory for any purpose until this Bond shall have been authenticated by the execution by the Trustee of the Trustee's Certificate hereon.

IN WITNESS WHEREOF, POWER AUTHORITY OF THE STATE OF NEW YORK has caused this Bond to be signed in its name and on its behalf by the facsimile signature of its President and Chief Executive Officer, and its corporate seal (or facsimile thereof) to be hereunto affixed, imprinted, engraved or otherwise reproduced and attested by the facsimile signature of its Secretary, a Deputy Secretary, or an Assistant Secretary.

**POWER AUTHORITY OF THE
STATE OF NEW YORK**

By: _____
President and Chief Executive Officer

[SEAL]

Attest:

Secretary

[FORM OF CERTIFICATE OF AUTHENTICATION FOR BONDS]

AUTHENTICATION DATE:

Trustee's Certificate

The Bond is one of the bonds, of the series designated therein, described in the within-mentioned Resolution.

THE BANK OF NEW YORK
Trustee

By: _____
Authorized Officer

FORM OF ASSIGNMENT

ASSIGNMENT

FOR VALUE RECEIVED, the undersigned hereby sells, assigns and transfers unto

(Please insert Social Security or Taxpayer Identification Number of Transferee)

/ _____ /

(Please print or typewrite name and address, including zip code of Transferee)

the within Bond and all rights thereunder, and hereby irrevocably constitutes and appoints

attorney to register the transfer of the within Bond on the books kept for registration thereof, with full power of substitution in the premises.

Dated: _____

Signature Guaranteed:

NOTICE: Signature(s) must be guaranteed by a member or participant of a signature guarantee program.

NOTICE: The signature above must correspond with the name of the Owner as it appears upon the front of this Bond in every particular, without alteration or enlargement or change whatsoever.

STATEMENT OF INSURANCE [if any]

_____ New York, New York, has delivered its municipal bond insurance policy (the "Policy") with respect to the scheduled payments due of principal of and interest, including principal and interest due by operation of scheduled mandatory sinking fund redemption, on this Bond to The Bank of New York, New York, New York, or its successor, as paying agent for the Bonds (the "Paying Agent"). Said Policy is on file and available for inspection at the principal office of the Paying Agent and a copy thereof may be obtained from _____ or the Paying Agent.

**POWER AUTHORITY OF THE STATE
OF NEW YORK**

EIGHTH SUPPLEMENTAL RESOLUTION

authorizing

SERIES 2007 A, SERIES 2007 B and SERIES 2007 C REVENUE BONDS

Adopted on September 25, 2007

TABLE OF CONTENTS

Page

ARTICLE I

DEFINITIONS AND STATUTORY AUTHORITY

101. Supplemental Resolution; Authority 1
102. Definitions..... 1

ARTICLE II

AUTHORIZATION OF BONDS

201. Principal Amount, Designation and Series..... 3
202. Purposes 3
203. Details of the Bonds 4
204. Delegation of Authority 7
205. Form of Bonds and Trustee’s Authentication Certificate..... 8
206. Execution and Authentication of Bonds..... 8

ARTICLE III

SERIES 2007 A, SERIES 2007 B and SERIES C CREDIT FACILITIES

301. Series 2007 A Credit Facility 9
302. Series 2007 B Credit Facility 9
303. Series 2007 C Credit Facility 9

ARTICLE IV

ADDITIONAL AUTHORIZATIONS; MISCELLANEOUS

401. Tax Covenant 10
402. Certain Findings and Determinations..... 10
403. Notice to Owners upon Event of Default 11
404. Further Authority..... 12
405. Effective Date..... 12
APPENDIX A..... 1

EIGHTH SUPPLEMENTAL RESOLUTION

authorizing

SERIES 2007 A, SERIES 2007 B AND SERIES 2007 C REVENUE BONDS

BE IT RESOLVED by the Trustees of the Power Authority of the State of New York as follows:

ARTICLE I

DEFINITIONS AND STATUTORY AUTHORITY

101. Supplemental Resolution; Authority. This resolution (“**Eighth Supplemental Resolution**”) is supplemental to, and is adopted in accordance with Article VIII of a resolution adopted by the Authority on February 24, 1998 entitled “General Resolution Authorizing Revenue Obligations” (“**General Resolution**”, and as heretofore amended and supplemented and collectively with the Eighth Supplemental Resolution, the “**Resolution**”), and is adopted pursuant to the provisions of the Act.

102. Definitions. 1. All terms which are defined in Section 101 of the General Resolution shall have the same meanings for purposes of this Eighth Supplemental Resolution.

2. In this Eighth Supplemental Resolution:

“**Beneficial Owner**” means, for any Bond which is held by a nominee, the beneficial owner of such Bond.

“**Bonds**” or “**Bonds of a Series**” and words of like import shall mean the Series 2007 A Revenue Bonds, the Series 2007 B Revenue Bonds and the Series 2007 C Revenue Bonds authorized by Section 201 hereof individually, or such three Series collectively, as the context may require.

“**Certificate of Determination**” shall mean any certificate of the President and Chief Executive Officer of the Authority or the Chairman of the Authority delivered pursuant to Section 204 of this Eighth Supplemental Resolution, setting forth certain terms and provisions of the Bonds.

“**Depository Participant**” means any Person for which the Securities Depository holds Bonds as securities depository.

“**DTC**” shall mean The Depository Trust Company, New York, New York, or its successors.

“**Escrow Agent**” means any escrow agent for the Bonds and its successor or successors and any other person which may at any time be substituted in its place.

“**Securities Depository**” shall mean DTC as the Securities Depository appointed pursuant to Section 203(f) hereof, or any substitute Securities Depository, or any successor to DTC or any substitute Securities Depository.

“Series 2007 A Bonds” shall mean the Series 2007 A Revenue Bonds authorized by Section 201 hereof.

“Series 2007 A Credit Facility” means, with respect to the Series 2007 A Bonds, a Credit Facility (as defined in the Resolution) issued in the form of a municipal bond insurance policy by the Series 2007 A Credit Facility Issuer, dated the Closing Date, which guarantees the payment of scheduled principal of and interest on the Series 2007 A Bonds when due (including mandatory sinking fund installments).

“Series 2007 A Credit Facility Issuer” means the issuer of the Series 2007 A Credit Facility specified in Section 301 hereof.

“Series 2007 B Bonds” shall mean the Series 2007 B Revenue Bonds authorized by Section 201 hereof.

“Series 2007 B Credit Facility” means, with respect to the Series 2007 B Bonds, a Credit Facility (as defined in the Resolution) issued in the form of a municipal bond insurance policy by the Series 2007 B Credit Facility Issuer, dated the Closing Date, which guarantees the payment of scheduled principal of and interest on the Series 2007 B Bonds when due (including mandatory sinking fund installments).

“Series 2007 B Credit Facility Issuer” means the issuer of the Series 2007 B Credit Facility specified in Section 302 hereof.

“Series 2007 C Bonds” shall mean the Series 2007 C Revenue Bonds authorized by Section 201 hereof.

“Series 2007 C Credit Facility” means, with respect to the Series 2007 C Bonds, a Credit Facility (as defined in the Resolution) issued in the form of a municipal bond insurance policy by the Series 2007 C Credit Facility Issuer, dated the Closing Date, which guarantees the payment of scheduled principal of and interest on the Series 2007 C Bonds when due (including mandatory sinking fund installments).

“Series 2007 C Credit Facility Issuer” means the issuer of the Series 2007 C Credit Facility specified in Section 302 hereof.

“2007 Revolving Credit Agreement” shall mean the 2007 Revolving Credit Agreement dated as of August 2, 2007 among the Authority, The Bank of Nova Scotia, acting through its New York Agency, as Administrative Agent, and the banks named in such Agreement.

ARTICLE II

AUTHORIZATION OF BONDS

201. Principal Amount, Designation and Series. Pursuant to the provisions of the General Resolution, three Series of Obligations entitled to the benefit, protection and security of such provisions are hereby authorized with the following designations: the Series 2007 A Revenue Bonds, the Series 2007 B Revenue Bonds and the Series 2007 C Revenue Bonds. The aggregate principal amount of each of the Series 2007 A Revenue Bonds, the Series 2007 B Revenue Bonds and the Series 2007 C Revenue Bonds shall be set forth in the Certificate of Determination relating to the respective Bonds; provided that the aggregate principal amount of the Series 2007 A and 2007 B Revenue Bonds to be issued shall not exceed \$375,000,000 and that the aggregate principal amount of the Series 2007 C Revenue Bonds to be issued shall not exceed \$300,000,000. Individual maturities of the Bonds or portions thereof may bear such additional designations, if any, as may be set forth in the related Certificate of Determination. In the event that any series of Bonds is not issued until 2008, the applicable Certificate of Determination may (i) redesignate the year and series of such Bonds and (ii) make any other conforming changes deemed necessary or appropriate to reflect the year of issuance.

202. Purposes. (a) The purposes for which the Series 2007 A Bonds are to be issued shall include such of the following as shall be specified in the applicable Certificate of Determination:

(i) provide moneys to finance a portion of the costs of the relicensing of the Niagara Project and to refund the portion of its tax-exempt Commercial Paper Notes, Series 2 issued to finance the relicensing and modernization of the Niagara Project, and

(ii) to pay certain costs and expenses associated with the issuance of the Series 2007 A Bonds, including underwriters' discount, structuring fees, municipal bond insurance premium costs and reimbursement of costs and expenses incurred by the Authority in connection therewith.

(b) The purposes for which the Series 2007 B Bonds are to be issued shall include such of the following as shall be specified in the applicable Certificate of Determination:

(i) provide moneys to finance a portion of the costs of the relicensing and modernization of the Authority's St. Lawrence-FDR Project and the relicensing of the Niagara Project and to refund the portion of its taxable Commercial Paper Notes, Series 3 (the "CP Notes") issued to finance the relicensing and modernization of the Authority's Niagara Project, and

(ii) to pay any termination fees in relation to the swap agreement entered into with Goldman Sachs Mitsui Marine Derivative Products, L.P. dated February 15, 2006; and

(iii) to pay certain costs and expenses associated with the issuance of the Series 2007 B Bonds, including underwriters' discount, structuring fees, municipal bond insurance premium costs and reimbursement of costs and expenses incurred by the Authority in connection therewith.

(c) The purposes for which the Series 2007 C Bonds are to be issued shall include such of the following as shall be specified in the applicable Certificate of Determination:

(i) provide moneys to refund a portion of its Series 2002 A Revenue Bonds issued to finance the costs of construction of a 500-MW combined-cycle electric generating plant located in New York City and issued to refund related Commercial Paper Notes, and

(ii) to pay any termination fees in relation to one or more swap agreements entered into in connection with the refunding of the Series 2002 A Revenue Bonds; and

(iii) to pay certain costs and expenses associated with the issuance of the Series 2007 C Bonds, including underwriters' discount, structuring fees, municipal bond insurance premium costs and reimbursement of costs and expenses incurred by the Authority in connection therewith

(d) Such portion of the proceeds of the Series 2007 A Bonds, Series 2007 B and Series 2007 C Bonds as may be specified in the applicable Certificate of Determination shall be applied for the purposes specified in subsection (a),(b) and (c) above respectively. All such proceeds shall be deposited and applied in accordance with the applicable Certificate of Determination.

203. Details of the Bonds. The following provisions set forth the details of the Bonds.

(a) Dates, Maturities and Interest. The Bonds shall be dated and shall bear interest from the date as may be specified by the President and Chief Executive Officer or the Chairman pursuant to Section 204 hereof. The Bonds shall mature on the dates and in the principal amounts, and bear interest, as the President and Chief Executive Officer or the Chairman shall specify in the applicable Certificate of Determination. Interest on the Bonds shall be payable semiannually on the interest payment dates and at the respective rates per annum specified in the applicable Certificate of Determination. The Series 2007 A Bonds and Series 2007 C Bonds shall be Tax-Exempt Obligations.

(b) Denominations. The Bonds shall be issued in the form of fully registered Bonds in the denomination of \$5,000 or any integral multiple of \$5,000.

(c) Designations. Unless the Authority shall otherwise direct, the Series 2007 A Bonds shall be lettered "2007A-" and numbered consecutively from one upward, the Series 2007 B Bonds shall be lettered "2007B-" and numbered consecutively from one upward and the Series 2007 C Bonds shall be lettered "2007C-" and numbered consecutively from one upward.

(d) Payment of Principal and Interest. Principal and Redemption Price of each Bond shall be payable at the Principal Office of the Trustee upon presentation and surrender of such Bond.

The Trustee shall indicate on the Bonds the date of their authentication as provided in Section 205 hereof. Interest on the Bonds shall be payable from the interest payment date next preceding the date of authentication to which interest shall have been paid, unless such date of authentication is an interest payment date, in which case from such date if interest has been paid to such date; provided, however, that interest shall be payable on the Bonds from such date as may be specified by the President and Chief Executive Officer or the Chairman pursuant to Section 204 hereof, if the date of authentication is prior to the first interest payment date therefor. Interest on the Bonds shall be payable on the interest payment dates specified in the applicable Certificate of Determination to the registered owner as of the close of business on the first day (whether or not a Business Day) of the calendar month in which the interest payment date occurs, such interest to be paid by the Trustee by check mailed to the registered

owner at his or her address as it appears on the books of registry; provided, however, that upon redemption of any Bond, the accrued interest payable upon redemption shall be payable at the Principal Office of the Trustee upon presentation and surrender of such Bond, unless the redemption date is an interest payment date, in which event the interest on such Bond so redeemed shall be paid by the Trustee by check mailed to the registered owner at his address as it appears on the books of registry.

The principal or Redemption Price of and interest on the Bonds shall also be payable at any other place which may be provided for such payment by the appointment of any other Paying Agent or Paying Agents as permitted by the General Resolution.

The foregoing provisions of this subsection (d) shall be subject to the provisions of subsection (f) of this Section.

The principal of and premium, if any, and interest on the Bonds shall be payable in any coin or currency of the United States of America which at the time of payment is legal tender for public and private debts.

(e) Trustee, Registrar, Paying Agent and Escrow Agent. The Bank of New York is the successor Trustee for the Obligations pursuant to Section 712 of the General Resolution. The Trustee is also hereby appointed as the Registrar and Paying Agent for the Bonds and as Escrow Agent for the Series 2002 A Revenue Bonds to be refunded by the Series 2007 C Bonds.

(f) Securities Depository. The Bonds when initially issued shall be registered in the name of Cede & Co., as nominee of DTC, in the form of a single fully registered Bond for each maturity of the Bonds with a different interest rate applicable thereto. DTC is hereby appointed initial Securities Depository for the Bonds, subject to the provisions of subsection (g) of this Section. So long as DTC or its nominee, as Securities Depository, is the registered owner of Bonds, individual purchases of beneficial ownership interests in Bonds may be made only in book-entry form by or through DTC participants, and purchasers of such beneficial ownership interests in Bonds will not receive physical delivery of bond certificates representing the beneficial ownership interests purchased.

So long as DTC or its nominee, as Securities Depository, is the registered owner of Bonds, payments of principal of and premium, if any, and interest on such Bonds will be made by wire transfer to DTC or its nominee, or otherwise as may be agreed upon by the Authority, the Trustee and DTC. Transfers of principal, premium, if any, and interest payments to DTC participants will be the responsibility of DTC. Transfers of such payments to Beneficial Owners of Bonds by DTC participants will be the responsibility of such participants and other nominees of such Beneficial Owners.

So long as DTC or its nominee, as Securities Depository, is the registered owner of Bonds, the Authority shall send, or cause the Trustee to send, or take timely action to permit the Trustee to send, to DTC notice of redemption of such Bonds and any other notice required to be given to registered owners of such Bonds pursuant to the Resolution, in the manner and at the times prescribed by the Resolution, except as may be agreed upon by the Authority, the Trustee (if applicable) and DTC.

Neither the Authority nor any Fiduciary shall have any responsibility or obligation to the DTC participants, Beneficial Owners or other nominees of such Beneficial Owners for (1) sending transaction statements; (2) maintaining, supervising or reviewing the accuracy of, any records maintained by DTC or any DTC participant or other nominees of such Beneficial Owners; (3) payment or the timeliness of payment by DTC to any DTC participant, or by any DTC participant or other nominees of

Beneficial Owners to any Beneficial Owner, of any amount due in respect of the principal of or redemption premium, if any, or interest on Bonds; (4) delivery or timely delivery by DTC to any DTC participant, or by any DTC participant or other nominees of Beneficial Owners to any Beneficial Owners, of any notice (including notice of redemption) or other communication which is required or permitted under the terms of the Resolution to be given to holders or owners of Bonds; (5) the selection of the Beneficial Owners to receive payment in the event of any partial redemption of Bonds; or (6) any action taken by DTC or its nominee as the registered owner of the Bonds.

Notwithstanding any other provisions of this Eighth Supplemental Resolution to the contrary, the Authority, the Registrar, Paying Agent, and the Trustee shall be entitled to treat and consider the person in whose name each Bond is registered in the books of registry as the absolute owner of such Bond for the purpose of payment of principal, Redemption Price, and interest with respect to such Bond, for the purpose of giving notices of redemption and other matters with respect to such Bond, for the purpose of registering transfers with respect to such Bond, and for all other purposes whatsoever. The Trustee shall pay all principal and Redemption Price of and interest on the Bonds only to or upon the order of the respective Owners, as shown in the books of registry as provided in this Eighth Supplemental Resolution, or their respective attorneys duly authorized in writing, and all such payments shall be valid and effective to fully satisfy and discharge the Authority's obligations with respect to payment of principal and Redemption Price of and interest on such Bonds to the extent of the sum or sums so paid.

Notwithstanding any other provisions of this Eighth Supplemental Resolution to the contrary, so long as any Bond is registered in the name of Cede & Co., as nominee of DTC, all payments with respect to principal and Redemption Price of, and interest on such Bond and all notices with respect to such Bond shall be made and given, respectively, pursuant to DTC's rules and procedures.

Payments by the DTC participants to Beneficial Owners will be governed by standing instructions and customary practices, as is now the case with municipal securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such DTC participant and not of DTC, the Trustee or the Authority, subject to any statutory and regulatory requirements as may be in effect from time to time.

Provisions similar to those contained in this subsection (f) may be made by the Authority in connection with the appointment by the Authority of a substitute Securities Depository, or in the event of a successor to any Securities Depository.

Authorized Officers are hereby authorized to enter into such representations and agreements as they deem necessary and appropriate in furtherance of the provisions of this subsection (f).

(g) Replacement Bonds. The Authority shall issue Bond certificates (the "Replacement Bonds") directly to the Beneficial Owners of the Bonds, or their nominees, in the event that DTC determines to discontinue providing its services with respect to the Bonds, at any time by giving notice to the Authority, and the Authority fails to appoint another qualified Securities Depository to replace DTC. In addition, the Authority also shall issue Replacement Bonds directly to the Beneficial Owners of the Bonds, or their nominees, in the event the Authority discontinues use of DTC as Securities Depository at any time upon determination by the Authority, in its sole discretion and without the consent of any other person, that Beneficial Owners of the Bonds shall be able to obtain certificated Bonds.

(h) Notices. In connection with any notice of redemption provided in accordance with Section 405 of the General Resolution, notice of such redemption shall also be sent by the Trustee by

first class mail, overnight delivery service or other secure overnight means, postage prepaid, to the appropriate Credit Facility Issuer, to any Rating Agency and to at least two (2) of the national Information Services (described below) that disseminate securities redemption notices, in each case not later than the mailing of notice required by the Resolution.

Information Services include: Bloomberg Municipal Repository, 100 Business Park Drive, Skillman, New Jersey 08558; DPC Data Inc., One Executive Drive, Fort Lee, New Jersey 07024; Interactive Data Pricing and Reference Data, Inc., Attn: NRMSIR, 100 William Street, 15th Floor, New York, New York 10038; and Standard and Poor's Securities Evaluations Inc., 55 Water Street, 45th Floor, New York, New York 10041; or, in accordance with then current guidelines of the Securities and Exchange Commission, such other addresses and/or such other services providing information with respect to called bonds, or any other such services as the Authority may designate in writing to the Trustee.

204. Delegation of Authority. There is hereby delegated to the President and Chief Executive Officer of the Authority and the Chairman of the Authority, and each of them hereby is authorized, subject to the limitations contained herein, with respect to the Bonds to determine and effectuate the following:

(a) the principal amount of the Bonds to be issued, provided that the aggregate principal amount of the Series 2007 A and Series 2007 B Bonds to be issued shall not exceed \$375,000,000 and the principal amount of the Series 2007 C Bonds to be issued shall not exceed \$300,000,000.

(b) the date or dates, maturity date or dates and principal amount of each maturity of the Bonds, the first interest payment date or dates of the Bonds, and the date or dates from which the Bonds shall bear interest;

(c) the interest rate or rates of the Bonds, provided, however, that such interest rate or rates shall result in a true interest cost (i.e., the rate, compounded semi-annually, necessary to discount the amounts payable on the respective principal and interest payment dates of such Bonds to the purchase price received therefor) to the Authority, based on the purchase price for which the Bonds are sold, not in excess of seven and a half percent (7.5%) per annum;

(d) the Sinking Fund Installments for any term Bond and the methodology to be applied to reduce such installments upon redemption by the Authority, if any, of any such term Bond;

(e) the portions of the proceeds of the Bonds and the amounts to be deposited and applied in accordance with Section 202 hereof;

(f) the redemption provisions of the Bonds;

(g) the definitive form or forms of the Bonds and the definitive form or forms of the Trustee's certificate of authentication thereon;

(h) additional or different designations, if any, for particular maturities of Bonds or portions thereof intended to distinguish such maturities or portions thereof from other Bonds; and

(i) provisions that are deemed necessary or advisable by the President and Chief Executive Officer or the Chairman of the Authority in connection with the implementation and delivery to the Trustee of a Credit Facility; and

(j) any other provisions deemed advisable by the President and Chief Executive Officer of the Authority or the Chairman of the Authority, not in conflict with the provisions hereof or of the General Resolution.

The President and Chief Executive Officer of the Authority or Chairman of the Authority shall execute one or more certificates evidencing determinations or other actions taken pursuant to the authority granted herein, an executed copy of which shall be delivered to the Trustee. Each such certificate shall be deemed a Certificate of Determination and shall be conclusive evidence of the action or determination of such officer as to the matters stated therein. The provisions of each Certificate of Determination shall be deemed to be incorporated in Article II hereof. No such Certificate of Determination shall, nor shall any amendment to this Eighth Supplemental Resolution, change or modify any of the rights or obligations of the Series 2007 A Credit Facility Issuer, the Series 2007 B Credit Facility Issuer or the Series 2007 C Credit Facility Issuer without their written assent thereto.

205. Form of Bonds and Trustee's Authentication Certificate. Subject to the provisions of the General Resolution and to any amendment or modifications thereto or insertions therein as may be approved by the President and Chief Executive Officer of the Authority or the Chairman of the Authority pursuant to Section 204 hereof, the form of the Bonds, form of assignment, and the Trustee's Certificate of Authentication shall be in substantially the form set forth in Appendix A hereto, with necessary or appropriate variations, omissions and insertions as are incidental to their series, numbers, denominations, maturities, interest rate or rates, registration provisions, redemption provisions, status of interest to owners thereof for Federal income tax purposes, and other details thereof and of their form or as are otherwise permitted or required by law or by the Resolution, including this Eighth Supplemental Resolution. Any portion of the text of any Bond may be set forth on the reverse thereof, with an appropriate reference thereto on the face of such Bond. Bonds may be typewritten, printed, engraved, lithographed or otherwise reproduced.

206. Execution and Authentication of Bonds. Notwithstanding the first sentence of paragraph 1 of Section 303 of the General Resolution, the Bonds shall be executed in the name of the Authority by the manual or facsimile signature of its Chairman, its Vice Chairman or its President and Chief Executive Officer and its corporate seal (or a facsimile thereof) shall be affixed, imprinted, engraved or otherwise reproduced, and attested by the manual or facsimile signature of its Secretary, a Deputy Secretary, or an Assistant Secretary, or in such other manner as may be required by law.

ARTICLE III

SERIES 2007 A, SERIES 2007 B and SERIES C CREDIT FACILITIES

301. Series 2007 A Credit Facility. The Authority may obtain the Series 2007 A Credit Facility issued in the form of a municipal bond insurance policy from such municipal bond insurance issuer as may be selected by the President and Chief Executive Officer or Chairman of the Authority and specified in the applicable Certificate of Determination with respect to the Series 2007 A Bonds, dated the Closing Date.

302. Series 2007 B Credit Facility. The Authority may obtain the Series 2007 B Credit Facility issued in the form of a municipal bond insurance policy from such municipal bond insurance issuer as may be selected by the President and Chief Executive Officer or Chairman of the Authority and specified in the applicable Certificate of Determination with respect to the Series 2007 B Bonds, dated the Closing Date.

303. Series 2007 C Credit Facility. The Authority may obtain the Series 2007 C Credit Facility issued in the form of a municipal bond insurance policy from such municipal bond insurance issuer as may be selected by the President and Chief Executive Officer or Chairman of the Authority and specified in the applicable Certificate of Determination with respect to the Series 2007 C Bonds, dated the Closing Date.

ARTICLE IV

ADDITIONAL AUTHORIZATIONS; MISCELLANEOUS

401. Tax Covenant. (a) The Authority shall not take or omit to take any action which would cause interest on any Series 2007 A Bonds and any Series 2007 C Bonds to be included in the gross income of any Owner thereof for Federal income tax purposes by reason of subsection (b) of Section 103 of the Internal Revenue Code of 1986 (Title 26 of the United States Code) as in effect on the date of original issuance of such Obligations. Without limiting the generality of the foregoing, no part of the proceeds of the Series 2007 A Bonds or Series 2007 C Bonds or any other funds of the Authority shall be used directly or indirectly to acquire any securities or obligations the acquisition of which would cause any Series 2007 A Bond or Series 2007 C Bonds to be an “arbitrage bond” as defined in section 148 of the Internal Revenue Code of 1986 (Title 26 of the United States Code) as then in effect and to be subject to treatment under subsection (b)(2) of Section 103 of the Code as an obligation not described in subsection (a) of said section. The Authority shall pay to the United States any amounts that are necessary for the purpose of compliance with the provisions of Section 148 of the Code.

(b) Notwithstanding any other provision of the Resolution to the contrary, upon the Authority’s failure to observe, or refusal to comply with, the above covenant in paragraph (a), the Owners, or the Trustee acting on their behalf, shall be entitled only to the right of specific performance of such covenant, and shall not be entitled to any of the other rights and remedies provided under Article X of the General Resolution.

402. Certain Findings and Determinations. The Trustees hereby find and determine:

(a) The General Resolution has not been amended, supplemented, or repealed since the adoption thereof except by the resolution of the Authority entitled “First Supplemental Resolution Authorizing Series 1998 Revenue Bonds” adopted February 24, 1998, by the resolution of the Authority entitled “Second Supplemental Resolution Authorizing Series 2000 A Revenue Bonds” adopted October 31, 2000, by the resolution of the Authority entitled “Third Supplemental Resolution Amending the General Resolution” adopted June 26, 2001, by the resolution of the Authority entitled “Fourth Supplemental Resolution Authorizing Series 2001 A Revenue Bonds and Series 2002 A Revenue Bonds” adopted September 25, 2001, by the resolution of the Authority entitled “Fifth Supplemental Resolution Authorizing Series 2002 A Revenue Bonds” adopted September 17, 2002, by the resolution of the Authority entitled “Sixth Supplemental Resolution Authorizing Series 2003 A Revenue Bonds” adopted November 25, 2003 and by the resolution of the Authority entitled “Seventh Supplemental Resolution Authorizing Series 2005 A and Series 2005 B Revenue Bonds” adopted September 20, 2005. This Eighth Supplemental Resolution supplements the General Resolution as heretofore amended and supplemented, constitutes and is a “Supplemental Resolution” within the meaning of such quoted term as defined and used in the General Resolution, and is adopted under and pursuant to the General Resolution.

(b) The Bonds constitute and are “Obligations” within the meaning of the quoted word as defined and used in the Resolution.

(c) Any municipal bond insurance policy issued by such municipal bond insurance issuer as may be selected by the President and Chief Executive Officer or Chairman of the Authority and specified in the applicable Certificate of Determination, dated the Closing Date, shall constitute and shall be required to be a “Credit Facility” within the meaning of the quoted words as defined and used in the

Resolution. Furthermore, any such municipal bond insurance policy, including any charges, fees, costs and expenses that the Series 2007 A or Series 2007 B or Series 2007 C Credit Facility Issuer may reasonably incur in the administration of the Series 2007 A or Series 2007 B or Series 2007 C Credit Facility, respectively, or in the pursuit of any remedies under the Resolution or otherwise afforded by law or equity, shall constitute and shall be required to be a “Subordinated Contract Obligation” within the meaning of the quoted words as defined and used in the Resolution, provided, however, each of the Series 2007 A, Series 2007 B and Series 2007 C Credit Facility Issuer shall, to the extent it makes any payment of principal of or interest on the Bonds, become subrogated to the rights of the recipients of such payments in accordance with the terms of the Series 2007 A, Series 2007 B and Series 2007 C Credit Facility, respectively.

(d) The Trust Estate is not encumbered by any lien or charge thereon or pledge thereof, other than the parity lien and charge thereon and pledge thereof securing the outstanding 1985 Notes, the notes issued pursuant to the 2007 Revolving Credit Agreement, and certain payments required to be made in connection with the Parity Swap Obligations entered into by the Authority in 1998 and the subordinate liens and charges thereon and subordinated pledge thereof created by the existing Subordinated Indebtedness and Subordinated Contract Obligations.

(e) There does not exist an “Event of Default” within the meaning of such quoted term as defined in Section 1001 of the Resolution, nor does there exist any condition which, after the giving of notice or the passage of time, or both, would constitute such an “Event of Default.”

403. Notice to Owners upon Event of Default. 1. If an Event of Default occurs of which the Trustee has or is deemed to have notice under Section 702(c)(6) of the General Resolution, the Trustee shall give by telecopier or other electronic means or by telephone (promptly confirmed in writing) notice thereof to the Authority. Within two Business Days thereafter (unless such Event of Default has been cured or waived), the Trustee shall give notice of such Event of Default to each Owner, provided, however, that except in the instance of an Event of Default under Section 1001(i) or (ii) of the General Resolution, the Trustee may withhold such notice to Owners if and so long as the Trustee in good faith determines that the withholding of such notice is in the interests of Owners, and provided, further, that notice to Owners of any Event of Default under Section 1001(ii) or (iii) of the General Resolution shall not be given until the grace period has expired.

2. For so long as the Bonds are registered solely in the name of the Securities Depository or its nominee, where the General Resolution provides for notice to the Owners of the Bonds of the existence of, or during the continuance of, any Event of Default, the Trustee shall: (i) establish a record date (the “Record Date”) for determining the identity of the Persons entitled to receive such notice; (ii) request a securities position listing from the Securities Depository showing the Depository Participants holding positions in the Bonds affected by such notice as of the Record Date for such notice; (iii) send by first-class, postage prepaid mail, copies of the notice as provided above to each Depository Participant identified in the securities position listing as holding a position in the Bonds as of the Record Date for the notice, to each nationally recognized municipal securities information repository and state information depository (within the meaning of Rule 15c2-12 of the United States Securities and Exchange Commission under the Securities Exchange Act of 1934), and to any Person identified to the Trustee as a non-objecting Beneficial Owner (a non-objecting Beneficial Owner is a Person for whom a Depository Participant acts as nominee, and who has not objected to the disclosure of his or her name and security position) pursuant to the immediately following clause; (iv) request that the Depository Participant retransmit the notice to all Persons for which it served as nominee on the Record Date, including non-objecting Beneficial Owners, or retransmit the notice to objecting Beneficial Owners and provide a listing

of non-objecting Beneficial Owners for whom the Depository Participant served as nominee on the Record Date to the Trustee and (v) provide as many copies of the notice as may be requested by any nominee owner of the Bonds. Any default in performance of the duties required by this paragraph shall not affect the sufficiency of notice to Owners given in accordance with the provisions of the General Resolution, nor the validity of any action taken under the General Resolution in reliance on such notice to Owners.

404. Further Authority. The Chairman, Vice Chairman, President and Chief Executive Officer, Executive Vice President, General Counsel and Chief of Staff, Executive Vice President and Chief Financial Officer, Vice President-Finance, Treasurer, or Deputy Secretary of the Authority, or any Authorized Officer (as defined in the General Resolution) are each hereby authorized to execute and deliver to the Trustee appointed pursuant to the General Resolution such documents and certifications as may be necessary to give effect to this Eighth Supplemental Resolution and the transactions contemplated hereby.

405. Effective Date. This Eighth Supplemental Resolution shall be fully effective in accordance with its terms upon the filing with the Trustee of a copy hereof certified by an Authorized Officer.

APPENDIX A

[FORM OF BONDS]

No. 2007 [A][B][C] - _____ \$ _____

POWER AUTHORITY OF THE STATE OF NEW YORK

Revenue Bonds, Series 2007 [A][B (Federally Taxable)][C]

Interest Rate

Maturity Date

CUSIP

Registered Owner: CEDE & CO.

Principal Amount: _____ Dollars

POWER AUTHORITY OF THE STATE OF NEW YORK (herein called the "Authority"), a body corporate and politic, a political subdivision and a corporate municipal instrumentality of the State of New York, organized and existing under and by virtue of the laws of the State of New York, acknowledges itself indebted to, and for value received hereby promises to pay, but solely from the Trust Estate and not otherwise, to the registered owner specified above or registered assigns, the Principal Amount specified above on the Maturity Date specified above (subject to the right of prior redemption hereinafter mentioned) in any coin or currency of the United States of America which at the time of payment is legal tender for the payment of public and private debts, and to pay to the registered owner hereof interest on such principal sum in like coin or currency and at the rate of interest per annum specified above. This Bond is dated as of _____, 200_, interest on this Bond shall be payable from the _____ or _____ next preceding the date of authentication to which interest shall have been paid, unless such date of authentication is a _____ or _____, in which case from such date if interest has been paid to such date; provided, however, that such interest shall be payable on this Bond from _____, 200_, if the date of authentication is prior to the first interest payment date therefor. Interest on this Bond shall be payable on _____, 200_ and semi-annually thereafter on _____ and _____, in each case to the registered owner as of the close of business on the first day (whether or not a Business Day) of the calendar month in which the interest payment date occurs, such interest to be paid by the Trustee by check mailed to the registered owner at his address as it appears on the books of registry; provided, however, that upon redemption of this Bond, the accrued interest payable upon redemption shall be payable at the Principal Office of the Trustee upon presentation and surrender of this Bond, unless the redemption date is an interest payment date, in which event the interest on this Bond so redeemed shall be paid by the Trustee by check mailed to the registered owner at his address as it appears on the books of registry.

This Bond is one of a duly authorized issue of obligations of the Authority designated as its "Obligations" issued and to be issued in various series under and pursuant to the Power Authority Act, Title 1 of Article 5 of the Public Authorities Law, Chapter 43-A of the Consolidated Laws of the State of New York, as amended (herein called the "Act"), and under and pursuant to a resolution of the Authority adopted on February 24, 1998, entitled "General Resolution Authorizing Revenue Obligations", and a supplemental resolution of the Authority adopted on September 25, 2007, and entitled "Eighth Supplemental Resolution Authorizing Series 2007 A, Series 2007 B and Series 2007 C Revenue Bonds"

(herein called the “Eighth Supplemental Resolution”). Said resolutions are herein collectively called the “Resolution”. Capitalized terms used herein and not otherwise defined herein shall have the meanings provided in the Resolution.

This Bond is one of a series of Obligations of various maturities designated as “Revenue Bonds, Series 2007 [A][B][C]” (herein called the “Bonds”) issued in the aggregate principal amount of \$_____ under the Resolution. Copies of the Resolution are on file at the office of the Authority and at the Principal Office of The Bank of New York, as Trustee under the Resolution, or its successor as Trustee (herein called the “Trustee”), in the Borough of Manhattan, City and State of New York. The Trustee is also the Registrar and Paying Agent for the Bonds.

The Obligations are payable as to principal, Redemption Price, and interest solely from and are equally and ratably secured solely by the Trust Estate, subject to the provisions of the Resolution permitting the application of such Trust Estate to the purposes and on the terms and conditions set forth in the Resolution, including, without limitation, the prior application of Revenues to the payment of Operating Expenses. The principal and Redemption Price of, and interest on, the Obligations shall not be payable from the general funds of the Authority nor shall the Obligations constitute a legal or equitable pledge, charge, lien, or encumbrance upon any of the property or upon any of the income, receipts, or revenues of the Authority, except the Trust Estate.

Reference is hereby made to the Resolution, copies of which are on file in the Principal Office of the Trustee, and to all of the provisions of which any holder of this Bond by his acceptance hereof hereby assents, for definitions of terms; the description of and the nature and extent of the pledge and covenants securing the Obligations, including this Bond; the Revenues and other moneys and securities constituting the Trust Estate pledged to the payment of the principal of and interest on the Obligations issued thereunder; the nature and extent and manner of enforcement of the pledge; the conditions upon which Obligations may hereafter be issued thereunder, payable on a parity from the Trust Estate and equally and ratably secured therewith; the conditions upon which the Resolution may be amended or supplemented with or without the consent of the Owners of the Obligations; the rights and remedies of the Owner hereof with respect hereto and thereto, including the limitations therein contained upon the right of an Owner hereof to institute any suit, action or proceeding in equity or at law with respect hereto and thereto; the rights, duties and obligations of the Authority and the Trustee thereunder; the terms and provisions upon which the pledges and covenants made therein may be discharged at or prior to the maturity or redemption of this Bond, and the Bond thereafter no longer be secured by the Resolution or be deemed to be Outstanding thereunder, if moneys or certain specified securities shall have been deposited with the Trustee sufficient and held in trust solely for the payment hereof; and for the other terms and provisions thereof.

As provided in the Resolution, Obligations may be issued from time to time pursuant to supplemental resolutions in one or more series, in various principal amounts, may mature at different times, may bear interest at different rates and may otherwise vary as in the Resolution provided. The aggregate principal amount of Obligations which may be issued under the Resolution is not limited except as provided in the Resolution, and all Obligations issued and to be issued under the Resolution are and will be equally secured by the pledge and covenants made therein, except as otherwise expressly provided or permitted in the Resolution.

To the extent and in the manner permitted by the terms of the Resolution, the provisions of the Resolution or any resolution amendatory thereof or supplemental thereto may be modified or amended by the Authority, with the written consent of the Owners of a majority in principal amount of

the Obligations then Outstanding, and, in case less than all of the Obligations will be affected thereby, with such consent of the Owners of at least a majority in principal amount of the Obligations so affected then Outstanding, at the time such consent is given; provided, however, that if such modification or amendment will, by its terms, not take effect so long as particular Obligations remain Outstanding, the consent of the Owners of such Obligations shall not be required and such Obligations shall not be deemed to be Outstanding for the purpose of any calculation of Outstanding Obligations under the Resolution.

This Bond is transferable, as provided in the Resolution, only upon the books of the Authority kept for that purpose at the above-mentioned office of the Registrar by the Owner hereof in person, or by his attorney duly authorized in writing, upon surrender of the Bond together with a written instrument of transfer satisfactory to the Registrar duly executed by the Owner or his duly authorized attorney, and thereupon a new registered Bond or Bonds, and in the same aggregate principal amount, Series, maturity and interest rate shall be issued to the transferee in exchange therefor as provided in the Resolution, and upon payment of the charges therein prescribed. The Authority and each Fiduciary may deem and treat the Person in whose name this Bond is registered as the absolute owner hereof for the purpose of receiving payment of, or on account of, the principal or Redemption Price hereof and interest due hereon and for all other purposes, and all such payments so made to any such registered owner or upon his order shall be valid and effectual to satisfy and discharge the liability upon such Bond to the extent of the sum or sums so paid, and neither the Authority nor any Fiduciary shall be affected by any notice to the contrary.

[Description of the applicable redemption provisions, as specified in the applicable Certificate of Determination, to be inserted here]

When the Trustee shall receive notice from the Authority of its election to redeem Obligations pursuant to the Resolution, and when redemption of Obligations is required by the Resolution, the Trustee shall give notice, in the name of the Authority, of the redemption of such Obligations, which notice shall specify the Series, maturities and, if any maturity shall include Obligations bearing different interest rates and all Obligations of such maturity are not being redeemed, interest rate of the Obligations to be redeemed, the redemption date and the place or places where amounts due upon such redemption will be payable and, if less than all of the Obligations of any like Series, maturity and interest rate are to be redeemed, the letters and numbers or other distinguishing marks of such Obligations so to be redeemed, and, in the case of Obligations to be redeemed in part only, such notice shall also specify the respective portions of the principal amount thereof to be redeemed, and, if applicable, that such notice is conditional and the conditions that must be satisfied. Such notice shall further state that on such date there shall become due and payable upon each Obligation to be redeemed the Redemption Price thereof, or the Redemption Price of the specified portions of the principal thereof in the case of Obligations to be redeemed in part only, together with interest accrued to the redemption date, and that from and after such date interest thereon shall cease to accrue and be payable. Such notice shall be given by first class mail, postage prepaid, not less than 30 days nor more than 45 days before the redemption date, to the Owners of any Obligations or portions of Obligations which are to be redeemed, at their last addresses, if any, appearing upon the registry books. Failure so to mail any such notice to any particular Owner shall not affect the validity of the proceedings for the redemption of Obligations not owned by such Owner and failure of any Owner to receive such notice shall not affect the validity of the proposed redemption of Obligations.

Any notice of optional redemption may state that it is conditional upon receipt by the Trustee of moneys sufficient to pay the Redemption Price of such Obligations or upon the satisfaction of any other condition, or that it may be rescinded upon the occurrence of any other event, and any

conditional notice so given may be rescinded at any time before payment of such Redemption Price if any such condition so specified is not satisfied or if any such other event occurs. Notice of such rescission shall be given by the Trustee to affected Owners of Obligations as promptly as practicable upon the failure of such condition or the occurrence of such other event.

The principal of the Bonds may be declared due and payable before the maturity thereof, and such declaration may be annulled, as provided in the Resolution.

The Act provides that neither the members of the Authority nor any person executing the Bonds shall be liable personally on the Bonds or be subject to any personal liability or accountability by reason of the issuance thereof.

Pursuant to Section 1011 of the Act, the Authority, as agent for the State of New York, does hereby pledge to and agree with the holder of this Bond that the State of New York will not limit or alter the rights vested in the Authority by the Act, as amended, until this Bond and each of the other Bonds, together with the interest hereon and thereon, have been fully met and discharged or adequate provisions have been made by law for protection of the holders of all such Bonds.

The Bonds shall not be a debt of the State of New York, and the State shall not be liable thereon.

It is hereby certified and recited that all conditions, acts and things required by law and the Resolution to exist, to have happened and to have been performed precedent to and in the issuance of this Bond, exist, have happened and have been performed and that the issuance of the Bonds, together with all other indebtedness of the Authority, is within every debt and other limit prescribed by the laws of the State of New York.

This Bond shall not be entitled to any benefit under the Resolution or be valid or become obligatory for any purpose until this Bond shall have been authenticated by the execution by the Trustee of the Trustee's Certificate hereon.

IN WITNESS WHEREOF, POWER AUTHORITY OF THE STATE OF NEW YORK has caused this Bond to be signed in its name and on its behalf by the facsimile signature of its President and Chief Executive Officer, and its corporate seal (or facsimile thereof) to be hereunto affixed, imprinted, engraved or otherwise reproduced and attested by the facsimile signature of its Secretary, a Deputy Secretary, or an Assistant Secretary.

**POWER AUTHORITY OF THE
STATE OF NEW YORK**

By: _____
President and Chief Executive Officer

[SEAL]

Attest:

Secretary

[FORM OF CERTIFICATE OF AUTHENTICATION FOR BONDS]

AUTHENTICATION DATE:

Trustee's Certificate

The Bond is one of the bonds, of the series designated therein, described in the within-mentioned Resolution.

THE BANK OF NEW YORK
Trustee

By: _____
Authorized Officer

FORM OF ASSIGNMENT

ASSIGNMENT

FOR VALUE RECEIVED, the undersigned hereby sells, assigns and transfers unto

(Please insert Social Security or Taxpayer Identification Number of Transferee)

/ _____ /

(Please print or typewrite name and address, including zip code of Transferee)

the within Bond and all rights thereunder, and hereby irrevocably constitutes and appoints

attorney to register the transfer of the within Bond on the books kept for registration thereof, with full power of substitution in the premises.

Dated: _____

Signature Guaranteed:

NOTICE: Signature(s) must be guaranteed by a member or participant of a signature guarantee program.

NOTICE: The signature above must correspond with the name of the Owner as it appears upon the front of this Bond in every particular, without alteration or enlargement or change whatsoever.

STATEMENT OF INSURANCE [if any]

_____ New York, New York, has delivered its municipal bond insurance policy (the “Policy”) with respect to the scheduled payments due of principal of and interest, including principal and interest due by operation of scheduled mandatory sinking fund redemption, on this Bond to The Bank of New York, New York, New York, or its successor, as paying agent for the Bonds (the “Paying Agent”). Said Policy is on file and available for inspection at the principal office of the Paying Agent and a copy thereof may be obtained from _____ or the Paying Agent.

NEW ISSUE—BOOK ENTRY ONLY

In the opinion of Bond Counsel to the Authority, under existing statutes and court decisions and assuming continuing compliance with certain tax covenants described herein, (i) interest on the Series 2007 A Bonds is excluded from gross income for Federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the “Code”), (ii) interest on the Series 2007 A Bonds is not treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code; such interest, however, is included in the adjusted current earnings of certain corporations for purposes of calculating the alternative minimum tax imposed on such corporations, and (iii) interest on the Series 2007 B Bonds is wholly includable in the gross income of the owners thereof for Federal income tax purposes. See “Tax Matters” herein. In addition, in the opinion of Bond Counsel, under existing statutes, interest on the Series 2007 A Bonds and Series 2007 B Bonds is exempt from personal income taxes imposed by the State of New York or any political subdivision thereof (including The City of New York), and the Series 2007 A Bonds and Series 2007 B Bonds are exempt from all taxation directly imposed thereon by or under the authority of the State, except estate or gift taxes and taxes on transfers.

\$340,000,000*

**Power Authority of the State of New York
Revenue Bonds**

**\$100,000,000* Series 2007 A
\$240,000,000* Series 2007 B (Federally Taxable)**

Dated: Date of Delivery

Due: November 15, as shown on inside cover page

The Series 2007 A Bonds (“2007 A Bonds”) and the Series 2007 B Bonds (“2007 B Bonds”), collectively referred to as the “2007 Bonds,” will be issued only as fully registered bonds registered in the name of Cede & Co., as nominee of The Depository Trust Company (“DTC”), New York, New York, which will act as securities depository for the 2007 Bonds. Individual purchases will be made in book-entry-only form, in the principal amount of \$5,000 or integral multiples thereof. Purchasers will not receive certificates representing their interest in the 2007 Bonds purchased. So long as DTC or its nominee is the registered owner of the 2007 Bonds, payments of the principal of, premium, if any, and interest on the 2007 Bonds will be made directly to DTC. Disbursement of such payments to DTC Participants is the responsibility of DTC, and disbursements of such payments to the beneficial owners is the responsibility of DTC Participants and Indirect Participants. See “PART 1—APPENDIX B—Book-Entry-Only System Procedures” herein. The Bank of New York is the Trustee under the General Resolution Authorizing Revenue Obligations, herein described. Interest on the 2007 Bonds will be payable on May 15, 2008 and semiannually thereafter on November 15 and May 15. Certain of the 2007 Bonds are subject to optional and mandatory redemption prior to maturity as described herein.

The 2007 Bonds will be payable from and secured by a pledge of the Trust Estate (subject to no prior pledge or lien), after the payment of Operating Expenses, including all revenues derived directly or indirectly from any of the Authority’s operations other than those revenues attributable directly or indirectly to the ownership or operation of any Separately Financed Projects as described herein. The 2007 Bonds are on a parity with other Obligations and the Parity Debt of the Authority. See “PART 1—SECURITY FOR THE 2007 BONDS” herein.

[Bond Insurance]

The Authority has no taxing power and its obligations are not debts of the State of New York or of any political subdivision of the State, other than the Authority.

The 2007 Bonds are offered when, as and if issued and accepted by the Underwriters, and subject to the approval of legality by Hawkins Delafield & Wood LLP, Bond Counsel to the Authority. Certain legal matters are subject to the approval of Nixon Peabody LLP, Special Counsel to the Authority. Certain legal matters will be passed upon for the Underwriters by their counsel, Winston & Strawn LLP. It is expected that the 2007 Bonds in definitive form will be available for delivery in New York, New York, on or about October , 2007.

Citi

JPMorgan

Goldman, Sachs & Co.

Merrill Lynch & Co.

October , 2007

* Subject to change.

This Preliminary Official Statement and the information contained herein are subject to completion, amendment or other change, without any notice. The securities described herein may not be sold nor may offers to buy be accepted prior to the time the Official Statement is delivered in final form. Under no circumstances shall this Preliminary Official Statement constitute an offer to sell or the solicitation of an offer to buy or shall there be any sale of these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the applicable securities laws of any such jurisdiction.

\$100,000,000*
Series 2007 A Bonds

<u>Maturity Date</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Price or Yield</u>	<u>CUSIP Number†</u>
	\$	%	Term Bonds Due November 15,	CUSIP Number
	\$	%	Term Bonds Due November 15,	CUSIP Number

\$240,000,000*
Series 2007 B Bonds (Federally Taxable)

<u>Maturity Date</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Price or Yield</u>	<u>CUSIP Number†</u>
	\$	%	Term Bonds Due November 15,	CUSIP Number
	\$	%	Term Bonds Due November 15,	CUSIP Number

* Subject to change.

† CUSIP numbers have been assigned by an organization not affiliated with the Authority and are included solely for the convenience of the holders of the 2007 Bonds. The Authority is not responsible for the selection or uses of these CUSIP numbers, nor is any representation made as to their correctness on the 2007 Bonds or as indicated on the cover hereof.

No dealer, broker, salesperson or other person has been authorized by the Power Authority of the State of New York (the “Authority”) to give any information or to make representations, other than as contained in this Official Statement, and if given or made, such other information or representations must not be relied upon as having been authorized by the Authority. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the 2007 Bonds by any person, in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale.

The information set forth herein has been furnished by the Authority and includes information obtained from other sources, all of which are believed to be reliable. The information and expressions of opinion contained herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Authority since the date hereof. Such information and expressions of opinion are made for the purpose of providing information to prospective investors and are not to be used for any other purpose or relied on by any other party.

This Official Statement contains statements which, to the extent they are not recitations of historical fact, constitute “forward-looking statements.” In this respect, the words “estimate”, “project”, “anticipate”, “expect”, “intend”, “believe” and similar expressions are intended to identify forward-looking statements. A number of important factors affecting the Authority’s business and financial results could cause actual results to differ materially from those stated in the forward-looking statements.

In connection with the offering of the 2007 Bonds, the Underwriters may overallocate or effect transactions which stabilize or maintain the market price of such bonds at levels above those which might otherwise prevail in the open market. Such stabilization, if commenced, may be discontinued at any time.

THESE SECURITIES HAVE NOT BEEN RECOMMENDED BY ANY FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE NOT CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THIS DOCUMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

THIS OFFICIAL STATEMENT CONSISTS OF THE COVER PAGE, THE INSIDE FRONT COVER, THE TABLES OF CONTENTS, THE SUMMARY AND THIS PART 1, INCLUDING THE APPENDICES TO THIS PART 1 (ALL OF THE FOREGOING ARE REFERRED TO COLLECTIVELY AS “PART 1”), AND THE ATTACHED PART 2, INCLUDING ALL APPENDICES THERETO (COLLECTIVELY, “PART 2”). BOTH THIS PART 1 AND PART 2 ARE DATED _____, 2007. THIS PART 1, TOGETHER WITH PART 2, CONSTITUTES THE AUTHORITY’S OFFICIAL STATEMENT RELATING TO THE 2007 BONDS (AND ONLY SUCH BONDS). BOTH PART 1 AND PART 2 MUST BE READ IN THEIR ENTIRETY.

The Underwriters have provided the following sentence for inclusion in this Official Statement: The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, their respective responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

[Other than with respect to information concerning _____ (the “Bond Insurer”) contained under the captions “PART 1—BOND INSURANCE—Municipal Bond Insurance Policy,” “The Bond Insurer” and “The Bond Insurer’s Credit Ratings,” and “PART 1—APPENDIX E—SPECIMEN OF MUNICIPAL BOND INSURANCE POLICY” herein, none of the information in this Official Statement has been supplied or verified by the Bond Insurer and the Bond Insurer makes no representation or warranty, express or implied, as to (i) the accuracy or completeness of such information or (ii) the validity of the 2007 Bonds or the exclusion of interest on the 2007 A Bonds from gross income for Federal income tax purposes.]

[This page intentionally left blank]

SUMMARY

The following summary does not purport to be complete and is qualified in its entirety by, and should be read in conjunction with, the more detailed information appearing elsewhere in this Official Statement and any supplement or amendment hereto. Capitalized terms used in this Summary and not defined herein have the meanings given to such terms elsewhere in this Official Statement.

Issuer	Power Authority of the State of New York (the “Authority”) is a corporate municipal instrumentality and political subdivision of the State of New York. The Authority generates, transmits and sells electric power and energy principally at wholesale. The Authority’s primary customers are municipal and investor-owned utilities and rural electric cooperatives located throughout New York State, high load factor industries and other businesses, various public corporations located within the metropolitan area of New York City, and certain out-of-state customers. The Authority owns and operates six major generating facilities, 11 small electric generating facilities, and five small hydroelectric facilities, with a total installed capacity of 6,846 MW, and a number of transmission lines, including major 765-kV and 345-kV transmission facilities.
The 2007 Bonds	<p>The 2007 Bonds are being offered in the principal amount per maturity and bearing the interest rates set forth on the cover and inside front cover pages of this Official Statement.</p> <p>The 2007 Bonds will be issued pursuant to the Authority’s General Resolution Authorizing Revenue Obligations, adopted on February 24, 1998, as amended and supplemented (the “General Resolution”).</p>
Denominations	\$5,000 or any integral multiple thereof.
Interest Payment Dates	May 15, 2008 and semiannually thereafter on each November 15 and May 15.
Redemption	Certain of the 2007 Bonds are subject to optional redemption prior to maturity on the dates and at the redemption prices described herein under the caption “PART 1—THE 2007 BONDS—Redemption.”
Security for the 2007 Bonds	The 2007 Bonds will be payable from and secured by a pledge of the Trust Estate (subject to no prior pledge or lien), including all revenues derived directly or indirectly from any of the Authority’s operations other than those revenues attributable directly or indirectly to the ownership or operation of any Separately Financed Projects and not including any Federal or State grant moneys the receipt of which is conditioned upon their expenditure for a particular purpose. The General Resolution provides that the amounts in the Operating Fund are to be used to pay debt service on the Obligations, including the 2007 Bonds, and to pay Parity Debt after the payment of Operating Expenses. See “PART 1—SECURITY FOR THE 2007 BONDS.”

Rate Covenant The Authority has covenanted in the General Resolution that it shall at all times maintain rates, fees or charges sufficient, together with other moneys available therefor, to pay all Operating Expenses of the Authority and to pay the debt service on all Obligations, including the 2007 Bonds. See “PART 1—SECURITY FOR THE 2007 BONDS.”

The Authority is a party to various power sales agreements which impose limitations on the Authority’s discretion to establish rate increases. See “PART 2—POWER SALES.”

Application of Proceeds The proceeds of the 2007 Bonds will be used to refund \$ of the Authority’s Commercial Paper Notes, finance a portion of the costs of the relicensing and modernization of the Authority’s St. Lawrence-FDR Project and of the relicensing of the Niagara Project, and to pay the costs of issuance of the 2007 Bonds. See “Part 1—APPLICATION OF THE 2007 BOND PROCEEDS.”

General Resolution Funds Two funds are established under the General Resolution: the Operating Fund and the Capital Fund, both held by the Authority. The Authority may also establish additional funds and accounts. Amounts in the Operating Fund shall be used in the following order of priority: to pay Operating Expenses; to pay debt service on Obligations, which includes the 2007 Bonds and Parity Debt; to pay debt service on any Subordinated Indebtedness and Subordinated Contract Obligations; for withdrawal and deposit in the Capital Fund; and for withdrawal for any lawful corporate purpose, provided that such amounts are not needed at the time of such withdrawal to pay Operating Expenses or debt service as described above. See “PART 1—SECURITY FOR THE 2007 BONDS.”

The Authority shall from time to time, and in all events prior to any withdrawal of moneys from the Operating Fund for lawful corporate purposes, as described above, determine the amount, if any, to be held for reserves in the Operating Fund.

Amounts in the Capital Fund shall be applied for the Capital Costs of the Authority, but must be applied to the payment of debt service on the Obligations, including the 2007 Bonds and Parity Debt, if needed.

Additional Indebtedness;

Parity Debt As of June 30, 2007, the Authority had outstanding \$1,103,405,000 in principal amount of Revenue Bonds, which are Obligations on a parity with the 2007 Bonds. As of June 30, 2007, the Authority had outstanding \$150,000,000 of Adjustable Rate Tender Notes issued in 1985 (the “ART Notes”), which are on a parity with the Revenue Bonds, including the 2007 Bonds.

The Authority may issue additional Obligations pursuant to the General Resolution, payable and secured on a parity with the 2007 Bonds, for any purpose of the Authority authorized by the Act, as amended from time to time, or by other then-applicable State statutory provisions. The principal amount of the Obligations

which may be delivered under the General Resolution is not limited, and there is no debt service coverage or historical or projected earnings test that must be satisfied as a precondition to any such delivery.

The Authority may also incur additional Parity Debt payable and secured on a parity with Obligations, including the 2007 Bonds.

Parity Debt currently includes the ART Notes, any notes issued under a revolving credit agreement providing liquidity support for the ART Notes, and the scheduled payments to be made by the Authority under several interest-rate swap agreements (see “PART 1—SECURITY FOR THE 2007 BONDS—Additional Debt Issuance”). Parity Debt may also be incurred in connection with, among other things, Credit Facilities, Qualified Swaps and certain take-or-pay fuel or power contracts. See “PART 2—APPENDIX 1—SUMMARY OF CERTAIN PROVISIONS OF THE GENERAL RESOLUTION—Credit Facilities; Qualified Swaps and Other Similar Arrangements; Parity Debt.”

The Authority may issue Subordinated Indebtedness or incur Subordinated Contract Obligations payable from the Trust Estate subject and subordinate to the payments to be made with respect to the Obligations, including the 2007 Bonds, and any Parity Debt, and secured by a lien on and pledge of the Trust Estate junior and inferior to the lien on and pledge of the Trust Estate created for the payment of the Obligations, including the 2007 Bonds, and any Parity Debt.

As of June 30, 2007, the Authority had outstanding \$854,339,000 of Subordinated Indebtedness.

The Authority may issue bonds, notes, or other obligations or evidences of indebtedness, other than Obligations, for any project authorized by the Act or by other then applicable State statutory provisions. The Authority also may finance any such project from other available funds (any project so financed is referred to herein as a “Separately Financed Project”), if such bonds, notes, or other obligations or evidences of indebtedness, if any, and the Authority’s share of any operating expenses related to such Separately Financed Project, are payable solely from the revenues or other income derived from the ownership or operation of such Separately Financed Project or from other available funds of the Authority released from the lien on the Trust Estate in accordance with the General Resolution. There are currently no Separately Financed Projects.

Registration of the 2007 Bonds. . . .

The 2007 Bonds will be issuable as fully registered bonds in the name of Cede & Co., as nominee of The Depository Trust Company (“DTC”). No person acquiring an interest in the 2007 Bonds (a “Beneficial Owner”) will be entitled to receive a 2007 Bond in certificated form (a “Definitive Obligation”), except under the limited circumstances described in this Official Statement under “PART 1— APPENDIX B—BOOK-ENTRY-ONLY SYSTEM

PROCEDURES.” Unless and until Definitive Obligations are issued, all references to actions by Owners will refer to actions taken by DTC, upon instructions from DTC Participants, and all references herein to distributions, notices, reports and statements to Owners shall refer to distributions, notices, reports and statements, respectively, to DTC or Cede & Co., as the registered owner of the 2007 Bonds, or to DTC Participants for distribution to Beneficial Owners in accordance with DTC procedures.

[Municipal Bond Insurance Policy . Payment of the principal and interest on the 2007 Bonds maturing on _____ through _____ will be insured by a financial guaranty insurance policy to be issued by _____ (the “Bond Insurer”). See “PART 1—BOND INSURANCE.”]

Tax Considerations In the opinion of Bond Counsel to the Authority, under existing statutes and court decisions and assuming continuing compliance with certain tax covenants described herein, (i) interest on the 2007 A Bonds is excluded from gross income for Federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the “Code”) and (ii) interest on the 2007 A Bonds will not be treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code; such interest, however, is included in the adjusted current earnings of certain corporations for purposes of calculating the alternative minimum tax imposed on such corporations. Interest on the Series 2007 B Bonds is wholly includable in the gross income of the owners thereof for Federal income tax purposes. See “PART 1—TAX MATTERS.”

In addition, in the opinion of Bond Counsel under existing statutes, interest on the 2007 Bonds is exempt from personal income taxes imposed by the State of New York or any political subdivision thereof (including The City of New York), and the 2007 Bonds are exempt from all taxation directly imposed thereon by or under the authority of the State, except estate or gift taxes and taxes on transfers. See “Part 1—TAX MATTERS.”

Recent Developments. By order issued March 15, 2007, the Federal Energy Regulatory Commission (“FERC”) issued the Authority a new, 50-year license for the Niagara Project effective September 1, 2007. In mid-April 2007, two petitions for rehearing were filed by certain entities with FERC regarding its March 15, 2007 order, which petitions have not yet been acted upon by FERC. See “PART 2—THE AUTHORITY’S FACILITIES—Niagara Relicensing.”

Trustee. The Bank of New York

Financial Advisor. Public Financial Management, Inc.

Ratings. The 2007 Bonds which are indicated on the inside front cover as being insured by the Bond Insurer are expected to be rated “[]” by Moody’s Investors Service, Inc. (“Moody’s”), “[]” by

Standard & Poor's Ratings Services ("S&P"), a division of The McGraw-Hill Companies, Inc., and "[]" by Fitch Ratings ("Fitch"), on the date of issuance of the 2007 Bonds. Such 2007 Bonds are expected to be assigned these ratings upon, and solely as a result of, the issuance of a municipal bond insurance policy by the Bond Insurer. [See "PART 1—BOND INSURANCE."] Moody's, S&P, and Fitch have also assigned underlying ratings of "[]", "[]", and "[]", respectively, to such 2007 Bonds.

The 2007 Bonds, other than those insured by the Bond Insurer, have been rated "[]" by Moody's, "[]" by S&P, and "[]" by Fitch.

TABLE OF CONTENTS FOR PART 1

	<u>Page</u>
INTRODUCTION	1-1
SECURITY FOR THE 2007 BONDS.....	1-3
Revenues	1-3
Trust Estate.....	1-3
Application of Revenues	1-3
Rate Covenant	1-4
Covenant Regarding Projects.....	1-5
Additional Debt Issuance.....	1-5
General	1-6
USE OF PROCEEDS	1-6
THE 2007 BONDS	1-7
General Terms	1-7
Redemption.....	1-7
BOND INSURANCE.....	1-10
General	1-10
TAX MATTERS	1-11
Opinion of Bond Counsel.....	1-11
2007 A Bonds	1-11
2007 B Bonds (Federally Taxable)	1-13
UNDERWRITING	1-16
CONTINUING DISCLOSURE UNDERTAKINGS FOR THE 2007 BONDS.....	1-16
CREDIT RATINGS	1-17
Insured 2007 Bonds.....	1-17
Non-Insured 2007 Bonds	1-17
General	1-17
LITIGATION.....	1-18
LEGALITY FOR INVESTMENT.....	1-18
APPROVAL OF LEGAL PROCEEDINGS.....	1-18
MISCELLANEOUS	1-19
Appendix A—Form of Approving Opinion of Hawkins Delafield & Wood LLP with Respect to the 2007 Bonds.....	App. A-1
Appendix B—Book-Entry-Only System Procedures.....	App. B-1
Appendix C—Form of Continuing Disclosure Agreement.....	App. C-1
Appendix D—Litigation.....	App. D-1
[Appendix E—Specimen of Municipal Bond Insurance Policy	App. E-1]

[This page intentionally left blank]

PART 1
of the
OFFICIAL STATEMENT
of the
POWER AUTHORITY OF THE STATE OF NEW YORK
\$340,000,000*
REVENUE BONDS
\$100,000,000* Series 2007 A
\$240,000,000* Series 2007 B (Federally Taxable)

This Official Statement provides certain information concerning the Power Authority of the State of New York (the “Authority”) in connection with the issuance of the Authority’s Series 2007 A Bonds (“2007 A Bonds”) and Series 2007 B Bonds (“2007 B Bonds”), collectively referred to as the “2007 Bonds.” The 2007 Bonds are authorized to be issued pursuant to the Power Authority Act of the State of New York (the “State”), Title 1 of Article 5 of the Public Authorities Law, Chapter 43-A of the Consolidated Laws of the State of New York, as amended from time to time (the “Act”), and the Authority’s “General Resolution Authorizing Revenue Obligations,” adopted on February 24, 1998, as amended and supplemented, including, in regard to the 2007 Bonds, an Eighth Supplemental Resolution adopted on September 25, 2007, which authorized the issuance of the 2007 Bonds. The General Resolution Authorizing Revenue Obligations, as amended and supplemented, is herein collectively referred to as the “General Resolution.” The outstanding bonds, notes, and other obligations (including the 2007 Bonds) of the Authority hereafter issued as parity obligations and outstanding pursuant to the General Resolution are referred to herein as the “Obligations.” All words and terms which are defined in the General Resolution are used herein as so defined.

INTRODUCTION

The Authority is a corporate municipal instrumentality and political subdivision of the State created in 1931 by the Act, which has its principal office located at 30 South Pearl Street, Albany, New York 12207-3425. The Authority generates, transmits and sells electric power and energy, principally at wholesale, as permitted or required by applicable law. The Authority’s primary customers are municipal and investor-owned utilities and rural electric cooperatives located throughout New York State, high load factor industries, the Authority’s Power for Jobs Program customers, other businesses, various public corporations located within the metropolitan area of New York City, including The City of New York, and certain out-of-state customers.

The Authority owns and operates six major generating facilities, 11 small electric generating facilities, and five small hydroelectric facilities, with a total installed capacity of 6,846 megawatts (“MW”), and a number of transmission lines, including major 765-kilovolt (“kV”) and 345-kV transmission facilities (see “PART 2—THE AUTHORITY’S FACILITIES”).

The Authority’s generating facilities consist of two large hydroelectric facilities (Niagara and St. Lawrence-FDR), a large pumped-storage hydroelectric facility (Blenheim-Gilboa), three oil-and-gas-fired facilities (Poletti, Flynn, and the new combined-cycle electric generating plant located at the Poletti site, referred to herein as the “500-MW Plant”), 11 small electric generating facilities, and various small hydroelectric facilities. The Authority’s net generation in 2006 by energy source was as follows: hydroelectric 75%; and oil/gas 25%. In 2006, the Authority generated approximately 17% of the electric energy used in New York State. The Authority also supplied a significant portion of its customers’ needs through purchased power (see “PART 2—POWER SALES”). In addition to Authority-supplied energy, electric energy consumed in New York State came from New York generating companies, municipal electric systems, and out-of-state utilities, with a small amount of such energy being derived from consumer-owned generation. Although the Authority’s rates for power and energy vary depending upon a number of factors, overall, the Authority provides low cost power and energy to its customers.

* Subject to change.

The customers served by the Authority and the rates paid by such customers vary with the facility or other source supplying the power and energy (see “PART 2—POWER SALES”). The following is a brief description of the customers served by the Authority.

St. Lawrence-FDR and Niagara Customers. Power and energy from the St. Lawrence-FDR and Niagara hydroelectric facilities are sold to New York investor-owned electric utilities, municipal electric systems, rural electric cooperatives, industrial customers, certain public bodies, and out-of-state customers.

Blenheim-Gilboa Customers. Blenheim-Gilboa power and energy are used to meet the requirements of the Authority’s business and governmental customers and to provide services in the New York Independent System Operator (“NYISO”) markets. In addition, 50 MW of the Blenheim-Gilboa output is sold to a wholly-owned subsidiary of the Long Island Power Authority, which subsidiary is doing business as “LIPA” (hereinafter such subsidiary is referred to as “LIPA”).

Southeastern New York (“SENY”) Governmental Customers. Power and energy purchased by the Authority in the capacity and energy markets, as supplemented by Authority resources, are sold to various municipalities, school districts and public agencies in the New York City and Westchester County area.

Flynn. The output of Flynn is being sold to LIPA.

Certain Purchased Power and Energy Customers. The Authority also sells power and energy purchased in the capacity and energy markets to industrial customers, the United States Department of Energy (“DOE”), New York investor-owned electric utilities, Power for Jobs Program customers, businesses, municipal electric systems, rural electric cooperatives, and various municipal utility service agencies.

Transmission Facilities. The Authority owns approximately 1,400 circuit miles of high voltage transmission lines, more than any other utility in New York State, with the major lines being the 765-kV Massena-Marcy line, the 345-kV Marcy-South line, the 345-kV Niagara-to-Edic transmission line, and the 345-kV Long Island Sound Cable (the “Cable”). With the implementation of the NYISO arrangement in November 1999, all transmission service over the Authority’s facilities is either pursuant to the NYISO tariffs or pre-existing Authority contracts (see “PART 2—NEW YORK INDEPENDENT SYSTEM OPERATOR”).

Energy Services Program. The Authority is also carrying out an energy services program for certain of its customers and other entities in New York State, with outstanding aggregate expenditures under this program of \$300.4 million as of June 30, 2007 (see “PART 2—ENERGY SERVICES”).

Indebtedness. As of June 30, 2007, \$1,103,405,000 of senior lien Obligations (the “Revenue Bonds”), issued under the General Resolution, were outstanding.

As of June 30, 2007, \$150,000,000 of Adjustable Rate Tender Notes (the “ART Notes”), were outstanding (see “PART 2—CERTAIN FINANCIAL AND OPERATING MATTERS—Outstanding Indebtedness”). The ART Notes are on a parity with the Revenue Bonds and other Obligations to be issued by the Authority under the General Resolution, including the 2007 Bonds.

As of June 30, 2007, \$684,489,000 of Commercial Paper Notes (“CP Notes”) and \$74,850,000 of the Series 3 and 4 Subordinate Revenue Bonds (“Subordinate Bonds”) were outstanding. The CP Notes and the Subordinate Bonds are Subordinated Indebtedness of the Authority as provided in the General Resolution.

As of June 30, 2007, \$95,000,000 of Extendible Municipal Commercial Paper Notes (the “EMCP Notes”) were outstanding. The EMCP Notes are Subordinated Indebtedness of the Authority as provided in the General Resolution.

Information Included in this Official Statement. Part 1 of this Official Statement contains a description of the 2007 Bonds and the security for the 2007 Bonds, and a discussion of other matters relating to the 2007 Bonds. In Part 2 of this Official Statement, there is a description of the Authority, its operations and financial condition and a discussion of the evolving New York electric utility industry, along with relevant developments nationwide. The financial statements of the Authority for the year

ended December 31, 2006, along with those for the years ended December 31, 2005 and December 31, 2004, have been filed with the Nationally Recognized Municipal Securities Information Repositories (“NRMSIRs”) approved by the Securities and Exchange Commission (the “SEC”) and identified on the SEC website at “<http://www.sec.gov/info/municipal/nrmsir.htm#state>.” The Authority’s financial statements for the year ended December 31, 2006, are hereby incorporated by reference in this Official Statement. Such information may be obtained directly from the NRMSIRs. Informational copies of the Authority’s financial statements for the years ended December 31, 2006, 2005, and 2004 are available on the Authority’s website at “<http://www.nypa.gov/financial/default.htm>.” No information on the Authority’s website is deemed incorporated by reference in this Official Statement. A discussion of certain litigation pending or threatened against the Authority, or involving or adversely affecting the property or assets of or under the control of the Authority, is set forth in Appendix D to Part 1 of this Official Statement. A summary of certain provisions of the General Resolution is set forth in Appendix 1 to Part 2 of this Official Statement. The proposed form of the approving opinion of Bond Counsel is set forth in Appendix A to Part 1 of this Official Statement. Extracts from the schedule of The Depository Trust Company (“DTC”) entitled “Sample Official Statement Language Describing Book-Entry-Only Issuance” are set forth in Appendix B to Part 1 of this Official Statement. [The form of the Municipal Bond Insurance Policy relating to certain maturities of the 2007 Bonds is set forth in Appendix E to Part 1 of this Official Statement.] Backgrounds of the Authority’s Trustees and certain senior management staff are set forth in Appendix 2 to Part 2 of this Official Statement. The form of the Continuing Disclosure Agreement that the Authority will execute in connection with the issuance of the 2007 Bonds is set forth in Appendix C to Part 1 of this Official Statement.

SECURITY FOR THE 2007 BONDS

The General Resolution authorizes the issuance of the Obligations for any purpose authorized by the Act or other New York State statutory provision then applicable. All Obligations, including the 2007 Bonds, are payable from Revenues and secured by a pledge of the Trust Estate, subject to no prior pledge or lien.

Revenues

Revenues consist of all revenues, rates, fees, charges, rents, proceeds from the sale of Authority assets, insurance proceeds, and other income and receipts, as derived in cash by or for the account of the Authority directly or indirectly from any of the Authority’s operations, including but not limited to the ownership or operation of any Project, but not including any such income or receipts attributable directly or indirectly to the ownership or operation of any Separately Financed Project (see “PART 2—APPENDIX 1—SUMMARY OF CERTAIN PROVISIONS OF THE GENERAL RESOLUTION—Conditions for Issuance of Obligations”) and not including any federal or State grant moneys the receipt of which is conditioned upon their expenditure for a particular purpose.

Trust Estate

The Trust Estate consists of, collectively, (i) all Revenues; (ii) the proceeds of sale of the Obligations until expended for the purposes authorized by the Supplemental Resolution authorizing such Obligations; (iii) all funds, accounts and subaccounts established by the General Resolution, including investment earnings thereon; and (iv) all funds, moneys and securities and any and all other rights and interests in property, whether tangible or intangible, from time to time conveyed, mortgaged, pledged, assigned or transferred as and for additional security for the Obligations by the Authority, or by anyone on its behalf, or with its written consent, to the Trustee. Currently, the Trust Estate does not include any real property, structures, facilities, or equipment owned by the Authority.

Application of Revenues

The General Resolution requires that all Revenues, and such portion of the proceeds of any Obligations issued to pay Operating Expenses, be deposited into the Operating Fund. Amounts in the Operating Fund are to be paid out, accumulated or withdrawn from time to time for the following purposes and, as of any time, in the following order of priority:

(1) payment of reasonable and necessary Operating Expenses or accumulation in the Operating Fund as a reserve (i) for working capital, (ii) for such Operating Expenses the payment of which is not immediately required, including, but not limited to, amounts determined by the Authority to be required as an operating reserve, or (iii) deemed necessary or desirable by the Authority to comply with orders or other rulings of an agency or regulatory body having lawful jurisdiction;

(2) payment of, or accumulation in the Operating Fund as a reserve for the payment of, interest on and the principal or Redemption Price of Obligations, which includes the 2007 Bonds, and payments due under any Parity Debt, on a parity basis, on their respective due dates or redemption dates, as the case may be;

(3) payment of principal of and interest on any Subordinated Indebtedness or payment of amounts due under any Subordinated Contract Obligation;

(4) withdrawal and deposit in the Capital Fund; and

(5) withdrawal for any lawful corporate purpose as determined by the Authority, including but not limited to the purchase or redemption of Obligations or Subordinated Indebtedness, provided, that prior to any such withdrawal, the Authority shall have determined, taking into account anticipated future receipts of Revenues or other moneys constituting part of the Trust Estate, that the funds to be so withdrawn are not needed for any of the purposes set forth in paragraphs (1), (2) or (3) above (see “PART 2—APPENDIX 1—SUMMARY OF CERTAIN PROVISIONS OF THE GENERAL RESOLUTION”).

In April 1998, the Authority adopted a resolution establishing an Operating Reserve of \$150 million in the Operating Fund to support Authority operations if one of the Authority’s plants were to become inoperative and require major expenditures to restore operations. In May 2007, in recognition of the increased volatility in recent years in the electricity and other commodity markets, and in consideration of certain broader enterprise-wide risks, the Authority by resolution increased the Operating Reserve to \$175 million. While the Authority intends to maintain the \$175 million Operating Reserve, the maintenance of the Reserve is at the discretion of the Authority’s Board of Trustees and may at any time be modified or eliminated at the discretion of the Board.

Rate Covenant

The Authority has covenanted in the General Resolution that it shall at all times maintain rates, fees or charges, and any contracts entered into by the Authority for the sale, transmission or distribution of power shall contain rates, fees or charges, sufficient, together with other moneys available therefor (including the anticipated receipt of proceeds of sale of Obligations or other bonds, notes or other obligations or evidence of indebtedness of the Authority that will be used to pay the principal of Obligations issued in anticipation of such receipt),

(i) to pay all Operating Expenses of the Authority,

(ii) to pay the debt service on all Obligations, including the 2007 Bonds, then Outstanding and the debt service on all Subordinated Indebtedness then outstanding, and all Parity Debt and Subordinated Contract Obligations, all as the same respectively become due and payable, and

(iii) to maintain any reserve established by the Authority pursuant to the General Resolution, in such amount as may be determined from time to time by the Authority in its judgment.

The Authority is a party to various power sales agreements which impose limitations on the Authority’s discretion to establish rate increases (see “PART 2—POWER SALES”).

The rates for firm power and associated energy from the St. Lawrence-FDR and Niagara hydroelectric facilities sold by the Authority have been established for certain customers in the context of an agreement settling litigation (see “PART 2—POWER SALES—St. Lawrence-FDR and Niagara”).

The rates for power generated and transmission service provided by the Authority are not subject to the provisions of the New York Public Service Law nor to regulation by or the jurisdiction of the New York Public Service Commission (“PSC”). In connection with the establishment of rates or charges for the use of the Authority’s transmission system, see the discussion of the NYISO arrangement in “PART 2—NEW YORK INDEPENDENT SYSTEM OPERATOR.”

Covenant Regarding Projects

The General Resolution also requires the Authority to operate or cause to be operated each Project in a sound and economical manner and to maintain, preserve and keep the same or cause the same to be maintained, preserved and kept, in good repair, working order and condition, and from time to time to make all necessary and proper repairs, replacements and renewals so that at all times the operations thereof may be properly and advantageously conducted. The General Resolution permits the Authority to cease operating or maintaining, and to lease or dispose of, any Projects (other than, subject to the renewal of all operating licenses, the Niagara and St. Lawrence-FDR Projects (see “PART 2—CERTAIN FINANCIAL AND OPERATING MATTERS—Niagara and St. Lawrence-FDR Relicensing”)) if, in the judgment of the Authority, it is advisable to lease, dispose of, or not to operate and maintain the same and the operation thereof is not essential to the maintenance and continued operation of the rest of the Authority’s Projects. See “PART 2—APPENDIX 1—SUMMARY OF CERTAIN PROVISIONS OF THE GENERAL RESOLUTION.”

Additional Debt Issuance

The General Resolution permits the Authority to issue additional Obligations for any purpose authorized by the Act or other applicable New York State statutory provision, without restriction as to amount and without having to satisfy any debt service coverage or historical or projected earnings test. The Authority has covenanted in the General Resolution not to issue any bonds or evidences of indebtedness, other than the Obligations, secured by a pledge of the Trust Estate, and not to create or cause to be created any lien or charge on the Trust Estate, except to the extent provided in the General Resolution; provided that the Authority may, at any time, or from time to time, incur Subordinated Indebtedness or enter into Subordinated Contract Obligations payable from Revenues and secured by a pledge of the Trust Estate, and such pledge shall be subordinate in all respects to the pledge created by the General Resolution as security for payment of the Obligations, including the 2007 Bonds. As of the date of this Official Statement, the Subordinated Indebtedness issued by the Authority and outstanding consists of the CP Notes, the EMCP Notes, and the Subordinate Bonds (see “PART 2—CERTAIN FINANCIAL AND OPERATING MATTERS—Outstanding Indebtedness”). For a discussion of additional debt the Authority expects to issue in the period 2007-2011, see “PART 2—CERTAIN FINANCIAL AND OPERATING MATTERS—Projected Capital and Financing Requirements.”

The Authority may also incur Parity Debt payable and secured on a parity with Obligations, including the 2007 Bonds. Parity Debt currently consists of the ART Notes, notes issued under a revolving credit agreement providing liquidity support for the ART Notes (such notes having no amounts currently outstanding), and the scheduled payments to be made under several interest-rate swap agreements entered into by the Authority, as discussed below. Parity Debt may also be incurred in connection with, among other things, Credit Facilities, Qualified Swaps and certain take-or-pay fuel or power contracts (see “PART 2—APPENDIX 1—SUMMARY OF CERTAIN PROVISIONS OF THE GENERAL RESOLUTION—Credit Facilities; Qualified Swaps and Other Similar Arrangements; Parity Debt”).

In 1998, the Authority entered into several forward floating-to-fixed interest-rate swap agreements (collectively, the “1998 Swap Agreements”) in connection with proposed future bond issues, of which a notional amount of approximately \$252,135,000 remains outstanding. Pursuant to the General Resolution, payments to the counterparties relating to regularly scheduled payments under the 1998 Swap Agreements are on a parity with the principal and interest payments on the Obligations, including the 2007 Bonds, and the payment of any termination, or other fees, expenses, indemnification or other obligations to the counterparties under such 1998 Swap Agreements are payable as Subordinated Contract Obligations.

The Authority entered into a ten-year floating-to-fixed interest rate swap agreement which commenced in September 2006 relating to its ART Notes (the “ART Notes Swap Agreement”), having an initial notional amount of approximately \$156 million which declines over the term of the agreement to approximately \$75 million. The ART Notes Swap Agreement and the payments relating to any termination or other fees, expenses, indemnification or other obligations to the counterparty under such agreement are subordinate to the Obligations, including the 2007 Bonds.

In February 2006, the Authority entered into a forward floating-to-fixed interest rate swap agreement relating to the 2007 B Bonds (“2006 Swap Agreement”). The 2006 Swap Agreement has an initial notional

amount of \$290 million, a commencement date of October 16, 2007, an end date of November 15, 2037, and provides for early optional termination as well as for a mandatory termination on October 16, 2007. Upon any termination, the Authority, depending on market conditions, will either make or receive a termination payment.

See the Authority’s financial statements for the year ended December 31, 2006, Note H(1), for further discussion of these and other interest rate swap agreements entered into by the Authority.

In connection with future or outstanding debt, the Authority may enter into additional interest rate swap agreements, either of the fixed-to-floating rate or floating-to-fixed rate variety, which may also include forward swaps (see “PART 2—CERTAIN FINANCIAL AND OPERATING MATTERS—Outstanding Indebtedness”). The regularly scheduled payments under any such swap agreements could be either on a parity with the Obligations, including the 2007 Bonds, or subordinate to the Obligations, including the 2007 Bonds, as determined by the Authority. The payments relating to any termination or other fees, expenses, indemnification or other obligations to the counterparties under such swap agreements would be subordinate to the Obligations, including the 2007 Bonds.

The General Resolution also permits the Authority to issue bonds, notes, or any other obligations under another and separate resolution to finance a Separately Financed Project.

General

The Authority has no taxing power and its obligations are not debts of the State or of any political subdivision of the State, other than the Authority. The 2007 Bonds will not constitute a pledge of the faith and credit of the State or of any political subdivision thereof, other than the Authority. The issuance of the 2007 Bonds will not obligate the State or any of its political subdivisions to levy or pledge the receipts from any form of taxation for the payment of the 2007 Bonds.

For a description of other provisions of the General Resolution related to the security for the Obligations, including the 2007 Bonds, see “PART 2—APPENDIX 1—SUMMARY OF CERTAIN PROVISIONS OF THE GENERAL RESOLUTION.”

USE OF PROCEEDS

The proceeds of the 2007 Bonds will be used to refund \$ _____ of the Authority’s Commercial Paper Notes, finance a portion of the costs of the relicensing and modernization of the Authority’s St. Lawrence-FDR Project and of the relicensing of the Niagara Project, and to pay the costs of issuance of the 2007 Bonds.

Moneys will be derived from the sources and applied to the uses approximately as set forth below:

Sources of Funds	
Principal Amount of the 2007 Bonds.....	\$ _____
Net Original Issue Premium.....	_____
Total.....	\$ _____
Application of Funds	
Refunding of Commercial Paper Notes.....	_____
Deposit into Niagara Construction Fund.....	_____
Deposit into St. Lawrence-FDR Construction Fund...	_____
Financing Costs (1)	_____
Total.....	\$ _____

(1) Includes costs of issuance, underwriters’ discount, State bond issuance fee, and municipal bond insurance policy premium, if any.

THE 2007 BONDS

General Terms

The 2007 Bonds will be in the principal amount and will be dated, will mature at the times and in the principal amounts, will bear interest at the rates, and will be in the form of serial and term bonds, as set forth on the cover page of this Official Statement.

The 2007 Bonds are issuable in fully registered form in the denominations of \$5,000 or any integral multiple thereof, registered only in the name of Cede & Co., as nominee of DTC (see "PART 1—APPENDIX B—BOOK-ENTRY-ONLY SYSTEM PROCEDURES"). So long as the 2007 Bonds are registered in the name of Cede & Co., principal and interest will be payable solely to Cede & Co., as nominee of DTC, as the sole registered owner of the 2007 Bonds, and, except under the caption "PART 1—TAX MATTERS," references herein to the registered owner or owner shall be to DTC and not the beneficial owners.

The 2007 Bonds will bear interest payable on May 15, 2008 and semiannually on each November 15 and May 15 thereafter, to the registered owners as of the close of business on the first day (whether or not a business day) of the month in which such interest payment date occurs by check or draft mailed to the address as it appears on the books of registry maintained by The Bank of New York, the Registrar pursuant to the General Resolution, at its principal corporate trust office.

Redemption

Optional Redemption – 2007 A Bonds

Those 2007 A Bonds maturing on or after [] will be redeemable prior to maturity at the option of the Authority on or after [] at any time as a whole or in part as determined by the Authority, at a redemption price equal to the principal amount of the 2007 A Bonds to be redeemed, plus accrued interest to the redemption date.

Sinking Fund Redemption – 2007 A Bonds

Certain 2007 A Bonds will be subject to redemption through application of sinking fund installments prior to maturity in part by lot at 100% of the principal amount thereof plus accrued interest to the date of redemption, on the date and in the amounts of the sinking fund installments shown on the following schedule:

Term Bonds Due November 15,

<u>November 15</u>	<u>Principal Amount*</u>
--------------------	--------------------------

*Subject to change.

In the event that a principal amount of 2007 A Bonds of any maturity is deemed to be no longer Outstanding, except by mandatory redemption pursuant to the preceding paragraph, such principal amount shall be applied to reduce the remaining sinking fund installments for such 2007 A Bonds, and in such order of maturity, as may be determined by the Authority.

Optional Redemption – 2007 B Bonds

The 2007 B Bonds are subject to redemption prior to their maturity at any time, at the option of the Authority, from any source available for such purpose, in whole or in part (and pro rata if less than all of a maturity is to be redeemed), at a redemption price equal to the principal amount of the 2007 B Bonds

to be redeemed plus the Applicable Premium, if any, together with accrued interest to the redemption date. The “Applicable Premium” of any redeemed 2007 B Bond equals the excess of: (a) the present value at the date of redemption of 100% of the principal amount of such 2007 B Bond plus all required interest payments due on such 2007 B Bond through its Stated Maturity date (excluding accrued but unpaid interest), calculated by the Authority (which calculation shall be conclusive), using a discount rate equal to the Treasury Rate plus 12.5 basis points minus (b) the principal amount of such 2007 B Bond. The Applicable Premium cannot be less than \$0.00. If the period from the date of redemption to the Stated Maturity date is greater than one year, the “Treasury Rate” will be equal to the yield to maturity (as compiled and published in the most recent Federal Reserve Statistical Release H. 15(519) that becomes publicly available at least two business days prior to the date of redemption (or, if such publication is no longer published, any publicly available source of similar market data) most nearly equal to the period from the date of redemption to the Stated Maturity date. If the period from the date of redemption to the Stated Maturity date is less than one year, the “Treasury Rate” will be equal to the weekly average yield of actually traded United States Treasury securities adjusted to a constant maturity of one year. The “Stated Maturity” date of any 2007 B Bond is the maturity date shown on the inside front cover hereof.

Sinking Fund Redemption – 2007 B Bonds

Certain 2007 B Bonds will be subject to redemption through application of sinking fund installments prior to maturity in part by lot at 100% of the principal amount thereof plus accrued interest to the date of redemption, on the date and in the amounts of the sinking fund installments shown on the following schedule:

Term Bonds Due November 15,

<u>November 15</u>	<u>Principal Amount*</u>
--------------------	--------------------------

*Subject to change.

In the event that a principal amount of 2007 B Bonds of any maturity is deemed to be no longer Outstanding, except by mandatory redemption pursuant to the preceding paragraph, such principal amount shall be applied to reduce the remaining sinking fund installments for such 2007 B Bonds, and in such order of maturity, as may be determined by the Authority.

Selection of 2007 Bonds to be Redeemed

In the event that less than all of the 2007 Bonds of a maturity are redeemed, the 2007 Bonds of such maturity to be redeemed will be selected by the Trustee in such manner as the Trustee shall deem appropriate and fair. In such event, for so long as a book-entry-only system is in effect with respect to the 2007 Bonds, DTC or its successor, and direct and indirect DTC participants, will determine the particular ownership interests of 2007 Bonds of such maturity to be redeemed. Any failure of DTC or its successor, or of a direct or indirect DTC participant, to make such determination will not affect the sufficiency or the validity of the redemption of 2007 Bonds to be redeemed (see “PART 1—APPENDIX B—BOOK-ENTRY-ONLY SYSTEM PROCEDURES”).

Notice of Redemption

For so long as a book-entry-only system is in effect with respect to the 2007 Bonds, notice of redemption of 2007 Bonds to be redeemed is to be mailed, not less than 30 days nor more than 45 days prior to the redemption date, to DTC or its nominee or its successor. Any failure of DTC or its successor, or of a direct or indirect DTC participant, to notify a beneficial owner of a 2007 Bond of any redemption will not affect the sufficiency or the validity of the redemption of the 2007 Bonds to be redeemed (see “PART 1—APPENDIX B—BOOK-ENTRY-ONLY SYSTEM PROCEDURES”).

Neither the Authority nor the Trustee can give any assurance that DTC or its successor, or direct or indirect DTC participants, will distribute such redemption notices to the beneficial owners of the 2007 Bonds, or that they will do so on a timely basis.

[BOND INSURANCE]

General

The Authority has received a commitment from [] (the “Bond Insurer”) to issue a municipal bond insurance policy (the “Policy”) to insure the scheduled payment of the principal of and interest on the 2007 Bonds maturing on [] (the “Insured Bonds”) when due. The Bond Insurer has agreed, subject to the provisions of its commitment, to issue the Policy concurrently with the initial issuance of the Insured Bonds.

The following provisions of the General Resolution will apply to the Bond Insurer. The Trustee may, only with the consent of the Bond Insurer, and shall at the direction of the Bond Insurer, pursue remedies under the General Resolution with respect to the Insured Bonds. So long as the Bond Insurer is not in default of its payment obligations under the Policy insuring the Insured Bonds, the Bond Insurer shall, under the terms of the General Resolution, at all times be deemed to be the exclusive owner of the Insured Bonds for the purpose of all approvals, consents, waivers or institution of any action and the direction of all remedies. If the Bond Insurer pays the principal of or interest on the Insured Bonds, it will be subrogated to all of the rights of the owners of the Insured Bonds granted under the General Resolution, including the right to receive payment of principal of and interest on the Insured Bonds. The Bond Insurer shall have no rights under the General Resolution with respect to the Insured Bonds (except to the extent of amounts previously paid by the Bond Insurer and due and owing to the Bond Insurer) in the event the Bond Insurer is in default on its payment obligations under the Policy insuring the Insured Bonds.

There follows under this caption certain information concerning the Bond Insurer and the Policy which has been supplied by the Bond Insurer. The Bond Insurer has also supplied the specimen of the Policy attached to this Official Statement as APPENDIX E to this PART 1. No representation is made by the Authority, the Underwriters or any of their counsel as to the accuracy, completeness or adequacy of such information, or as to the absence of material adverse changes in such information subsequent to the date hereof. Neither the Authority, the Underwriters, or any of their counsel has made any independent investigation of the Bond Insurer or the Policy. Except for payment of the premium for the Policy by the Authority, neither the Authority nor the Underwriters have any responsibility whatsoever with respect to the Policy, including the maintenance or enforcement therefor or the collection of amounts payable thereunder.

Other than the information following under the next three captions and the specimen of the Policy included in APPENDIX E to PART 1 of this Official Statement, none of the information in this Official Statement has been supplied or verified by the Bond Insurer and the Bond Insurer makes no representation or warranty, express or implied, as to (i) the accuracy or completeness of such information; or (ii) the validity of the 2007 Bonds, including the Insured Bonds.

[Bond Insurer Language to Come]

TAX MATTERS

Opinion of Bond Counsel

In the opinion of Hawkins Delafield & Wood LLP, Bond Counsel to the Authority, under existing statutes and court decisions and assuming continuing compliance with certain tax covenants described herein, (i) interest on the 2007 A Bonds is excluded from gross income for Federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the “Code”), and (ii) interest on the 2007 A Bonds is not treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code; such interest, however, is included in the adjusted current earnings of certain corporations for purposes of calculating the alternative minimum tax imposed on such corporations. In rendering its opinion, Bond Counsel has relied on certain representations, certifications of fact, and statements of reasonable expectations made by the Authority in connection with the 2007 A Bonds, and Bond Counsel has assumed compliance by the Authority with certain ongoing covenants to comply with applicable requirements of the Code to assure the exclusion of interest on the 2007 A Bonds from gross income under Section 103 of the Code.

In addition, in the opinion of Bond Counsel to the Authority, under existing statutes, interest on the 2007 A Bonds and 2007 B Bonds is exempt from personal income taxes imposed by the State of New York or any political subdivision thereof (including The City of New York), and the 2007 A Bonds and 2007 B Bonds are exempt from all taxation directly imposed thereon by or under the authority of the State, except estate or gift taxes and taxes on transfers.

Bond Counsel expresses no opinion regarding any other Federal or state tax consequences with respect to the 2007 Bonds. Bond Counsel renders its opinion under existing statutes and court decisions as of the issue date, and assumes no obligation to update its opinion after the issue date to reflect any future action, fact or circumstance, or change in law or interpretation, or otherwise. Bond Counsel expresses no opinion on the effect of any action hereafter taken or not taken in reliance upon an opinion of other counsel on the exclusion from gross income for Federal income tax purposes of interest on the 2007 Bonds, or under state and local tax law.

2007 A Bonds

Certain Ongoing Federal Tax Requirements and Covenants

The Code establishes certain ongoing requirements that must be met subsequent to the issuance and delivery of the 2007 A Bonds in order that interest on the 2007 A Bonds be and remain excluded from gross income under Section 103 of the Code. These requirements include, but are not limited to, requirements relating to use and expenditure of gross proceeds of the 2007 A Bonds, yield and other restrictions on investments of gross proceeds, and the arbitrage rebate requirement that certain excess earnings on gross proceeds be rebated to the Federal government. Noncompliance with such requirements may cause interest on the 2007 A Bonds to become included in gross income for Federal income tax purposes retroactive to their issue date, irrespective of the date on which such noncompliance occurs or is discovered. The Authority has covenanted under the General Resolution to comply with certain applicable requirements of the Code to assure the exclusion of interest on the 2007 A Bonds from gross income under Section 103 of the Code.

Certain Collateral Federal Tax Consequences

The following is a brief discussion of certain collateral Federal income tax matters with respect to the 2007 A Bonds. It does not purport to address all aspects of Federal taxation that may be relevant to a particular owner of a 2007 A Bond. Prospective investors, particularly those who may be subject to special rules, are advised to consult their own tax advisors regarding the Federal tax consequences of owning and disposing of the 2007 A Bonds.

Prospective owners of the 2007 A Bonds should be aware that the ownership of such obligations may result in collateral Federal income tax consequences to various categories of persons, such as corporations

(including S corporations and foreign corporations), financial institutions, property and casualty and life insurance companies, individual recipients of Social Security and railroad retirement benefits, individuals otherwise eligible for the earned income tax credit, and taxpayers deemed to have incurred or continued indebtedness to purchase or carry obligations the interest on which is excluded from gross income for Federal income tax purposes. Interest on the 2007 A Bonds may be taken into account in determining the tax liability of foreign corporations subject to the branch profits tax imposed by Section 884 of the Code.

Original Issue Discount

“Original issue discount” (“OID”) is the excess of the sum of all amounts payable at the stated maturity of a 2007 A Bond (excluding certain “qualified stated interest” that is unconditionally payable at least annually at prescribed rates) over the issue price of that maturity. In general, the “issue price” of a maturity means the first price at which a substantial amount of the 2007 A Bonds of that maturity was sold (excluding sales to bond houses, brokers, or similar persons acting in the capacity as underwriters, placement agents, or wholesalers). In general, the issue price for each maturity of 2007 A Bonds is expected to be the initial public offering price set forth on the cover page of this Official Statement. Bond Counsel further is of the opinion that, for any 2007 A Bonds having OID (a “Discount Bond”), OID that has accrued and is properly allocable to the owners of the Discount Bonds under Section 1288 of the Code is excludable from gross income for Federal income tax purposes to the same extent as other interest on the 2007 A Bonds.

In general, under Section 1288 of the Code, OID on a Discount Bond accrues under a constant yield method, based on periodic compounding of interest over prescribed accrual periods using a compounding rate determined by reference to the yield on that Discount Bond. An owner’s adjusted basis in a Discount Bond is increased by accrued OID for purposes of determining gain or loss on sale, exchange, or other disposition of such Discount Bond. Accrued OID may be taken into account as an increase in the amount of tax-exempt income received or deemed to have been received for purposes of determining various other tax consequences of owning a Discount Bond even though there will not be a corresponding cash payment.

Owners of Discount Bonds should consult their own tax advisors with respect to the treatment of original issue discount for Federal income tax purposes, including various special rules relating thereto, and the state and local tax consequences of acquiring, holding, and disposing of Discount Bonds.

Bond Premium

In general, if an owner acquires a 2007 A Bond for a purchase price (excluding accrued interest) or otherwise at a tax basis that reflects a premium over the sum of all amounts payable on the Bond after the acquisition date (excluding certain “qualified stated interest” that is unconditionally payable at least annually at prescribed rates), that premium constitutes “bond premium” on that Bond (a “Premium Bond”). In general, under Section 171 of the Code, an owner of a Premium Bond must amortize the bond premium over the remaining term of the Premium Bond, based on the owner’s yield over the remaining term of the Premium Bond determined based on constant yield principles (in certain cases involving a Premium Bond callable prior to its stated maturity date, the amortization period and yield may be required to be determined on the basis of an earlier call date that results in the lowest yield on such bond). An owner of a Premium Bond must amortize the bond premium by offsetting the qualified stated interest allocable to each interest accrual period under the owner’s regular method of accounting against the bond premium allocable to that period. In the case of a tax-exempt Premium Bond, if the bond premium allocable to an accrual period exceeds the qualified stated interest allocable to that accrual period, the excess is a nondeductible loss. Under certain circumstances, the owner of a Premium Bond may realize a taxable gain upon disposition of the Premium Bond even though it is sold or redeemed for an amount less than or equal to the owner’s original acquisition cost. Owners of any Premium Bonds should consult their own tax advisors regarding the treatment of bond premium for Federal income tax purposes, including various special rules relating thereto, and state and local tax consequences, in connection with the acquisition, ownership, amortization of bond premium on, sale, exchange, or other disposition of Premium Bonds.

Information Reporting and Backup Withholding

Information reporting requirements apply to interest on tax-exempt obligations, including the 2007 A Bonds. In general, such requirements are satisfied if the interest recipient completes, and provides the payor with, a Form W-9, "Request for Taxpayer Identification Number and Certification," or unless the recipient is one of a limited class of exempt recipients, including corporations. A recipient not otherwise exempt from information reporting who fails to satisfy the information reporting requirements will be subject to "backup withholding," which means that the payor is required to deduct and withhold a tax from the interest payment, calculated in the manner set forth in the Code. For the foregoing purpose, a "payor" generally refers to the person or entity from whom a recipient receives its payments of interest or who collects such payments on behalf of the recipient.

If an owner purchasing a 2007 A Bond through a brokerage account has executed a Form W-9 in connection with the establishment of such account, as generally can be expected, no backup withholding should occur. In any event, backup withholding does not affect the excludability of the interest on the 2007 A Bonds from gross income for Federal income tax purposes. Any amounts withheld pursuant to backup withholding would be allowed as a refund or a credit against the owner's Federal income tax once the required information is furnished to the Internal Revenue Service.

Miscellaneous

Tax legislation, administrative action taken by tax authorities, and court decisions, whether at the federal or state level, may adversely affect the tax-exempt status of interest on the 2007 A Bonds under Federal or state law and could affect the market price or marketability of the 2007 A Bonds.

Prospective purchasers of the 2007 A Bonds should be aware that the United States Supreme Court has agreed to review *Davis v. Dep't. of Revenue of the Finance and Admin. Cabinet*, 197 S.W. 3d 557 (Ky. App. 2006), *cert. granted* 2007 U.S. LEXIS 5914 (May 21, 2007), a decision of a Kentucky appellate court, which held that provisions of Kentucky tax law that provided more favorable income tax treatment for holders of bonds issued by Kentucky municipal bond issuers than for holders of non-Kentucky municipal bonds violated the Commerce Clause of the United States Constitution. New York statutes provide more favorable New York income tax treatment for holders of bonds issued by New York State and its political subdivisions, including the 2007 A Bonds, than for bonds issued by other states and their political subdivisions. If the United States Supreme Court were to affirm the holding of the Kentucky appellate court, subsequent New York judicial decisions or legislation designed to ensure the constitutionality of New York tax law could, among other alternatives, adversely affect the New York State tax exemption of outstanding bonds, including the 2007 A Bonds, to the extent constitutionally permissible, or result in the exemption from personal income taxes imposed by New York State and its political subdivisions, including The City of New York, of interest on certain bonds issued by other states and their political subdivisions, either of which actions could affect the market price or marketability of the 2007 A Bonds.

Prospective purchasers of the 2007 A Bonds should consult their own tax advisors regarding the foregoing matters.

2007 B Bonds (Federally Taxable)

In the opinion of Bond Counsel to the Authority, interest on the 2007 B Bonds (the "Taxable Bonds") (i) is included in gross income for Federal income tax purposes pursuant to the Code and (ii) is exempt, under existing statutes, from personal income taxes imposed by the State of New York or any political subdivision thereof (including The City of New York).

The following discussion is a brief summary of the principal United States Federal income tax consequences of the acquisition, ownership and disposition of Taxable Bonds by original purchasers of the Taxable Bonds who are "U.S. Holders", as defined herein. This summary (i) is based on the Code, Treasury Regulations, revenue rulings and court decisions, all as currently in effect and all subject to change at any time, possibly with retroactive effect; (ii) assumes that the Taxable Bonds will be held as "capital assets"; and (iii) does not discuss all of the United States Federal income tax consequences that may be relevant to a holder in light of its particular circumstances or to holders subject to special rules,

such as insurance companies, financial institutions, tax-exempt organizations, dealers in securities or foreign currencies, persons holding the Taxable Bonds as a position in a “hedge” or “straddle”, or holders whose functional currency (as defined in Section 985 of the Code) is not the United States dollar, or holders who acquire Taxable Bonds in the secondary market.

Holders of Taxable Bonds should consult with their own tax advisors concerning the United States Federal income tax and other consequences with respect to the acquisition, ownership and disposition of the Taxable Bonds as well as any tax consequences that may arise under the laws of any state, local or foreign tax jurisdiction.

Original Issue Discount

In general, if Original Issue Discount (“OID”) is greater than a statutorily defined *de minimis* amount, a holder of a Taxable Bond having a maturity of more than one year from its date of issue must include in Federal gross income (for each day of the taxable year, or portion of the taxable year, in which such holder holds such Taxable Bond) the daily portion of OID, as it accrues (generally on a constant yield method) and regardless of the holder’s method of accounting. “OID” is the excess of (i) the “stated redemption price at maturity” over (ii) the “issue price”. For purposes of the foregoing: “issue price” means the first price at which a substantial amount of the Taxable Bond is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers).; “stated redemption price at maturity” means the sum of all payments, other than “qualified stated interest”, provided by such Taxable Bond; “qualified stated interest” is stated interest that is unconditionally payable in cash or property (other than debt instruments of the issuer) at least annually at a single fixed rate; and “*de minimis* amount” is an amount equal to 0.25 percent of the Taxable Bond’s stated redemption price at maturity multiplied by the number of complete years to its maturity. A holder may irrevocably elect to include in gross income all interest that accrues on a Taxable Bond using the constant-yield method, subject to certain modifications.

Disposition and Defeasance

Generally, upon the sale, exchange, redemption, or other disposition (which would include a legal defeasance) of a Taxable Bond, a holder generally will recognize taxable gain or loss in an amount equal to the difference between the amount realized (other than amounts attributable to accrued interest not previously includable in income) and such holder’s adjusted tax basis in the Taxable Bond.

The Authority may cause the deposit of moneys or securities in escrow in such amount and manner as to cause the Taxable Bonds to be deemed to be no longer outstanding under the resolution of the Taxable Bonds (a “defeasance”). (See Part 2—Appendix 1, “SUMMARY OF CERTAIN PROVISIONS OF THE GENERAL RESOLUTION” herein). For Federal income tax purposes, such defeasance could result in a deemed exchange under Section 1001 of the Code and a recognition by such owner of taxable income or loss, without any corresponding receipt of moneys. In addition, the character and timing of receipt of payments on the Taxable Bonds subsequent to any such defeasance could also be affected.

Backup Withholding and Information Reporting

In general, information reporting requirements will apply to non-corporate holders with respect to payments of principal, payments of interest, and the accrual of OID on a Taxable Bond and the proceeds of the sale of a Taxable Bond before maturity within the United States. Backup withholding may apply to holders of Taxable Bonds under Section 3406 of the Code. Any amounts withheld under the backup withholding rules from a payment to a beneficial owner, and which constitutes over-withholding, would be allowed as a refund or a credit against such beneficial owner’s United States Federal income tax provided the required information is furnished to the Service.

U.S. Holders

The term “U.S. Holder” means a beneficial owner of a Taxable Bond that is: (i) a citizen or resident of the United States, (ii) a corporation, partnership or other entity created or organized in or under the laws of the United States or of any political subdivision thereof, (iii) an estate the income of which is

subject to United States Federal income taxation regardless of its source or (iv) a trust whose administration is subject to the primary jurisdiction of a United States court and which has one or more United States fiduciaries who have the authority to control all substantial decisions of the trust.

IRS Circular 230 Disclosure

The advice under the caption, “Taxable Bonds”, concerning certain income tax consequences of the acquisition, ownership and disposition of the Taxable Bonds, was written to support the marketing of the Taxable Bonds. To ensure compliance with requirements imposed by the Internal Revenue Service, Bond Counsel to the Authority informs you that (i) any Federal tax advice contained in this Official Statement (including any attachments) or in writings furnished by Bond Counsel to the Authority is not intended to be used, and cannot be used by any bondholder, for the purpose of avoiding penalties that may be imposed on the bondholder under the Code, and (ii) the bondholder should seek advice based on the bondholder’s particular circumstances from an independent tax advisor.

UNDERWRITING

The Underwriters listed on the front cover page of this Official Statement, for which Citigroup Global Markets Inc. is acting as Representative, have jointly and severally agreed, subject to certain conditions, to purchase from the Authority the 2007 A Bonds described on the cover of this Official Statement at a purchase price of \$ _____, or approximately _____ % of the aggregate principal amount of the 2007 A Bonds. The purchase price is inclusive of a net original issue premium of \$ _____ and net of the underwriters discount of \$ _____. The Underwriters will be obligated to purchase all 2007 A Bonds if any are purchased.

The Underwriters listed on the front cover page of this Official Statement, for which Citigroup Global Markets Inc. is acting as Representative, have jointly and severally agreed, subject to certain conditions, to purchase from the Authority the 2007 B Bonds described on the cover of this Official Statement at a purchase price of \$ _____, or approximately _____ % of the aggregate principal amount of the 2007 B Bonds. The purchase price is inclusive of a net original issue premium of \$ _____ and net of the underwriters discount of \$ _____. The Underwriters will be obligated to purchase all 2007 B Bonds if any are purchased.

The issuance of the 2007 A Bonds by the Authority and the obligation of the Underwriters to purchase the 2007 A Bonds are not contingent upon the issuance by the Authority and purchase by the Underwriters of the 2007 B Bonds, and the issuance of the 2007 B Bonds by the Authority and the obligation of the Underwriters to purchase the 2007 B Bonds are not contingent upon the issuance by the Authority and purchase by the Underwriters of the 2007 A Bonds.

The Underwriters have advised the Authority that the 2007 Bonds being reoffered may be offered and sold to certain dealers (including dealers depositing such Bonds into investment trusts) at prices lower than such initial public offering prices. After the initial public offering, the public offering prices may be changed from time to time by the Underwriters.

CONTINUING DISCLOSURE UNDERTAKINGS FOR THE 2007 BONDS

Pursuant to a Continuing Disclosure Agreement dated as of the date of the closing of the sale of the 2007 Bonds, to be entered into by and between the Authority and the Trustee, the Authority will covenant, for the benefit of the holders of the 2007 Bonds, to provide certain financial information and operating data relating to the Authority by no later than nine months after the end of each of the Authority's fiscal years (presently, by each September 30) (the "Annual Report"), and to provide notices of the occurrence of certain enumerated events with respect to the 2007 Bonds, if material. Any filing under the Continuing Disclosure Agreement will be made solely by transmitting such filing to the Texas Municipal Advisory Council as provided at <http://www.disclosureusa.org>, in its capacity as "central post office."

In filing in 2004 the annual financial information and operating data required pursuant to Continuing Disclosure Agreements entered into in connection with other debt issuances, the Authority inadvertently did not file certain generation and power sales information. In prior years, the Authority has satisfied such obligation by filing its official statements that included such data, but the Authority did not issue an official statement in 2004. The Authority has since filed the required information, and has not had any other failures to file, in any material respect, in the previous five years.

The specific nature of the information to be contained in the Annual Report and the notices of material events is set forth in the form of the Continuing Disclosure Agreement, which is included in its entirety in Appendix C to Part 1 of this Official Statement. The Authority's agreement will be made in order to assist the Underwriters in complying with Securities and Exchange Commission Rule 15c2-12.

CREDIT RATINGS

[Insured 2007 Bonds]

The Insured Bonds are expected to be rated “ ” by Moody’s Investors Service, Inc. (“Moody’s”), “ ” by Standard & Poor’s Rating Services (“S&P”), a division of The McGraw-Hill Companies, Inc. and “ ” by Fitch Ratings (“Fitch”), on the date of issuance of the Insured Bonds. The Insured Bonds are expected to be assigned these ratings upon, and solely as a result of, the issuance of the Policy. See “PART 1—BOND INSURANCE.” Moody’s, S&P, and Fitch have also assigned underlying ratings of “ ”, “ ”, and “ ”, respectively, to the Insured Bonds.

[Non-Insured 2007 Bonds]

Ratings on the non-insured 2007 Bonds have been received from Moody’s, S&P, and Fitch. The ratings on the non-insured 2007 Bonds are as follows:

Moody’s Investors Service.....	
Standard & Poor’s Ratings Services	
Fitch Ratings.....	

General

The respective ratings by Moody’s, S&P, and Fitch of the 2007 Bonds reflect only the views of such organizations and any desired explanation of the significance of such ratings and any outlooks or other statements given by the rating agencies with respect thereto should be obtained from the rating agency furnishing the same, at the following addresses: Moody’s Investors Service, Inc., 7 World Trade Center at 250 Greenwich Street, New York, New York 10007, Standard & Poor’s Ratings Service, 55 Water Street, New York, New York 10041, and Fitch Ratings, One State Street Plaza, New York, New York 10004. Generally, a rating agency bases its ratings and outlook (if any) on the information and materials furnished to it and on investigations, studies and assumptions of its own. There is no assurance such ratings for the 2007 Bonds will continue for any given period of time or that any of such ratings will not be revised downward or withdrawn entirely by any of the rating agencies, if, in the judgment of such rating agency or agencies, circumstances so warrant. Any such downward revision or withdrawal of such ratings may have an adverse effect on the market price of the 2007 Bonds.

LITIGATION

There is no litigation pending or threatened in any court (either State or federal) to restrain or enjoin the issuance or delivery of the 2007 Bonds or questioning the creation, organization or existence of the Authority, the title to office of the Trustees or officers of the Authority, the validity of the General Resolution, the pledge of the Trust Estate, the proceedings for the authorization, execution, authentication and delivery of the 2007 Bonds or the validity of the 2007 Bonds.

Litigation pending against the Authority (under the jurisdiction of either State or federal courts or agencies) or threatened against the Authority, or involving or adversely affecting any of the property or assets of or under the control of the Authority, includes, among other matters, the matters described in Appendix D to Part 1 of this Official Statement.

The Authority is unable to predict the outcome of matters described in Appendix D, as well as the other actions or proceedings referred to in this Official Statement, but believes that the Authority has meritorious defenses or positions with respect thereto. Adverse decisions or determinations of certain types could, however, delay or impede the Authority's construction and operation of its existing or planned projects and could require the Authority to incur substantial additional costs, and such decisions or determinations could also adversely affect the Authority's revenues. See "PART 2—CERTAIN FACTORS AFFECTING THE ELECTRIC UTILITY INDUSTRY" for information with respect to certain other regulatory and administrative matters.

LEGALITY FOR INVESTMENT

The Act provides that the 2007 Bonds will be legal investments under present provisions of New York law for public officers and bodies of the State of New York and municipalities and municipal subdivisions, insurance companies and associations and other persons carrying on an insurance business, banks, bankers and trust companies, savings banks and savings associations, including savings and loan associations, building and loan associations, investment companies, and other persons carrying on a banking business, and all other persons whatsoever who are now or may hereafter be authorized to invest in bonds of the State of New York; but the 2007 Bonds will not be eligible for the investment of funds, including capital, of trusts, estates or guardianships under the control of individual administrators, guardians, executors, trustees and other individual fiduciaries, except when such individual fiduciary is acting with a corporate co-fiduciary. Under the Act, the 2007 Bonds will be eligible for deposit with all public officers and bodies of the State of New York for any purpose for which the deposit of the State's obligations is or may be authorized.

APPROVAL OF LEGAL PROCEEDINGS

All legal matters incident to the authorization and issuance of the 2007 Bonds are subject to the approval of Hawkins Delafield & Wood LLP, Bond Counsel to the Authority. The approving opinion of Bond Counsel to be delivered with such Bonds will be in substantially the form attached to Part 1 of this Official Statement as Appendix A. Certain legal matters will be passed upon for the Underwriters by their counsel, Winston & Strawn LLP. Certain legal matters are subject to the approval of Nixon Peabody LLP, Special Counsel to the Authority.

MISCELLANEOUS

The references in this Official Statement (which consists of Part 1 and Part 2) to the General Resolution, the Act, the New York Public Service Law, the Niagara Redevelopment Act, the Federal Power Act, the Internal Revenue Code of 1986, as amended, certain legislation and court and Federal Energy Regulatory Commission decisions, orders and other actions, set forth in “PART 1—APPENDIX D—LITIGATION,” “PART 2—POWER SALES,” “PART 2—ENERGY SERVICES,” “PART 2—NEW YORK INDEPENDENT SYSTEM OPERATOR,” “PART 2—LEGISLATION AFFECTING THE AUTHORITY,” “PART 2—REGULATION,” and “PART 2—CERTAIN FACTORS AFFECTING THE ELECTRIC UTILITY INDUSTRY,” the licenses, certifications and permits and certain contracts and leases are brief summaries and outlines of certain portions or provisions thereof. Such summaries and outlines do not purport to be complete, and reference is made to such documents, legislation, decisions, laws, licenses and contracts for full and complete statements of such portions or provisions. Copies of such documents are on file at the offices of the Authority. All estimates and opinions presented herein are intended only as such and not as representations of fact.

The agreements with the Owners of the 2007 Bonds are fully set forth in the General Resolution. This Official Statement does not constitute and is not intended to constitute a contract between the Authority and any Owner of any 2007 Bond.

All inquiries to the Authority relating to this Official Statement should be addressed to Brian McElroy, Treasurer, Power Authority of the State of New York, 123 Main Street, White Plains, New York 10601 (telephone number 914-287-3956).

The delivery of this Official Statement has been duly authorized by the Authority.

POWER AUTHORITY OF THE STATE OF NEW YORK

By: _____
President and Chief Executive Officer

October , 2007

**FORM OF APPROVING OPINION OF HAWKINS DELAFIELD & WOOD LLP
WITH RESPECT TO THE 2007 BONDS**

October __, 2007

Power Authority of the State of New York
123 Main Street
White Plains, New York 10601

Ladies and Gentlemen:

We have examined a certified copy of a record of proceedings relating to the issuance of Series 2007 A Bonds (“2007 A Bonds”) and Series 2007 B Bonds (“2007 B Bonds”) in the principal amount of \$ _____ (such Revenue Bonds being hereinafter collectively referred to as the “2007 Bonds”) of Power Authority of the State of New York (the “Authority”), a body corporate and politic constituting a corporate municipal instrumentality and political subdivision of the State of New York (the “State”).

The 2007 Bonds are issued under and pursuant to the Constitution and statutes of the State, including the Power Authority Act, being Title 1 of Article 5 of the Public Authorities Law, Chapter 43-A of the Consolidated Laws of the State of New York, as amended (herein called the “Act”), and under and pursuant to proceedings of the Authority duly taken, including a resolution of the Authority adopted on February 24, 1998, entitled “General Resolution Authorizing Revenue Obligations” (the “General Resolution”), as supplemented by an Eighth Supplemental Resolution adopted on September 25, 2007 (the “Supplemental Resolution”, and together with the General Resolution, the “Resolution”).

The 2007 Bonds are dated, mature, are payable, bear interest and are subject to redemption, all as provided in the Resolution.

The Authority reserves the right to issue additional bonds, notes and other obligations as parity obligations under the Resolution (collectively with the 2007 Bonds and all other outstanding parity obligations under the Resolution, the “Revenue Bonds”) on the terms and conditions, and for the purposes, stated in the Resolution. Under the provisions of the Resolution, all such Revenue Bonds will rank equally as to security and payment with the 2007 Bonds.

We are of the opinion that:

1. The Authority is duly created and validly existing under the provisions of the Act.
2. The Authority has the right and power under the Act to adopt the Resolution, and the Resolution has been duly and lawfully adopted by the Authority, is in full force and effect and is valid and binding upon the Authority and enforceable in accordance with its terms, and no other authorization for the Resolution is required. The Supplemental Resolution has been duly and lawfully adopted in accordance with the provisions of the General Resolution, is authorized or permitted by the General Resolution, and is valid and binding upon the Authority and enforceable in accordance with its terms. The Resolution creates the valid pledge which it purports to create of the Trust Estate (as defined and to the extent provided in the Resolution), subject only to the provisions of the Resolution permitting the application thereof for the purposes and on the terms and conditions set forth in the Resolution.
3. The 2007 Bonds have been duly and validly authorized and issued in accordance with law and in accordance with the Resolution, and are valid, binding, direct and general obligations of the Authority, enforceable in accordance with their terms and the terms of the Resolution and entitled to the benefits of the Act, payable solely from the Trust Estate as and to the extent provided in the Resolution. The Authority has good right and lawful authority under the Act to effectuate the purposes for which the proceeds of such 2007 Bonds will be utilized, subject to obtaining such licenses, orders or other authorizations, if any, as, at the date hereof, may be required to be obtained from any agency or regulatory body having lawful jurisdiction in order to effectuate such purposes. The Authority has no taxing power, the 2007 Bonds are not debts of the State or of any political subdivision of the State, other than the Authority, and the 2007 Bonds will not constitute a pledge of the faith and credit of the State or of any political subdivision thereof, other than the Authority.

4. Under existing statutes, interest on the 2007 Bonds is exempt from personal income taxes imposed by the State or any political subdivision thereof (including The City of New York) and the 2007 Bonds are exempt from all taxation directly imposed thereon by or under the authority of the State, except estate or gift taxes and taxes on transfers.

5. Under existing statutes and court decisions and assuming continuing compliance with certain tax covenants described herein, (i) interest on the 2007 A Bonds is excluded from gross income for Federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), and (ii) interest on the 2007 A Bonds is not treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code; such interest, however, is included in the adjusted current earnings of certain corporations for purposes of calculating the alternative minimum tax imposed on such corporations. In rendering the opinions in this paragraph 5, we have relied on certain representations, certifications of fact, and statements of reasonable expectations made by the Authority in connection with the Bonds, and we have assumed compliance by the Authority with certain ongoing covenants to comply with applicable requirements of the Code to assure the exclusion of interest on the Bonds from gross income under Section 103 of the Code.

6. The original issue discount on the 2007 A Bonds, if any, that has accrued and is properly allocable to the owners thereof under Section 1288 of the Code is excludable from gross income for Federal income tax purposes to the same extent as other interest on the 2007 A Bonds.

7. Interest on the 2007 B Bonds is wholly includable in the gross income of the owners thereof for Federal income tax purposes.

The opinions expressed in paragraphs 1, 2 and 3 above are subject to applicable bankruptcy, insolvency, reorganization, moratorium and other laws heretofore or hereafter enacted affecting creditors' rights, and are subject to the application of principles of equity relating to or affecting the enforcement of contractual obligations, whether such enforcement is considered in a proceeding in equity or at law.

Except as expressly stated herein, we express no opinion regarding any other Federal or state tax consequences with respect to the 2007 Bonds. We express no opinion on the effect of any action hereafter taken or not taken in reliance upon an opinion of other counsel on the exclusion from gross income for Federal income tax purposes of interest on the 2007 Bonds, or under state and local tax law.

In rendering the foregoing opinions we have made a review of such legal proceedings as we have deemed necessary to approve the legality and validity of the 2007 Bonds. In rendering the foregoing opinions we have not been requested to examine any document or financial or other information concerning the Authority, other than the record of proceedings referred to above, and we express no opinion as to the accuracy, adequacy or sufficiency of any financial or other information which has been or will be supplied to purchasers of the 2007 Bonds.

We render this opinion under existing statutes and court decisions as of the issue date, and we assume no obligation to update, revise, or supplement this opinion after the issue date to reflect any future action, fact or circumstance, or change in law or interpretation, or otherwise that may hereafter occur, or for any other reason whatsoever.

Very truly yours,

BOOK-ENTRY-ONLY SYSTEM PROCEDURES

The information contained in the following paragraphs (1)-(11) of this Appendix has been extracted from a schedule prepared by the Depository Trust Company (“DTC”), entitled “SAMPLE OFFERING DOCUMENT LANGUAGE DESCRIBING BOOK-ENTRY-ONLY ISSUANCE.” The Authority makes no representation as to the completeness or the accuracy of such information or as to the absence of material adverse changes in such information subsequent to the date hereof.

1. The Depository Trust Company (“DTC”), New York, NY, will act as securities depository for the 2007 Bonds. The 2007 Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond will be issued for each maturity of the 2007 Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC. If, however, the aggregate principal amount of any maturity of the 2007 Bonds exceeds \$500 million, one Bond of such maturity will be issued with respect to each \$500 million of principal amount, and an additional Bond will be issued with respect to any remaining principal amount of such maturity.

2. DTC, the world’s largest depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2.2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of the Depository Trust & Clearing Corporation (“DTCC”). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Fixed Income Clearing Corporation, and Emerging Markets Clearing Corporation, (NSCC, GSCC, MBSCC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has Standard & Poor’s highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

3. Purchases of 2007 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the 2007 Bonds on DTC’s records. The ownership interest of each actual purchaser of each 2007 Bond (“Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the 2007 Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in 2007 Bonds, except in the event that use of the book-entry system for the 2007 Bonds is discontinued.

4. To facilitate subsequent transfers, all 2007 Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of 2007 Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the 2007 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such 2007 Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

5. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of 2007 Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the 2007 Bonds, such as redemptions, tenders, defaults, and proposed amendments to the 2007 Bond documents. For example, Beneficial Owners of 2007 Bonds may wish to ascertain that the nominee holding the 2007 Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

6. Redemption notices shall be sent to DTC. If less than all of the 2007 Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

7. Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to 2007 Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Authority as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts 2007 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

8. Redemption proceeds, distributions, and interest payments on the 2007 Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and correspondingly detail information from the Authority or the Trustee, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC nor its nominee or the Authority, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and interest payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Authority or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

9. DTC may discontinue providing its services as depository with respect to the 2007 Bonds at any time by giving reasonable notice to the Authority. Under such circumstances, in the event that a successor depository is not obtained, 2007 Bond certificates are required to be printed and delivered.

10. The Authority may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, 2007 Bond certificates will be printed and delivered.

11. The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the Authority believes to be reliable, but the Authority takes no responsibility for the accuracy thereof.

NEITHER THE AUTHORITY, THE TRUSTEE UNDER THE GENERAL RESOLUTION NOR THE UNDERWRITERS WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO PARTICIPANTS, TO INDIRECT PARTICIPANTS OR TO ANY BENEFICIAL OWNER WITH RESPECT TO (I) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC, ANY PARTICIPANT, OR ANY INDIRECT PARTICIPANT; (II) THE PAYMENT OR TIMELINESS OF PAYMENT BY DTC OR ANY PARTICIPANT OR INDIRECT PARTICIPANT OF ANY AMOUNT WITH RESPECT TO THE PRINCIPAL OF, OR PREMIUM, IF ANY, OR INTEREST ON, THE 2006 A BONDS; (III) ANY NOTICE WHICH IS PERMITTED OR REQUIRED TO BE GIVEN TO BONDHOLDERS; (IV) ANY CONSENT GIVEN BY DTC OR OTHER ACTION TAKEN BY DTC AS BONDHOLDER; OR (V) THE SELECTION BY DTC OR ANY PARTICIPANT OR INDIRECT PARTICIPANT OF ANY BENEFICIAL OWNERS TO RECEIVE PAYMENT IN THE EVENT OF A PARTIAL REDEMPTION OF THE 2007 BONDS.

FORM OF CONTINUING DISCLOSURE AGREEMENT

This Continuing Disclosure Agreement (the “Agreement”) dated October __, 2007 by and between the Power Authority of the State of New York (the “Issuer”) and The Bank of New York, as trustee (the “Trustee”) under a resolution adopted by the Issuer on February 24, 1998, as supplemented (the “Resolution”), is executed and delivered in connection with the issuance of the Issuer’s \$ _____ principal amount of Series 2007 A Bonds and Series 2007 B Bonds (collectively, the “Bonds”). Capitalized terms used in this Agreement which are not otherwise defined in the Resolution shall have the respective meanings specified above or in Article IV hereof. The parties agree as follows:

ARTICLE I
The Undertaking

Section 1.1. *Purpose.* This Agreement is being executed and delivered solely to assist the Underwriters in complying with subsection (b)(5) of the Rule.

Section 1.2. *Annual Financial Information.* (a) The Issuer shall provide Annual Financial Information with respect to each fiscal year of the Issuer, commencing with the fiscal year ending December 31, 2007, by no later than nine months after the end of the respective fiscal year, to each NRMSIR and the SID.

(b) The Issuer shall provide, in a timely manner, notice of any failure of the Issuer to provide the Annual Financial Information by the date specified in subsection (a) above to (i) either the MSRB or each NRMSIR, and (ii) the SID.

Section 1.3. *Audited Financial Statements.* If not provided as part of Annual Financial Information by the date required by Section 1.2(a) hereof, the Issuer shall provide Audited Financial Statements, when and if available, to each NRMSIR and the SID.

Section 1.4. *Material Event Notices.* (a) If a Material Event occurs, the Issuer shall provide, in a timely manner, notice of such Material Event to (i) either the MSRB or each NRMSIR, (ii) the SID, and (iii) the Trustee.

(b) Any such notice of a defeasance of Bonds shall state whether the Bonds have been escrowed to maturity or to an earlier redemption date and the timing of such maturity or redemption.

(c) The Trustee shall promptly advise the Issuer whenever, in the course of performing its duties as Trustee under the Resolution, the Trustee has actual notice of an occurrence which, if material, would require the Issuer to provide notice of a Material Event hereunder; provided, however, that the failure of the Trustee so to advise the Issuer shall not constitute a breach by the Trustee of any of its duties and responsibilities under this Agreement or the Resolution.

(d) Each Material Event Notice relating to the Bonds shall include the CUSIP numbers of the Bonds to which such Material Event Notice relates or, if the Material Event Notice relates to all bond issues of the Issuer including the Bonds, such Material Event Notice need only include the CUSIP number of the Issuer.

Section 1.5. *Additional Disclosure Obligations.* The Issuer acknowledges and understands that other state and federal laws, including but not limited to the Securities Act of 1933 and Rule 10b-5 promulgated under the Securities Exchange Act of 1934, may apply to the Issuer and that, under some circumstances, compliance with this Agreement without additional disclosures or other action may not fully discharge all duties and obligations of the Issuer under such laws.

Section 1.6. *Additional Information.* Nothing in this Agreement shall be deemed to prevent the Issuer from disseminating any other information, using the means of dissemination set forth in this Agreement or any other means of communication, or including any other information in any Annual Financial Information or notice of Material Event hereunder, in addition to that which is required by this Agreement. If the Issuer chooses to do so, the Issuer shall have no obligation under this Agreement to update such additional information or include it in any future Annual Financial Information or notice of a Material Event hereunder.

Section 1.7. *No Previous Non-Compliance.* The Issuer represents that it has previously entered into written contracts or agreements of the type referenced in paragraph (b)(5)(i) of the Rule and is in compliance with such agreements.

ARTICLE II Operating Rules

Section 2.1. *Reference to Other Filed Documents.* It shall be sufficient for purposes of Section 1.2 hereof if the Issuer provides Annual Financial Information (but not Material Event Notices) by specific reference to documents (i) either (1) provided to each NRMSIR existing at the time of such reference and the SID or (2) filed with the SEC, or (ii) if such document is a “final official statement” as defined in paragraph (f)(3) of the Rule, available from the MSRB.

Section 2.2. *Submission of Information.* Annual Financial Information may be provided in one document or multiple documents, and at one time or in part from time to time.

Section 2.3. *Filing with Certain Dissemination Agents or Conduits.* The Issuer may satisfy its obligations hereunder to file any notice, document or information with a NRMSIR or SID (i) solely by transmitting such filing to the Texas Municipal Advisory Council (the “MAC”) as provided at <http://www.disclosureusa.org> unless the SEC has withdrawn the interpretive advice in its letter to the MAC dated September 7, 2004, or (ii) by filing the same with any dissemination agent or conduit, including any “central post office” or similar entity, assuming or charged with responsibility for accepting notices, documents or information for transmission to such NRMSIR or SID, to the extent permitted by the SEC or SEC staff or required by the SEC. For this purpose, permission shall be deemed to have been granted by the SEC staff if and to the extent the agent or conduit has received an interpretive letter, which has not been withdrawn, from the SEC staff to the effect that using the agent or conduit to transmit information to the NRMSIRs and the SID will be treated for purposes of the Rule as if such information were transmitted directly to the NRMSIRs and the SID.

Section 2.4. *Transmission of Information and Notices.* Unless otherwise required by law and, in the Issuer’s sole determination, subject to technical and economic feasibility, the Issuer shall employ such methods of information and notice transmission as shall be requested or recommended by the recipients of the Issuer’s information and notices.

Section 2.5. *Fiscal Year.* (a) The Issuer’s current fiscal year is January 1-December 31, and the Issuer shall promptly notify (i) each NRMSIR, (ii) the SID and (iii) the Trustee of each change in its fiscal year.

(b) Annual Financial Information shall be provided at least annually notwithstanding any fiscal year longer than 12 calendar months.

ARTICLE III Effective Date, Termination, Amendment and Enforcement

Section 3.1. *Effective Date; Termination.* (a) This Agreement shall be effective upon the issuance of the Bonds.

(b) The Issuer’s and the Trustee’s obligations under this Agreement shall terminate upon a legal defeasance of all of the Bonds, prior redemption or payment in full of all of the Bonds.

(c) This Agreement, or any provision hereof, shall be null and void in the event that the Issuer (1) delivers to the Trustee an opinion of Counsel, addressed to the Issuer and the Trustee, to the effect that those portions of the Rule which require this Agreement, or such provision, as the case may be, do not or no longer apply to the Bonds, whether because such portions of the Rule are invalid, have been repealed, or otherwise, as shall be specified in such opinion, and (2) delivers copies of such opinion to each NRMSIR and the SID.

Section 3.2. *Amendment.* (a) This Agreement may be amended, by written agreement of the parties, without the consent of the holders of the Bonds (except to the extent required under clause (4)(ii) below), if all of the following conditions are satisfied: (1) such amendment is made in connection

with a change in circumstances that arises from a change in legal (including regulatory) requirements, a change in law (including rules or regulations) or in interpretations thereof, (2) this Agreement as so amended would have complied with the requirements of the Rule as of the date of this Agreement, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances, (3) the Issuer shall have delivered to the Trustee an opinion of Counsel, addressed to the Issuer and the Trustee, to the same effect as set forth in clause (2) above, (4) either (i) the Issuer shall have delivered to the Trustee an opinion of Counsel or a determination by a person, in each case unaffiliated with the Issuer (such as bond counsel or the Trustee) and acceptable to the Issuer, addressed to the Issuer and the Trustee, to the effect that the amendment does not materially impair the interests of the holders of the Bonds or (ii) the holders of the Bonds consent to the amendment to this Agreement pursuant to the same procedures as are required for amendments to the Resolution with consent of holders of Bonds pursuant to the Resolution as in effect at the time of the amendment, and (5) the Issuer shall have delivered copies of such opinion(s) and amendment to each NRMSIR and the SID.

(b) This Agreement may be amended, by written agreement of the parties, without the consent of the holders of the Bonds, if all of the following conditions are satisfied: (1) an amendment to the Rule is adopted, or a new or modified official interpretation of the Rule is issued, after the effective date of this Agreement which is applicable to this Agreement, (2) the Issuer shall have delivered to the Trustee an opinion of Counsel, addressed to the Issuer and Trustee, to the effect that performance by the Issuer and the Trustee under this Agreement as so amended will not result in a violation of the Rule and (3) the Issuer shall have delivered copies of such opinion and amendment to each NRMSIR and the SID.

(c) To the extent any amendment to this Agreement results in a change in the type of financial information or operating data provided pursuant to this Agreement, the first Annual Financial Information provided thereafter shall include a narrative explanation of the reasons for the amendment and the impact of the change in the type of operating data or financial information being provided.

(d) If an amendment is made pursuant to Section 3.2(a) hereof to the accounting principles to be followed by the Issuer in preparing its financial statements, the Annual Financial Information for the fiscal year in which the change is made shall present a comparison between the financial statements or information prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles. Such comparison shall include a qualitative and, to the extent reasonably feasible, quantitative discussion of the differences in the accounting principles and the impact of the change in the accounting principles on the presentation of the financial information.

Section 3.3. *Benefit; Third-Party Beneficiaries; Enforcement.* (a) The provisions of this Agreement shall constitute a contract with and inure solely to the benefit of the holders from time to time of the Bonds, except that beneficial owners of Bonds shall be third-party beneficiaries of this Agreement. The provisions of this Agreement shall create no rights in any person or entity except as provided in this subsection (a) and in subsection (b) of this Section.

(b) The obligations of the Issuer to comply with the provisions of this Agreement shall be enforceable (i) in the case of enforcement of obligations to provide financial statements, financial information, operating data and notices, by any holder of Outstanding Bonds, or by the Trustee on behalf of the holders of Outstanding Bonds, or (ii) in the case of challenges to the adequacy of the financial statements, financial information and operating data so provided, by the Trustee on behalf of the holders of Outstanding Bonds; provided, however, that the Trustee shall not be required to take any enforcement action except at the direction of the holders of not less than a majority in aggregate principal amount of the Bonds at the time Outstanding who shall have provided the Trustee with adequate security and indemnity. The holders' and the Trustee's rights to enforce the provisions of this Agreement shall be limited solely to a right, by action in mandamus or for specific performance, to compel performance of the Issuer's obligations under this Agreement. In consideration of the third-party beneficiary status of beneficial owners of Bonds pursuant to subsection (a) of this Section, beneficial owners shall be deemed to be holders of Bonds for purposes of this subsection (b).

(c) Any failure by the Issuer or the Trustee to perform in accordance with this Agreement shall not constitute a default or an Event of Default under the Resolution, and the rights and remedies provided by the Resolution upon the occurrence of a default or an Event of Default shall not apply to any such failure.

(d) This Agreement shall be construed and interpreted in accordance with the laws of the State, and any suits and actions arising out of this Agreement shall be instituted in a court of competent jurisdiction in the State; provided, however, that to the extent this Agreement addresses matters of federal securities laws, including the Rule, this Agreement shall be construed in accordance with such federal securities laws and official interpretations thereof.

ARTICLE IV Definitions

Section 4.1. *Definitions.* The following terms used in this Agreement shall have the following respective meanings:

(1) “Annual Financial Information” means, collectively, (I)(a) the following financial information and operating data contained in the Official Statement for each fiscal year of the Issuer, as follows: (i) net revenue and expense data of the type set forth in Part 2 of the Official Statement under the heading “CERTAIN FINANCIAL AND OPERATING MATTERS—Historical Net Revenues”, specifically under the table “Summary Statement of Net Revenues”, and (ii) outstanding indebtedness of the Issuer set forth in Part 2 of the Official Statement under the heading “CERTAIN FINANCIAL AND OPERATING MATTERS—Outstanding Indebtedness”; (b) generation, energy purchases, and power and energy sales of the Authority set forth in Part 2 of the Official Statement under the heading “POWER SALES”, specifically under the table “Generation, Energy Purchases, and Power and Energy Sales 2006”; and (c) capacity factors or availability factors information by unit; and (II) the information regarding amendments to this Agreement required pursuant to Sections 3.2(c) and (d) of this Agreement. Annual Financial Information shall include Audited Financial Statements, if available, or Unaudited Financial Statements.

The descriptions contained in Section 4.1(1) financial information and operating data constituting Annual Financial Information are of general categories of financial information and operating data. When such descriptions include information that no longer can be generated because the operations to which it related have been materially changed or discontinued, a statement to that effect shall be provided in lieu of such information. Any Annual Financial Information containing modified financial information or operating data shall explain, in narrative form, the reasons for the modification and the impact of the modification on the type of financial information or operating data being provided.

(2) “Audited Financial Statements” means the annual financial statements, if any, of the Issuer, audited by such auditor as shall then be required or permitted by State law or the Resolution. Audited Financial Statements shall be prepared in accordance with GAAP; provided, however, that pursuant to Section 3.2(a) hereof, the Issuer may, if permitted by GAAP, modify the accounting principles to be followed in preparing its financial statements. The notice of any such modification required by Section 3.2(a) hereof shall include a reference to the specific provision describing such accounting principles, or other description thereof.

(3) “Counsel” means Hawkins Delafield & Wood LLP or other nationally recognized bond counsel or counsel expert in federal securities laws.

(4) “GAAP” means generally accepted accounting principles as prescribed from time to time for governmental units by the Governmental Accounting Standards Board, the Financial Accounting Standards Board, or any successor to the duties and responsibilities of either of them.

(5) “Material Event” means any of the following events with respect to the Bonds, whether relating to the Issuer or otherwise, if material:

- (i) principal and interest payment delinquencies;
- (ii) non-payment related defaults;

- (iii) unscheduled draws on debt service reserves reflecting financial difficulties;
- (iv) unscheduled draws on credit enhancements reflecting financial difficulties;
- (v) substitution of credit or liquidity providers, or their failure to perform;
- (vi) adverse tax opinions or events affecting the tax-exempt status of the Bonds;
- (vii) modifications to rights of Bondholders;
- (viii) Bond calls;
- (ix) defeasances;
- (x) release, substitution, or sale of property securing repayment of the Bonds; and
- (xi) rating changes.

(6) “MSRB” means the Municipal Securities Rulemaking Board established pursuant to Section 15B(b)(1) of the Securities Exchange Act of 1934.

(7) “NRMSIR” means, at any time, a then-existing nationally recognized municipal securities information repository, as recognized from time to time by the SEC for the purposes referred to in the Rule. NRMSIRs currently are identified on the SEC website at “<http://www.sec.gov/info/municipal/nrmsir.htm>.”

(8) “Official Statement” means the Official Statement dated October __, 2007, of the Issuer relating to the Bonds.

(9) “Rule” means Rule 15c2-12 promulgated by the SEC under the Securities Exchange Act of 1934 (17 CFR Part 240, ss.240.15c2-12), as in effect on the date of this Agreement, including any official interpretations thereof issued either before or after the effective date of this Agreement which are applicable to this Agreement.

(10) “SEC” means the United States Securities and Exchange Commission.

(11) “SID” means, at any time, a then-existing state information depository, if any, as operated or designated as such by or on behalf of the State for the purposes referred to in the Rule. As of the date of this Agreement, there is no SID.

(12) “State” means the State of New York.

(13) “Unaudited Financial Statements” means the same as Audited Financial Statements, except that they shall not have been audited.

(14) “Underwriters” means, collectively, Citigroup Global Markets Inc., J.P. Morgan Securities Inc., Goldman, Sachs & Co., and Merrill Lynch, Pierce, Fenner & Smith Incorporated.

ARTICLE V

Miscellaneous

Section 5.1. *Duties, Immunities and Liabilities of Trustee.* Article VII of the Resolution is hereby made applicable to this Agreement as if this Agreement were, solely for this purpose, contained in the Resolution.

Section 5.2. *Counterparts.* This Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

IN WITNESS WHEREOF, the parties have each caused this Agreement to be executed by their duly authorized representatives all as of the date first above written.

POWER AUTHORITY OF THE STATE
OF NEW YORK

By: _____
An Authorized Representative

THE BANK OF NEW YORK, as Trustee

By: _____

LITIGATION

Land Claims

(a) *Canadian St. Regis Band of Mohawk Indians (the “Band”), et al., and the St. Regis American Mohawk Tribe (the “Tribe”), et al. v. State of New York, et al.*, U.S. District Court, Northern District, New York.

In 1982 and again in 1989, several groups of Mohawk Indians, including a Canadian Mohawk tribe, filed lawsuits against the State, the Governor of the State, St. Lawrence and Franklin counties, the St. Lawrence Seaway Development Corporation, the Authority and others, claiming ownership to certain lands in St. Lawrence and Franklin counties and to Barnhart, Long Sault and Croil Islands (“St. Regis litigation”). These islands are within the boundary of the Authority’s St. Lawrence-FDR Project and Barnhart Island is the location of significant Project facilities. Settlement discussions were held periodically between 1992 and 1998. In 1998, the Federal government intervened on behalf of all Mohawk plaintiffs.

On May 30, 2001, the United States District Court (the “Court”) denied, with one minor exception, the defendants’ motion to dismiss the land claims. However, the Court barred the Federal government and one of the tribal plaintiffs, the American Tribe of Mohawk Indians, from relitigating a claim to 144 acres on the mainland which had been lost in the 1930s by the Federal government. The Court rejected the State’s broader defenses, allowing all plaintiffs to assert challenges to the islands and other mainland conveyances in the 1800s, which involve thousands of acres.

On August 3, 2001, the Federal government sought to amend its complaint in the consolidated cases to name only the State and the Authority as defendants. The State and the Authority advised the Court that they would not oppose the motion but reserved their right to challenge, at a future date, various forms of relief requested by the Federal government.

The Court granted the Federal government’s motion to file an amended complaint. The tribal plaintiffs still retain their request to evict all defendants, including the private landowners. Both the State and the Authority have answered the amended complaint. In April 2002, the tribal plaintiffs moved to strike certain affirmative defenses and, joined by the Federal government, moved to dismiss certain defense counterclaims. The defendants filed their opposition papers in September 2002. In an opinion, dated July 28, 2003, the Court left intact most of the Authority’s defenses and all of its counterclaims.

Thereafter, settlement discussions produced a land claim settlement, which if implemented would include, among other things, the payment by the Authority of \$2 million per year for 35 years to the tribal plaintiffs, the provision of up to 9 MW of low cost Authority power for use on the reservation, the transfer of two Authority-owned islands, Long Sault and Croil, and a 215-acre parcel on Massena Point to the tribal plaintiffs, and the tribal plaintiffs withdrawing any judicial challenges to the Authority’s new license, as well as any claims to annual fees from the St. Lawrence-FDR Project. Members of all three tribal entities voted to approve the settlement, which was executed by them, the Governor and the Authority on February 1, 2005. The settlement also required, among other things, Federal and State legislation to become effective. Litigation in the case had been stayed to permit time for passage of such legislation and thereafter to await decisions of appeals in two relevant New York land claims litigations (“Cayuga” and “Oneida”) to which the Authority is not a party.

The legislation was never enacted and once the Oneida and Cayuga appellate decisions were issued in 2005 and 2006, respectively, efforts to obtain legislative approval for the settlement ceased. Because the recently issued appellate decisions dismissed land claims by the Cayugas and Oneidas based on the lengthy delay in asserting such claims (i.e., the defense of laches), on November 26, 2006, the defense in the instant St. Regis litigation moved to dismiss the three Mohawk complaints as well as the United States’ complaint on similar delay grounds. The Mohawks and the Federal government filed papers opposing those motions in July 2007. The defendants will file reply papers when the Magistrate sets a schedule for further proceedings in the case.

Project Operations, Power Sales and Related Matters

(b) Gas Marketing Contract Matters

In 1990, the Authority entered into a long-term gas purchase contract (“Enron Contract”) with Enron Gas Marketing, Inc., which was succeeded in interest by Enron North America Corp. (“Enron NAC”).

On November 30, 2001, pursuant to the terms of the Enron Contract, the Authority issued its notice of termination of the Enron Contract, with an effective termination date of December 14, 2001. On December 2, 2001, Enron Corp. and certain of its subsidiaries, including Enron NAC, filed for Chapter 11 bankruptcy protection. It appears from bankruptcy court filings that Enron NAC has listed the Enron Contract as one of its executory contracts.

By letter to the Authority dated February 12, 2003, counsel to Enron NAC asserted that the Authority’s attempted termination of the Enron Contract was invalid and that the Authority owes Enron NAC a termination payment. In the letter, it was asserted that the termination was invalid because of the intervening bankruptcy filing between the date that notice of termination was given by the Authority and the termination date. The letter also asserted that, even if the Enron Contract had terminated, Enron NAC should be entitled to a termination payment, notwithstanding the fact that the Enron Contract had no provision which would have allowed Enron NAC such a termination payment. The letter stated that “NYPA’s failure to comply with its contractual provisions will force Enron to pursue its rights under the contract and the Bankruptcy Code.”

By letter dated February 28, 2003, the Authority responded to Enron NAC’s assertions by restating its view that the termination of the Enron NAC Contract was valid and by asserting that no termination payment was owed because the Enron Contract did not provide for such termination payment. In a subsequent letter to the Authority dated March 21, 2003, counsel for Enron NAC proposed a reduction in Enron NAC’s termination payment claim to settle the dispute. The Authority determined that it would not respond to this proposal.

On July 15, 2004, the Enron Contract was not included as an assumed executory contract in the reorganization plan for Enron Corp. and its subsidiaries confirmed by the bankruptcy court. By the terms of the reorganization plan, all contracts not assumed are deemed rejected. It should be noted that the disclosure statement filed in connection with the reorganization plan listed the Authority as a party against whom Enron NAC held a potential collection action for accounts receivable.

On December 8, 2006, counsel for Enron sent a letter to counsel for the Authority and presented a previously unasserted theory to the effect that the Authority’s November 30, 2001 notice establishing a termination date for the Enron Contract constituted a violation of the automatic stay that was effective as of the filing of Enron’s bankruptcy petition on December 2, 2001, Enron’s counsel claimed the Authority’s notice, which was dispatched on November 30, 2001, did not arrive at Enron’s offices in Houston until after the filing of the bankruptcy petition. Enron’s counsel also demanded that the Authority provide access to the Authority’s historical gas purchase records in order for an amount of damages to be ascertained. Based on various sources including contemporaneous documentation, the Authority refuted Enron’s factual assertions and rejected the request for access to business records. Enron’s counsel has not replied to the Authority’s response.

No formal action on this matter was commenced in the bankruptcy proceeding, and no litigation on this matter has yet commenced. The Authority is not involved in any transaction with Enron Corp. or any of its subsidiaries, except for the terminated gas contract and a small claim by the Authority against an Enron Corp. subsidiary for certain New York Independent System Operator-related services provided by the Authority.

(c) St. Lawrence-FDR Project Relicensing Proceeding before FERC and Related Litigation

In an order issued October 23, 2003, the Federal Energy Regulatory Commission (“FERC”) granted the Authority a new 50-year license (the “New License”) for the St. Lawrence-FDR Project. For a discussion of the New License, see “PART 2—THE AUTHORITY’S FACILITIES—Generation—St. Lawrence-FDR Relicensing.”

Following FERC's issuance of orders on rehearing, the three entities representing the St. Regis Mohawks filed a petition for review of those same orders in the Court of Appeals for the Second Circuit in August 2004. On April 24, 2007, the Court granted a motion by these entities to dismiss their appeal of FERC's orders, thereby concluding all litigation involving FERC's issuance of the new license.

(d) Niagara Project Relicensing Matters before FERC

In August 2005, the Authority submitted its application for a new 50-year license for its Niagara Project; the original license for the Project expired on August 31, 2007. By order issued March 15, 2007, FERC issued the Authority a new 50-year license for the Niagara Project effective September 1, 2007. In mid-April 2007, two petitions for rehearing were filed by certain entities with FERC regarding its March 15, 2007 order, which petitions have not yet been acted upon. See "PART 2—THE AUTHORITY'S FACILITIES—Generation—*Niagara Relicensing*."

(e) Matter of Horizon Vessels, Inc., et al. (U.S. District Court, Southern District, Texas)

The Iroquois Gas Transmission System, L.P. ("Iroquois") contracted with Horizon Offshore Contractors, Inc. ("Horizon") for the construction of a 24-inch diameter gas pipeline between Northport, Long Island, and Hunts Point, New York. It appears that on February 27, 2003, while working on the project, a barge owned by Horizon damaged one of the four underwater lines of the Authority's Sound Cable (the "Cable") by dragging an anchor of the barge over the Cable line. The damaged portion of the Cable was located about two miles from New Rochelle, New York, in about 90 feet of water.

Under the terms of the Authority's contract with the Long Island Power Authority ("LIPA"), the Authority was obligated to repair the Cable. The repair has been completed. The total costs of repair were \$17.8 million. The Authority relied on the indemnification provisions of the contract with Iroquois to seek compensation from Iroquois and also sought compensation from Horizon and other Iroquois contractors and subcontractors and their insurers. In addition, the Authority has insurance coverage in the amount of \$10 million, all of which was paid to the Authority to help cover the costs of repair.

On August 15, 2003, the owners of the vessel which likely caused the damage to the Cable filed a pleading (later amended) which seeks to have the Federal District Judge considering the matter exonerate and/or limit their liability to the value of the vessel and its contents. The Authority and LIPA were named as parties to this admiralty action due to their obvious interest in the relief sought. Discovery by the parties ensued. On October 14, 2004, the Authority and its insurer filed a motion seeking partial summary judgment against Iroquois on the question of Iroquois' legal obligation to indemnify the Authority for the damages it has incurred to repair the Cable. On May 12, 2005, the Magistrate issued a decision recommending that the motion for partial summary judgment filed by the Authority and its insurer be denied and on August 4, 2005, the District Court affirmed the Magistrate's ruling.

In the meantime, discovery continued, and various parties filed several motions. Among them was (a) a renewed motion by the Authority and its insurer for partial summary judgment against Iroquois based on its indemnity obligation; (b) Iroquois' motion seeking dismissal of LIPA's damage claims; and (c) a motion by the Authority and others to increase the security posted by Horizon. Between August and November 2006, the Magistrate issued decisions (thereafter adopted by the District Court) denying the Authority's motion for partial summary judgment and granting Iroquois' motion for dismissal of LIPA's damage claim. LIPA has appealed that order. The Magistrate also granted the Authority's motion to increase security, ordering Horizon to post another \$10.5 million.

In May 2007 the parties engaged in a two-day mediation session in an effort to settle this matter. At a status conference before the Federal District Judge in June 2007, a trial date of September 17, 2007 was established. In July 2007, a settlement satisfactory to the Authority was reached resolving all issues involving LIPA, the Authority, and its insurer. For a further discussion of the Cable, see "PART 2-Transmission Service-Cable Agreement".

(f) Crucible Materials Corp. et al. v. New York Power Authority (Albany County Supreme Court)

On February 8, 2007, two customers in the Authority's Power for Jobs Program instituted suit challenging the Authority's implementation of certain aspects of August 2006 legislation (Chapter 645 of the Laws of 2006) which had amended the Program. The dispute involves the Authority's methodology

for calculating possible payments to certain customers relating to Program electric prices that exceed the electric prices of the applicable local electric utility, as well as the methodology for calculating possible Program reimbursement payments for certain customers. In its responsive papers served on February 23, 2007, the Authority maintained that its implementation of the new legislation is lawful and appropriate in all respects. By decision dated April 26, 2007, the Court dismissed the petition and ruled in favor of the Authority. The petitioners filed a notice of appeal on June 5, 2007 and have nine months to proceed with the appeal before the Appellate Division, Third Department.

(g) New York Power Authority v. General Electric Company et al. (Albany County Supreme Court)

In October 2006, the Authority filed a complaint against General Electric Company (“GE”) and five of its subcontractors in connection with the construction of the Authority’s 500-MW Plant that went into commercial operation in December 2005. This action seeks to recover damages due to delays and cost overruns attributable to inadequate engineering and design services, and defective equipment provided by GE and its subcontractors. GE has asserted that it will seek recovery of damages it incurred due to delays in construction caused by the Authority. The Authority and GE have agreed to suspend pursuit of the lawsuit while attempts are made to resolve the dispute through mediation. Similar “stand still” agreements are being discussed with GE’s co-defendants.

(h) Entergy Contract Dispute

As part of the Authority’s sale in 2000 of its two nuclear plants to subsidiaries of Entergy Corporation (“Entergy Subsidiaries”), the Authority entered into two “value sharing agreements” with the Entergy Subsidiaries. The agreements provide in essence that the Entergy Subsidiaries will share a certain percentage of all revenues they receive from power sales from the plants in excess of specific projected power prices for a 10-year period (2005-2014). During 2006, a dispute arose concerning the calculation of the amounts due the Authority for 2005, and the Authority served an arbitration demand on November 2, 2006. At the Entergy Subsidiaries’ request, on November 14, 2006, the Supreme Court, New York County, issued an order staying arbitration until the Court decided whether the dispute raised by the Authority is within the scope of the arbitration clauses in the agreements. By decision dated February 8, 2007, the Court determined that the dispute is within the scope of the arbitration clauses. Since then a dispute has arisen between the parties as to the amounts due for 2006 under the agreements. The parties have proceeded to arbitration on the disputes relating to both 2005 and 2006, an arbitrator has been designated, discovery has occurred, the arbitration hearings were held in July 2007, and briefing by the parties was completed in August 2007. The arbitrator has been requested to withhold issuance of his decision while both parties finalize their agreement in principle to settle the dispute and to amend the value sharing agreements to avoid future disputes.

Environmental Matters

(i) There are a number of claims currently pending in the environmental area, including claims under the Federal Comprehensive Environmental Response, Compensation, and Liability Act of 1980, where the DEC, the United States Environmental Protection Agency or private plaintiffs have alleged that the Authority is responsible for all or a portion of the clean-up costs or for personal injuries or damages as a result of the alleged release or deposit of hazardous substances. While the Authority cannot presently predict the costs of such pending claims, or additional similar claims which may arise in the future, it does not believe that such claims individually or in the aggregate will materially adversely affect its financial position.

(j) State Pollutant Discharge Elimination System Permit

A renewed New York State Pollutant Discharge Elimination System (“SPDES”) permit was issued for the Authority’s Blenheim-Gilboa Project in October 2002. This permit renewed the previously issued permits for the plant, including certain provisions of the permit that the Authority requested be eliminated as a permit condition. Particularly, the Authority had objected to a requirement that it file an application for a SPDES permit for the discharge from the plant’s upper reservoir to its lower reservoir on the ground that the plant’s Federal license obviated the need for such a permit. Subject to further administrative or judicial review, should the Authority’s objection be finally denied, such circumstances

could adversely impact operation of the facility by subjecting water flows at the plant to State regulation, which could affect power generation.

(k) American Eel litigation in Canada

In April 2007, a number of fishermen and fishing companies from Ontario, Canada, filed a lawsuit in Ontario Superior Court of Justice against Hydro Quebec, Ontario Power Generation, and the Authority. Plaintiffs allege, among other things, that hydroelectric facilities, including the St. Lawrence-FDR Project, have caused a decline in the American Eel population which has unreasonably interfered with plaintiffs' fishing licenses. In 2004, the Ontario Ministry of Natural Resources reduced the quota for American Eel fishing to zero. The lawsuit seeks \$5 million in damages plus certain interest, costs, and taxes. Hydro Quebec has accepted service of the complaint, is defending the action, and recently filed a demand for particulars. The Authority is represented by Canadian counsel in the matter but has not been served with the complaint.

Miscellaneous

Actions or claims against the Authority are pending for the taking of property in connection with its projects, for negligence, for personal injury (including asbestos-related injuries) for environmental matters, in contract and for other matters, all of which will in the opinion of the Authority be disposed of within the amounts of the Authority's insurance coverage, where applicable, or the amounts which the Authority has available therefor and without any material adverse effect on the business of the Authority.

SPECIMEN OF MUNICIPAL BOND INSURANCE POLICY

[This page intentionally left blank]

[This page intentionally left blank]

PART 2

of the

OFFICIAL STATEMENT

of the

POWER AUTHORITY OF THE STATE OF NEW YORK

[This page intentionally left blank]

TABLE OF CONTENTS FOR PART 2

	<u>Page</u>
THE AUTHORITY	2-1
Management	2-1
Executive Management Committee	2-2
CERTAIN FINANCIAL AND OPERATING MATTERS	2-3
Historical Net Revenues	2-3
Management’s Discussion of Financial Results and Operations	2-3
Financial Results and Operations—2006 vs. 2005	2-3
Summary	2-3
Operating Revenues	2-4
Purchased Power and Fuel	2-4
Operations and Maintenance	2-4
Depreciation and Asset Impairment Charge	2-4
June 30, 2007 Financial Results (Unaudited)	2-4
New License for the Niagara Project	2-4
500-MW Plant	2-5
Certain SENY Governmental Customer Long-Term Agreements	2-5
Recent Legislation Relating To Authority Power Allocation Programs	2-5
Commission on Public Authority Reform and Public Authority Reform Legislation	2-5
Future Closure of Poletti Project and Restrictions on Poletti Project Operations	2-5
Accounting for Asset Impairments	2-6
Other Postemployment Benefits	2-6
Hydroelectric Power Curtailment	2-6
St. Lawrence-FDR Project Relicensing	2-6
Outstanding Indebtedness	2-7
Projected Capital and Financing Requirements	2-7
Authority Contributions to the State General Fund	2-8
Payments to the State Office of Parks, Recreation and Historic Preservation	2-9
Energy Risk Assessment and Control Activities	2-9
Security Matters	2-9
Authority Assistance to Long Island Power Authority	2-10
Nuclear Plant Sale Matters	2-10
NEW YORK INDEPENDENT SYSTEM OPERATOR	2-10
New York Independent System Operator Arrangement	2-10
NYISO Market Procedures	2-11
Certain Authority Plant Outage Risks	2-12
NYISO Mitigation Measures	2-13
NYISO Capacity Requirements Matters	2-13
POWER SALES	2-14
Marketing Issues and Developments	2-15
St. Lawrence-FDR and Niagara	2-19
Blenheim-Gilboa	2-20
Sales of Purchased Power and Energy for Industrial Power	2-21
SENY Governmental Customers	2-22
Poletti Project	2-22
Small Clean Power Plants	2-23
Flynn	2-23

	<u>Page</u>
TRANSMISSION SERVICE	2-24
Cable Agreement.....	2-24
ENERGY SERVICES	2-25
THE AUTHORITY'S FACILITIES	2-26
Generation	2-26
General Information	2-26
St. Lawrence-FDR	2-26
St. Lawrence-FDR Relicensing	2-26
St. Lawrence-FDR Modernization Program	2-30
Niagara.....	2-31
Niagara Relicensing.....	2-31
Blenheim-Gilboa	2-34
Poletti.....	2-34
500-MW Combined-Cycle Electric-Generating Plant	2-34
SCPPs.....	2-36
Flynn	2-37
Small Hydroelectric Facilities	2-37
Transmission.....	2-37
The Authority's Transmission System.....	2-37
Long Island Sound Cable	2-38
Tri-Lakes Transmission Reinforcement Project	2-38
Certain Operating Information	2-39
Fuel Supply.....	2-39
Poletti, Flynn, and 500-MW Plant.....	2-39
Gas Transportation and Supplies	2-39
LEGISLATION AFFECTING THE AUTHORITY.....	2-40
PUBLIC AUTHORITIES ACCOUNTABILITY ACT OF 2005	2-43
NEW YORK STATE COMMISSION ON PUBLIC AUTHORITY REFORM	2-43
TEMPORARY COMMISSION ON THE FUTURE OF NEW YORK STATE POWER PROGRAMS FOR ECONOMIC DEVELOPMENT	2-43
EXECUTIVE ORDER NO. 111	2-44
CERTAIN FACTORS AFFECTING THE ELECTRIC UTILITY INDUSTRY.....	2-44
The Electric Utility Industry Generally.....	2-44
Energy Policy Act of 1992	2-44
Federal Initiatives under the Energy Policy Act of 1992	2-44
Energy Policy Act of 2005	2-45
New York State Electric Utility Industry Restructuring Matters	2-45
Development of a Competitive Market for Electricity in New York	2-45
National Grid	2-46
Con Edison	2-46
NYSEG	2-46
Long Island Local Reliability Rule.....	2-47
Environmental	2-47
Other Factors	2-48
Effects on the Authority.....	2-49
REGULATION.....	2-50
New York State	2-50
Federal.....	2-51
Appendix 1—Summary of Certain Provisions of the General Resolution.....	App. 1-1
Appendix 2—Backgrounds of the Authority's Trustees and Certain Senior Management Staff	App. 2-1

PART 2
of the
OFFICIAL STATEMENT
of the
POWER AUTHORITY OF THE STATE OF NEW YORK
\$340,000,000*
REVENUE BONDS
\$100,000,000* Series 2007 A
\$240,000,000* Series 2007 B (Federally Taxable)

THE AUTHORITY

The Power Authority of the State of New York (the “Authority”) is a corporate municipal instrumentality and political subdivision of the State of New York (the “State”), created in 1931 and authorized by the Power Authority Act of the State of New York (the “Act”) to help provide a continuous and adequate supply of dependable electric power and energy to the people of New York State. Pursuant to the Act, the Authority is authorized to undertake the construction of such hydroelectric or energy storage projects as it deems necessary or desirable to contribute to the adequacy, economy and reliability of the supply of electric power and energy available in its service area or to conserve fuel, and such baseload nuclear generating facilities or other facilities using new energy technologies as in its judgment are necessary to make optimum use of its St. Lawrence-FDR and Niagara facilities, to attract and retain industry and to supply the future needs of the Authority’s municipal and rural electric cooperative customers. The Authority is further authorized, among other things, to construct and/or acquire and complete such baseload generating, transmission and related facilities as it deems necessary or desirable to assist in maintaining an adequate and dependable supply of electricity to the Metropolitan Transportation Authority (“MTA”), the New York City Transit Authority, the Port Authority of New York and New Jersey (the “Port Authority”), The City of New York, the State, the Federal government, other public corporations and electric corporations within the metropolitan area of New York City, and to provide power and energy for use by the Niagara Frontier Transportation Authority (“NFTA”) or its subsidiary corporation in the operation of a light rail rapid transit system.

Capitalized terms not otherwise defined in this Part 2 of the Official Statement have the meanings set forth in Appendix 1 to this Part 2 of the Official Statement.

Management

The Authority consists of seven Trustees appointed by the Governor of the State (the “Governor”), with the advice and consent of the State Senate. The current Trustees are:

<u>Trustees</u>	<u>Term Expires</u>
Frank S. McCullough, Jr., Chairman	May 6, 2010
Michael J. Townsend, Vice Chairman	May 6, 2011
Elise M. Cusack	May 6, 2009
Robert E. Moses	February 27, 2008
Thomas W. Scozzafava	May 6, 2008
Leonard N. Spano	June 22, 2007†
James A. Besha, Sr.	May 6, 2012

The senior management staff of the Authority includes the following:

Roger B. Kelley, President and Chief Executive Officer;

Thomas J. Kelly, Executive Vice President, General Counsel and Chief of Staff;

Vincent C. Vesce, Executive Vice President—Corporate Services and Administration;

* Subject to change.

† Continues to serve as Trustee until he or his successor has been appointed by the Governor and confirmed by the State Senate.

Joseph M. Del Sindaco, Executive Vice President and Chief Financial Officer;
Angelo S. Esposito, Senior Vice President—Energy Services and Technology;
Steven J. DeCarlo, Senior Vice President—Transmission;
Edward A. Welz, Senior Vice President and Chief Engineer—Power Generation;
William J. Nadeau, Senior Vice President—Energy Resource Management and Strategic Planning
James H. Yates, Senior Vice President—Marketing and Economic Development;
Brian Vattimo, Senior Vice President—Public and Governmental Affairs;
Arnold M. Bellis, Vice President—Controller;
Donald A. Russak, Vice President—Finance;
Thomas H. Warmath, Vice President and Chief Risk Officer—Energy Risk Assessment and Control;
Daniel Wiese, Inspector General and Vice President—Corporate Security; and
Brian McElroy, Treasurer.

See “PART 2—APPENDIX 2—BACKGROUNDS OF THE AUTHORITY’S TRUSTEES AND CERTAIN SENIOR MANAGEMENT STAFF.”

Executive Management Committee

The Authority’s Executive Management Committee periodically reviews corporate strategies, policies and programs, and reports, with the Chairman’s concurrence, to the Board of Trustees. Currently, the Executive Management Committee includes the Chairman, the President and Chief Executive Officer, the Executive Vice President and General Counsel, the Executive Vice President and Chief Financial Officer, the Executive Vice President—Corporate Services and Administration, and certain other members of the senior management staff of the Authority designated by the President and Chief Executive Officer.

CERTAIN FINANCIAL AND OPERATING MATTERS

The Authority's financial statements are prepared on an accrual basis in accordance with generally accepted accounting principles. The financial statements for the three years ended December 31, 2006, were audited by Ernst & Young LLP, independent auditors, whose reports dated February 15, 2005, February 15, 2006 and February 16, 2007, respectively, expressed an unqualified opinion on those statements. Pursuant to continuing disclosure agreements entered into in connection with certain of the Authority's outstanding debt, the financial statements for the three years ended December 31, 2006, were filed with the Nationally Recognized Municipal Securities Information Repositories ("NRMSIRs").

Historical Net Revenues

The net revenues of the Authority for the three years ended December 31, 2006, derived from the Statements of Revenues, Expenses and Changes in Net Assets in the financial statements of the Authority for the years ended December 31, 2006, December 31, 2005 and December 31, 2004, are summarized below:

Summary Statements of Net Revenues (In millions)

	2004	2005	2006
Operating Revenues	\$2,215	\$2,506	\$2,666
Operating Expenses			
Purchased power	1,015	1,158	1,067
Fuel	260	378	523
Operations and maintenance	356	448	432
Wheeling	277	299	296
Depreciation	148	147	173
Asset impairment charge	64	—	—
Total Operating Expenses	2,120	2,430	2,491
Net Operating Revenues	95	76	175
Other Income	64	60	72
Other Expenses	77	78	110
Net Revenues	\$ 82	\$ 58	\$ 137

Management's Discussion of Financial Results and Operations

For a more complete statement of management's discussion and analysis, see pages 4-9 of the Authority's financial statements for the year ended December 31, 2006.

Financial Results and Operations—2006 vs 2005

Summary

The Authority had net revenues of \$137 million in the year 2006, compared to \$58 million in 2005. This \$79 million increase in net revenues is attributable to higher revenues (\$160 million) partially offset by increases in operating expenses (\$61 million) and net non-operating items (\$20 million). The increase in revenues was primarily due to higher market-based sales to the New York State Independent System Operator ("NYISO") combined with an increase in rates charged to its southeastern New York ("SENY") Governmental Customers. The increase in operating expenses (primarily fuel and depreciation) was primarily attributable to costs associated with the Authority's 500-megawatt ("MW") combined-cycle electric generating plant at the Authority's Poletti plant site ("500-MW Plant") which went into commercial operation on December 31, 2005. Non-operating expenses were higher due to an increase in interest cost associated with the new plant partially offset by an increase in investment income.

During 2006, long-term debt, net of current maturities, decreased by \$189 million, or 10%, primarily due to scheduled maturities and early extinguishment of debt. The Authority also refinanced \$178 million of debt. Total debt decreased by \$152 million which is reflective of the decrease in long term debt offset in part by an increase in short-term debt. Interest expense increased by \$32 million, primarily due to a decrease in the capitalization of interest costs after the 500-MW Plant was placed into operation (\$26 million) and to a lesser extent, higher interest rates on variable rate debt. During the period 1996 to 2006, the Authority reduced its total debt/equity ratio from 2.03 to 1.06, which is the Authority's lowest debt/equity ratio since it implemented proprietary accounting in 1982.

Operating Revenues

Operating revenues of \$2,666 million in 2006 were \$160 million or 6% higher than the \$2,506 million in 2005, primarily due to higher sales volume and higher rates charged to certain customers along with higher market-based sales to the NYISO and higher revenues from ancillary services.

Purchased Power and Fuel

Purchased power costs decreased by 8% in 2006 to \$1,067 million from \$1,158 million in 2005, primarily due to the decreased volume and lower prices related to purchased power for the SENY Governmental Customer market area. Fuel costs were \$145 million (38%) higher during 2006, reflecting higher fossil-fuel production resulting from the initial year of operation of the 500-MW Plant partially offset by lower prices for natural gas and fuel oil.

Operations and Maintenance

Operations and Maintenance expenses decreased by 4% in 2006 from 2005 to \$432 million. Lower accrued voluntary contributions to New York State associated with the Power for Jobs program were partially offset by higher reimbursement payments to certain customers in that program (see "PART 2—LEGISLATION AFFECTING THE AUTHORITY") and higher expenses incurred at the 500-MW Plant.

Depreciation and Asset Impairment Charge

Depreciation expense for the year 2006 increased by 18% to \$173 million due to the initial year of operation of the 500-MW Plant. Prior to that, depreciation expense in recent years has been at a lower level due to a significant reduction in the book value of the Small Clean Power Plants ("SCPPs") since the units were installed in 2001. This reduction resulted from asset impairment provisions discussed below and the continued application of accelerated depreciation for these facilities.

June 30, 2007 Financial Results (Unaudited)

On an unaudited basis, net revenues for the six months ended June 30, 2007 were \$132 million compared to \$47 million for the comparable period in 2006. Net revenues through mid-year 2007 were positively impacted by additional revenues resulting from the implementation of an energy charge adjustment cost recovery mechanism for the SENY Governmental Customers, and higher investment income compared to mid-year 2006. These positives were partially offset by higher than anticipated purchased power and fuel costs during the period. Net revenues for the year ended December 31, 2007 are expected to be above the \$176 million level originally budgeted for the year.

New License for the Niagara Project

By order issued March 15, 2007, the Federal Energy Regulatory Commission ("FERC") issued the Authority a new, 50-year license for the Niagara Project effective September 1, 2007. In doing so, FERC approved six relicensing settlement agreements entered into by the Authority with various public and private entities. The Authority currently expects that the costs associated with the relicensing of the Niagara Project will be at least \$545 million (2007 dollars) over a period of 50 years, which includes \$46.7 million in administrative costs associated with the relicensing effort and does not include the value of

certain power allocations and operation and maintenance expenses associated with several habitat and recreational elements of the settlement agreements. In mid-April 2007, two petitions for rehearing were filed by certain entities with FERC regarding its March 15, 2007 order, which petitions have not yet been acted upon. See “PART 2—THE AUTHORITY’S FACILITIES—Niagara Relicensing.”

500-MW Plant

The Authority’s 500-MW Plant entered into commercial operation on December 31, 2005 at a cost of approximately \$745 million (see “PART 2—THE AUTHORITY’S FACILITIES—Generation—500-MW Combined-Cycle Electric-Generating Plant”).

Certain SENY Governmental Customer Long-Term Agreements

The Authority and its major governmental customers in New York City (“NYC Governmental Customers”), including the MTA, The City of New York, the Port Authority, the New York City Housing Authority, and the New York State Office of General Services, have entered into new long-term agreements (the “2005 Agreements”). Under the 2005 Agreements, the NYC Governmental Customers have agreed to purchase their electricity from the Authority through December 31, 2017, with the NYC Governmental Customers having the right to terminate service from the Authority at any time on three years’ notice provided that they compensate the Authority for any above-market costs associated with certain of the resources used to supply the NYC Governmental Customers and, under certain limited conditions, on one year’s notice. For a discussion of the 2005 Agreements, see “PART 2—POWER SALES—Marketing Issues and Developments.”

Recent Legislation Relating To Authority Power Allocation Programs

Legislation was enacted into law in July 2005 (Chapter 313, 2005 Laws of New York) which amended the New York Public Authorities Law and the New York Economic Development Law to, among other things: (1) clarify that the Authority may use power procured from the market in support of the Authority’s economic development programs, (2) provide statutory authorization for the Replacement Power program and a new Preservation Power program, and (3) authorize Energy Cost Savings Benefits (“ECS Benefits”) for certain Authority customers formerly served by the FitzPatrick nuclear plant, funded from revenues from the sale of certain Authority power and from Authority internal funds. Additional legislation relating to the sources of funding ECS Benefits was enacted into law in August 2006 and June 2007 (see “PART 2—POWER SALES—Marketing Issues and Developments”).

Commission on Public Authority Reform and Public Authority Reform Legislation

By Executive Order issued February 3, 2005, the New York State Commission on Public Authority Reform (“Commission”) was established and charged with reviewing the operations of State and local authorities across the State and developing recommendations designed to improve their effectiveness, accountability, governance, and financial reporting. In May 2006, the Commission issued its report addressing these matters, including recommendations for future legislation (see “PART 2—NEW YORK STATE COMMISSION ON PUBLIC AUTHORITY REFORM”).

The “Public Authorities Accountability Act of 2005” (“PAAA”) was signed into law in January 2006. The PAAA applies to most public authorities in the State, including the Authority, and its various provisions address public authority reporting, governance, budgeting, oversight, and auditing matters, among other things. See (“PART 2—NEW YORK STATE COMMISSION ON PUBLIC AUTHORITY REFORM”).

Future Closure of Poletti Project and Restrictions on Poletti Project Operations

In connection with the licensing of its 500-MW Plant, the Authority has entered into an agreement which will require the closure of its existing Poletti Project in 2010. The agreement also imposes restrictions on the Authority’s fuel oil use at the existing Poletti Project and limitations on the overall amount of potential generation that could be generated from the existing Poletti Project each year (see “PART 2—THE AUTHORITY’S FACILITIES—Generation—500-MW Combined-Cycle Electric Generating Plant”).

Accounting for Asset Impairments

Effective January 1, 2005, the Authority implemented Governmental Accounting Standard (“GAS”) No. 42, “Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries,” which states that asset impairments generally are recognized only when the service utility of an asset is reduced or physically impaired. The service utility of a capital asset is the usable capacity that at acquisition was expected to provide service, as distinguished from the level of utilization which is the portion of the usable capacity currently being used. Under GAS No. 42, decreases in utilization and the existence of or increases in surplus capacity that are not associated with a decline in service utility are not considered to be impairment.

Prior to January 1, 2005, the Authority, based on standards promulgated by the Financial Accounting Standards Board, had recognized certain asset impairment charges relating to its SCPPs and Convertible Static Compensator transmission project. Those standards require the recognition of an impairment charge and a reduction of an asset’s carrying value to fair value when the cash flows resulting from the operation of a plant asset are expected to be less than its book value.

Other Postemployment Benefits

Regarding the Authority’s Other Postemployment Benefits (“OPEB”) obligations, the Authority provides certain health care and life insurance benefits for eligible retired employees and their dependents under a single employer non-contributing (except for certain life insurance coverage) health care plan. Effective January 1, 2002, the Authority implemented accrual accounting for its OPEB obligations, based on the approach provided in GAS No. 27, “Accounting for Pensions by State and Local Government Employers.” The Authority subsequently implemented GAS No. 45, “Accounting and Financial Reporting for Postemployment Benefits Other than Pensions,” when it was issued in June 2004. As of December 31, 2006, the present value of the Authority’s prior service OPEB obligation was \$325 million.

Through December 31, 2006, OPEB provisions were financed on a “pay-as-you-go” basis and the plan was unfunded. The 2006, 2005, and 2004, OPEB provisions of \$35 million, \$32 million, and \$31 million, respectively, include the amortization of the prior service obligation, a provision for active employees at the beginning of the year, and an interest charge on the unfunded balance at year end. Amounts paid to Authority retirees during these years were \$11 million, \$10 million, and \$10 million, respectively.

In December 2006, the Authority’s Trustees authorized staff to initiate the establishment of a trust for OPEB obligations, with the trust fund to be held by an independent custodian. In July 2007, the Authority’s Trustees authorized the funding of the trust with an initial amount of \$225 million during 2007, consisting of \$100 million from an Operating Fund reserve established for that purpose, and \$125 million from the proceeds of an expected issuance of Commercial Paper Notes (“CP Notes”). The OPEB trust assets and all income therefrom do not and will not form part of the Trust Estate, and the 2007 Bonds are not and will not be payable from or secured by the OPEB trust.

Hydroelectric Power Curtailment

Beginning in 1999 and continuing through 2003, below average water levels in the Great Lakes reduced the amount of water available to generate power at the Authority’s Niagara and St. Lawrence-FDR Projects, thereby requiring the periodic curtailment of electricity supplied to the Authority’s customers from these Projects (see “PART 2—POWER SALES—St. Lawrence-FDR and Niagara”). Flow conditions thereafter improved such that hydroelectric generation levels returned to near long-term average during 2004-2006, although such curtailment was required in two months in 2005. More recently, drier conditions over the Great Lakes region have contributed to a decline in lake levels such that generation in 2007 is expected to be somewhat below but within approximately 5% of long-term average. Below average water levels in the Great Lakes were experienced during the 1920s, the 1930s, and the 1960s.

St. Lawrence-FDR Project Relicensing

By order issued October 23, 2003, FERC granted the Authority a new 50-year license for the St. Lawrence-FDR Project (see “PART 2—THE AUTHORITY’S FACILITIES—Generation—

St. Lawrence-FDR Relicensing”). On April 24, 2007, the U.S. Court of Appeals for the Second Circuit granted a motion by the St. Regis Mohawks to dismiss their appeal of FERC’s order (and a related order), thereby concluding all litigation involving FERC’s issuance of the new license.

Outstanding Indebtedness

As of June 30, 2007, the total outstanding indebtedness of the Authority consisting of Revenue Bonds issued under the General Resolution Authorizing Revenue Obligations, adopted February 28, 1998, as amended and supplemented (the “General Resolution”), the Adjustable Rate Tender Notes (“ART Notes”), the Authority’s Subordinate Revenue Bonds, Series 3 and 4 (“Subordinate Bonds”), the Authority’s Commercial Paper Notes (“CP Notes”), and the Extendible Municipal Commercial Paper Notes (“EMCP Notes”) was \$2,107,744,000. With the issuance of the Series 2007 A Bonds (“2007 A Bonds”) and the Series 2007 B Bonds (“2007 B Bonds”), collectively referred to as the “2007 Bonds”, the total outstanding indebtedness of the Authority will be approximately \$2,366,932,400, after accounting for the redemption of certain CP Notes on October 30, 2007 with the proceeds of the 2007 Bonds. After the issuance of the 2007 Bonds and the application on October 30, 2007 of the proceeds thereof to the redemption of certain CP Notes, the Authority will have outstanding (i) senior indebtedness of approximately \$1,599,405,000, consisting of \$1,449,405,000 in Revenue Bonds and \$150,000,000 of ART Notes, and (ii) approximately \$767,527,400 of Subordinated Indebtedness, as defined in the General Resolution, consisting of the Subordinate Bonds, the CP Notes, and the EMCP Notes.

For a discussion of certain interest rate swap agreements that the Authority has entered into and may enter into, see “PART 1—SECURITY FOR THE 2007 BONDS—Additional Debt Issuance.”

The Authority has entered into two revolving credit agreements with banks named therein to provide liquidity support for the Series 1-3 CP Notes and the ART Notes. The Authority’s obligation to reimburse the respective banks for any borrowing therefrom pursuant to the revolving credit agreements constitutes Parity Debt in the case of borrowings relating to the ART Notes, and Subordinated Indebtedness in the case of borrowings relating to the CP Notes. Any other payments under such revolving credit agreements will constitute Subordinated Contract Obligations.

Projected Capital and Financing Requirements

The Authority currently estimates that it will expend approximately \$1.4 billion for various capital improvements and energy services measures over the five-year period 2007-2011, some of which have already been made as of the date of this Official Statement. The Authority anticipates that these expenditures will be funded by existing construction funds, customer receipts, internally generated funds, and additional borrowings of approximately \$350 million during the period 2007-2011, of which approximately \$205 million is from the proceeds of the 2007 Bonds. Such remaining borrowings are currently expected to be accomplished through the issuance of additional CP Notes, EMCP Notes, and Revenue Bonds. Such borrowings will be used to fund various energy services measures; a portion of the St. Lawrence-FDR Project Modernization Program and relicensing costs (see “PART 2—THE AUTHORITY’S FACILITIES—Generation—*St. Lawrence-FDR Relicensing; St. Lawrence-FDR Modernization Program*”); costs associated with the Niagara Project relicensing (see “PART 2—THE AUTHORITY’S FACILITIES—Generation—*Niagara Relicensing*”); and the Tri-Lakes Transmission Reinforcement Project (see “PART 2—THE AUTHORITY’S FACILITIES—Transmission—*Tri-Lakes Transmission Reinforcement Project*”).

The Authority's projected capital requirements for the period 2007-2011 are set forth below:

<u>Projects</u>	<u>Estimated Total Expenditures Over 5-Year Period 2007-2011 (in thousands)</u>
Niagara Upgrade	\$ 500
Niagara Relicensing	186,400
St. Lawrence-FDR Modernization Program	97,100
St. Lawrence-FDR Relicensing	43,300
500-MW Plant	30,700
Blenheim-Gilboa Modernization Program	99,600
Energy Services	496,712*
Transmission	113,500
Tri-Lakes Transmission Reinforcement Project	33,000
Other Project Improvements	154,300
Administrative and Other, Miscellaneous Improvements	<u>122,700</u>
Total	<u>\$1,377,812</u>

* Excludes measures funded by State appropriations for the Lower Manhattan Energy Independence Initiative, petroleum overcharge restitution funds and the Clean Water/Clean Air Bond Act monies (see "PART 2—ENERGY SERVICES").

The construction costs of any other future facilities or any other improvements to existing facilities may be financed with the proceeds of additional Obligations, as defined in the General Resolution (see "PART 2—APPENDIX 1—SUMMARY OF CERTAIN PROVISIONS OF THE GENERAL RESOLUTION"), or other debt issued by the Authority or through the use of existing construction funds or internal sources. For a discussion of certain facilities which may be financed by the issuance of additional Obligations or debt and certain other matters which may affect financing requirements, see "PART 2—ENERGY SERVICES," and "PART 2—THE AUTHORITY'S FACILITIES—Generation—*St. Lawrence-FDR Relicensing; St. Lawrence-FDR Modernization Program; Niagara Relicensing; Blenheim-Gilboa; —Transmission—Tri-Lakes Transmission Reinforcement Project.*"

The Authority may issue additional Obligations under the General Resolution or additional Subordinated Indebtedness, as defined in the General Resolution, under subordinate resolutions for any purpose of the Authority authorized by the Act or other then-applicable State statutory provision. The principal amount of the Obligations or Subordinated Indebtedness which may be issued under the General Resolution or under subordinate resolutions, respectively, is not limited, and there is no debt service coverage or historical or projected earnings test that must be satisfied as a precondition to any such issuance. If Obligations are issued to finance a project (other than a Separately Financed Project as defined in the General Resolution), then the revenues from such project would be part of the Trust Estate, as defined in the General Resolution. The Authority may also determine to finance an additional project from internal funds, from bank borrowings, from bonds, notes or other obligations issued pursuant to a resolution other than the General Resolution, or from other sources; if such project qualifies as a Separately Financed Project, as defined in the General Resolution, the revenues from such additional project would not be Revenues under the General Resolution, and therefore not available to pay the 2007 Bonds.

Authority Contributions to the State General Fund

Legislation enacted into law, as part of the 2000-2001 State budget, as amended up to the present time, provides that the Authority "as deemed feasible and advisable by the trustees", is authorized to make certain annual "voluntary contributions" into the "state treasury to the credit of the general fund," up to a maximum amount of \$424 million in connection with the Power for Jobs Program. The Authority has made voluntary contributions totaling \$219 million. For a further discussion of additional voluntary contributions which may be made by the Authority, see "PART 2—LEGISLATION AFFECTING THE

AUTHORITY” and the Authority’s financial statements for the year ended December 31, 2006, management’s discussion and analysis, “New York State Budget Matters.”

Payments to the State Office of Parks, Recreation and Historic Preservation

Commencing with State Fiscal Year 2003-2004 and in connection with its Niagara and St. Lawrence-FDR Projects, the Authority has made four annual payments of \$8 million to New York State Office of Parks, Recreation and Historic Preservation (“OPRHP”), for certain OPRHP expenditures, as described below, and the Authority expects to make an additional annual payment to OPRHP for such expenditures in an amount not to exceed \$8 million in State Fiscal Year 2007-2008. The funds have been and are to be used for operation and maintenance of Robert Moses State Park, Coles Creek State Park, Artpark, and the Niagara Reservation. All such payments are subject to reconciliation based on OPRHP’s actual operations and maintenance expenditures for such parks.

The Authority has also agreed to provide \$10 million to the OPRHP to fund the development of energy efficiency measures and clean energy technologies at the Rivers and Estuaries Center in Beacon, New York, of which approximately \$2 million has been provided.

Energy Risk Assessment and Control Activities

In April 2002, the Authority created the position of Vice President, Chief Risk Officer—Energy Risk Assessment and Control. This officer is responsible for establishing policies and procedures for identifying, reporting and controlling energy-price- and fuel-price-related risk exposure and risk exposure connected with energy- and fuel-related hedging transactions. This type of assessment and control has assumed greater importance in light of the Authority’s participation in the NYISO energy markets (see “PART 2—NEW YORK INDEPENDENT SYSTEM OPERATOR”), the sale of its two nuclear plants (see “Nuclear Plant Sale Matters” below), and the commercial operation of its 500-MW Plant (see “PART 2—THE AUTHORITY’S FACILITIES—Generation—500-MW Combined-Cycle Electric Generating Plant”).

In recent years, the Authority has increased its dependence on purchased power to meet its customers’ needs. This has made the Authority more susceptible to risks posed by increases in purchased power costs and fuel costs. To deal with this risk, the Authority has obtained and is in the process of obtaining power purchase agreements (or their financial equivalents) to meet a significant portion of its customer load (see “PART 2—POWER SALES”). Even with these arrangements, the Authority still has exposure to purchased power price risks to the extent it purchases power in the NYISO day-ahead and real-time markets. Also, with the addition of the Authority’s 500-MW Plant (see “PART 2—THE AUTHORITY’S FACILITIES—Generation—500-MW Combined-Cycle Electric-Generating Plant”), the Authority faces increased fuel price risk to the extent it uses its own fossil-fuel generation to meet its customers’ needs. The risk management program implemented by the Vice President, Chief Risk Officer—Energy Risk Assessment and Control is designed to mitigate such risks. See “PART 2—NEW YORK INDEPENDENT SYSTEM OPERATOR—Certain Authority Plant Outage Risks” for a discussion of risks resulting from outages at Authority units or nonperformance of suppliers of electric power and energy to the Authority.

The Authority is also pursuing an initiative to develop and implement a comprehensive enterprise wide risk management program. For a further discussion of the Authority’s risk assessment and control activities, see the Authority’s financial statements for the year ended December 31, 2006, Note H.

Security Matters

In the wake of the September 11, 2001 attacks, electric utilities were compelled to move beyond the traditional concept of emergency management and prepare to respond to the unique threats associated with terrorism. Consequently, the Authority has pursued comprehensive efforts to evaluate the vulnerability of its physical assets. It has revised plans, protocols and procedures to address the wider range of potential threats. The Authority has made substantial capital expenditures to enhance the security of all of its power projects, office facilities and personnel. The Authority has also embarked on

a system-wide security awareness training program for all Authority personnel. Among the changes the Authority has made is the enhanced emphasis on the security-related duties and responsibilities of the Authority's Inspector General and Vice President—Corporate Security. The Authority has also worked to enhance security by coordinating closely with state and local law enforcement officials for support, expanding the Authority's support network to include national defense and homeland security personnel, and bringing the National Guard and other military officials to its facilities to review operations and facilitate continued cooperative initiatives. For a discussion of a law enacted in 2004 concerning critical generation and transmission system infrastructure security matters, see "PART 2—LEGISLATION AFFECTING THE AUTHORITY."

Authority Assistance to Long Island Power Authority

Pursuant to a Memorandum of Understanding (the "MOU") entered into in 2004 by the Authority and the Long Island Lighting Company, a wholly-owned subsidiary of the Long Island Power Authority, doing business as "LIPA" (hereinafter referred to as "LIPA"), the Authority is providing LIPA with certain services, including real estate and building permit support services, necessary or desirable for LIPA to carry out its statutory purposes. As part of such assistance, the Authority has acquired and may in the future acquire property for the benefit of LIPA. Pursuant to the MOU, all costs incurred by the Authority in assisting LIPA will be reimbursed by LIPA.

Nuclear Plant Sale Matters

Pursuant to a purchase and sale agreement between the Authority and two subsidiaries of Entergy Corporation (the "Entergy Subsidiaries"), on November 21, 2000, the Authority sold the Indian Point 3 and FitzPatrick nuclear plants to the Entergy Subsidiaries for cash and non-interest bearing notes totaling \$967 million (subsequently reduced by closing adjustments to \$956 million) maturing over a 15-year period. For a further discussion of matters relating to this sale, see the Authority's financial statements for the year ended December 31, 2006, Note L, and "PART 1—APPENDIX D—Litigation—Item (h)."

NEW YORK INDEPENDENT SYSTEM OPERATOR

New York Independent System Operator Arrangement

In 1999, two not-for-profit organizations, the NYISO and the New York State Reliability Council ("Reliability Council"), were established. The mission of the NYISO is to assure the reliable, safe and efficient operation of the State's major transmission system, to provide open-access non-discriminatory transmission services and to administer an open, competitive and non-discriminatory wholesale market for electricity in New York State. The mission of the Reliability Council is to promote and preserve the reliability of electric service on the NYISO's system by developing, maintaining, and, from time to time, updating the reliability rules relating to the transmission system (the "Reliability Rules"), to be complied with by the NYISO and all entities engaging in electric transmission, ancillary services, energy and capacity transactions. The Authority, each of the current investor-owned utilities ("IOUs") and LIPA are "Market Participants" (which includes any person engaged in the wholesale sale, transmission or purchase of electric energy) in the NYISO and members of the Reliability Council.

In addition to the IOUs, LIPA and the Authority, any Market Participant, including organizations representing residential and/or small commercial consumers and environmental organizations, may be members of the NYISO. The NYISO is governed by a Board of Directors consisting of the President of the NYISO and nine individuals. No member of the Board of Directors is able to own shares in or have a continuing business relationship with any Market Participant. The President of the NYISO is chosen by the other nine directors and is responsible for the day-to-day operation of the NYISO. The Authority is adequately represented on each of the NYISO's several committees, which are subject to the oversight of the Board of Directors, and on the Executive Committee of the Reliability Council, which consists of thirteen members which govern the Reliability Council.

On November 18, 1999, the NYISO officially assumed control of New York State's electric power grid pursuant to tariffs and market rules approved by FERC.

The Authority dispatches power from its generating facilities in conjunction with the NYISO. The NYISO coordinates the reliable dispatch of power and operates markets for the sale of electricity and ancillary services within New York State. The NYISO collects charges associated with the use of the transmission facilities and the sale of energy, capacity, and services through the markets that it operates and remits those proceeds to the owners of the facilities in accordance with its tariff and to the sellers of the electricity and services in accordance with their respective bids and applicable NYISO market procedures. See “NYISO Market Procedures” and “Certain Authority Plant Outage Risks” below.

Under the NYISO Open Access Transmission Tariff, certain charges for ancillary services (which include NYISO operating costs), congestion, losses, and a portion of the Authority’s transmission costs are assessed against the Authority and other entities responsible for serving ultimate customers. Because of the Authority’s active participation in the NYISO markets, such costs are significant and are currently being passed through to most Authority customers.

NYISO Market Procedures

Under NYISO procedures, Load Serving Entities (“LSEs”) represent electricity end-users in dealings with the NYISO. The Authority is an LSE for large segments of its load in New York State and must ensure it has sufficient installed capacity to meet its customers’ needs and NYISO reliability rules, either through ownership of such capacity, bilateral installed capacity purchase contracts or auction purchases conducted by the NYISO (for a discussion of these installed capacity requirements relating to New York City and Long Island, see “NYISO Capacity Requirements Matters,” below, and “PART 2—CERTAIN FACTORS AFFECTING THE ELECTRIC UTILITY INDUSTRY—New York State Electric Utility Industry Restructuring Matters—*Long Island Local Reliability Rule*”).

As an LSE, the Authority is also obligated to ensure that it has enough energy to meet its customers’ energy needs. These needs can be met in the NYISO regime through the Authority’s own generation, bilateral purchases from others, or purchases of energy in the NYISO “day-ahead” market (“DAM”) (wherein bids are submitted for energy to be delivered the next day) or in the NYISO “real time” market. A bilateral purchase is a transaction where a generator or a power marketer who has access to power and an LSE agree upon a specified amount of energy being supplied to the LSE by the generator or power marketer at specified prices.

Generators may bid their energy into the DAM and/or the real time market. Generators whose installed capacity has been utilized to meet the NYISO’s installed capacity requirements must bid the energy from such claimed capacity into the DAM. To satisfy this requirement, the Authority bids into the DAM all of the Authority generation it claims to meet installed capacity requirements, which consists of virtually all of its generation. The Authority also bids the generation into the real time market in such amounts and at such bids as the Authority deems appropriate.

The NYISO evaluates the bids submitted in the DAM and the real time markets by generators and dispatches the units on the basis of economic and reliability considerations to meet load needs at any point in time. Unless governed by a bilateral arrangement, the price a generator is paid and the price paid to the NYISO by an LSE purchasing energy is dependent upon the results of the bidding process and system conditions (for a discussion of certain NYISO rules having an impact on the bidding procedures, see “NYISO Mitigation Measures” below). A significant feature of the energy markets is that prices are determined on a location-specific basis taking into account local generating bids submitted and the effect of transmission congestion and electrical losses between regions of New York State.

On February 1, 2005, the NYISO introduced Standard Market Design 2 (“SMD2”), a highly flexible technological foundation which has put the New York energy markets on a common computing platform, resulting in economic and scheduling consistency across the markets, as well as advanced market concepts such as a two-settlement system for reserves and regulation services. SMD2 allows for a more efficient real-time unit commitment process and economic signals that clearly indicate where and when shortage conditions exist. SMD2 also includes advanced system operating tools that allow for forward-looking evaluations and sophisticated tools that assist the operator in responding to emergency conditions. In addition, SMD2 provides: (a) improved consistency between the DAM and real-time markets; (b) real-time automated power mitigation in New York City; (c) greater market efficiency (d) more frequent scheduling and commitment of internal resources; and (e) a two-settlement system for ancillary services.

The Authority, being an LSE and a generator, may choose to meet its LSE load requirements by a combination of (1) bilateral arrangements, which, in the Authority's case, would mean specified Authority generation and purchased energy under contractual arrangements, linked to specified Authority loads, and (2) purchases in the DAM or the real time market. The Authority's ownership of certain transmission-related rights serves to reduce uncertainty concerning congestion costs to the Authority of such bilateral arrangements and energy market transactions.

Certain Authority Plant Outage Risks

The NYISO administers the DAM and the real time market through which suppliers and purchasers of energy and ancillary services can sell and acquire such products. The Authority participates in these markets as both a buyer and a seller of electricity and ancillary services.

Because of NYISO installed capacity reserve requirements, the Authority is required to bid into the DAM virtually all of the installed capacity of its units. The NYISO then decides which Authority units will be dispatched, if any, and how much of such unit's generation will be dispatched. The dispatch of a particular unit's generation depends upon the bid prices for the unit submitted by the Authority, bids submitted by other generators, the amount of generation needed by the NYISO to meet expected demand and transmission limitations. If an Authority unit is dispatched by the NYISO, the Authority receives a fixed price for each hour (the "Market Clearing Price"), based on NYISO pricing methodology, for the energy dispatched above that designated by the Authority as bilateral arrangement generation (the "Excess Energy"). As to the bilateral arrangement generation (the "Contract Energy"), the Authority receives the price in its contracts with its customers (the "Contract Price").

This procedure has provided the Authority with economic benefits from its units' operation when selected by the NYISO and may do so in the future. However, such bids also obligate the Authority to supply the energy in question during a specified time period, which does not exceed two days (the "Short-Term Period"), if the unit is selected. If a forced outage occurs at the Authority plant which is to supply such energy, then the Authority is obligated to pay during the Short Term Period (1) in regard to the Excess Energy amount, the difference between the price of energy in the NYISO real time market and the Market Clearing Price in the DAM, and (2) in regard to the Contract Energy amount, the price of energy in the NYISO real time market which is offset by the Contract Price. This real time market price may be subject to more volatility than the DAM price. The risk attendant with this outage situation is that, under certain circumstances, the Market Clearing Price in the DAM and the Contract Price may be well below the price in the NYISO real time market, with the Authority having to pay the difference. In times of maximum energy usage, this cost could be substantial. This outage cost risk is primarily of concern to the Authority in the case of its Poletti unit and the 500-MW Plant because of their size, nature, and location (see "PART 2—THE AUTHORITY'S FACILITIES—500-MW Combined-Cycle Electric-Generating Plant," for the discussion of the timing of the closure of the Poletti unit).

In addition to the risk associated with Authority generation bids into the DAM, the Authority could incur substantial costs in times of maximum energy usage in purchasing replacement energy for its customers in the DAM or through other supply arrangements to make up for lost energy due to an extended outage of its units and non-performance of counterparties to energy supply contracts.

As part of an ongoing risk mitigation program, the Authority implements financial hedging techniques to cover, among other things, future maximum energy usage periods and uses its various resources for outage risk mitigation purposes. In addition, the NYISO has implemented a FERC-approved bid cap on generator bids into the DAM and the real time market. The bid cap, which remains in effect until further FERC action, serves to limit the Authority's outage loss exposure.

Also, as noted above, economic benefits are derived by the Authority from this bidding mechanism when its units are operating. These benefits could serve to offset any losses which may be suffered by the Authority due to outage situations, the amount of such offset being dependent upon the amount of aggregate benefits derived by the Authority and the severity of the losses suffered as a result of such outages. Consequently, any use of these economic benefits for this offset purpose would serve to reduce the amount of these economic benefits available to meet outage expenses.

There can be no guarantee, however, that even with any protective hedging techniques, offsetting economic benefits, and a bid cap, the Authority would not suffer substantial economic loss in the future

if one or more of its units were to suffer a forced outage during a maximum energy usage period or an extended forced outage period or a counterparty failed to perform under its energy supply contract.

NYISO Mitigation Measures

Pursuant to FERC approval, the NYISO has implemented the Automated Mitigation Procedure (“AMP”) to apply mitigation thresholds and measures to detect and automatically mitigate Market Participant behavior that exceeds applicable conduct and market impact thresholds. Electric energy markets that are generally competitive may occasionally cease to be competitive if conditions arise that temporarily give Market Participants an ability to raise prices significantly by economically withholding capacity. High loads, facility outages, binding transmission constraints, or other factors can cause such instances, either singly or in combination. The NYISO has developed the AMP for the automatic detection and mitigation of energy and other bids in the NYISO DAM and real time markets that exceed certain established criteria. The AMP procedures could result in a Market Participant’s bid being mitigated if specified conduct and impact thresholds are exceeded.

In a January 14, 2005 opinion, a Federal appeals court vacated the FERC orders approving the DAM AMP. Following motions for rehearing and clarification, the DC Circuit Court of Appeals ruled on March 24, 2005 that its January 14, 2005 opinion applies only to the DAM AMP outside the New York City area. On May 27, 2005, the NYISO deactivated the rest-of-state (“ROS”) area DAM AMP. However, the ROS DAM remains subject to manual mitigation measures. Further, by order dated September 15, 2005, FERC denied a request for rehearing by the NYISO and ruled that the real time AMP for ROS be removed. The NYISO is now using real time scheduling software to apply conduct and impact mitigation in the real time ROS area.

It is uncertain what impact the implementation of these mitigation measures will have on the Authority’s outage risk exposure.

NYISO Capacity Requirements Matters

The installed capacity (“ICAP”) market in New York was created administratively to ensure the reliability of the electricity system. The Reliability Council sets New York State’s minimum capacity requirement which is currently 116.5% of the State’s peak load, and the NYISO has set the current New York City and Long Island locational ICAP requirements at 80% and 99% of their peak load levels, respectively. The New York City and Long Island ICAP requirements must be met with resources located within those areas, while the ICAP quantities above these locational ICAP requirement levels up to the minimum 116.5% level can be procured from anywhere in New York State and from external resources. The requirements are allocated among LSEs in proportion to the load they serve.

These capacity requirements must be met monthly for two capability periods: a summer period extending from May to October and a winter period ranging from November to April. The NYISO currently conducts auctions for each capability period (also known as “strip auctions”), as well as monthly auctions to account for load-shifting and to resolve deficiencies. LSEs may meet their capacity requirements by self-supplying the capacity from their own resources, or with capacity acquired through bilateral contracts, or by purchasing the capacity through the auctions conducted by the NYISO. A deficiency price is imposed on any LSE that does not meet its capacity requirement.

The NYISO employs an ICAP demand curve which provides payments to ICAP providers for ICAP above the minimum level required for reliability in order to encourage the construction of new generating facilities in New York. Generally, these provisions have increased the amount of ICAP an LSE will be obligated to obtain to meet NYISO requirements, including separate requirements applicable for New York City and Long Island. The Authority has been able, as an LSE, to meet these revised requirements through its own units, contracts with other generators, and purchases in the capacity markets, and expects to be able to do so in the future.

POWER SALES

A summary of the Authority's generation, energy purchases, and power and energy sales for 2006 is set forth below:

Generation, Energy Purchases, and Power and Energy Sales 2006 (Megawatt Hours and Dollars in Thousands) (Accrual Basis)

	<u>MWh</u>		
Authority Generation and Purchases:			
Gross Generation.....	28,524		
Station service, DOT feeder and pumping energy.....	<u>(1,637)</u>		
Net Station Generation.....	26,887		
Purchases from the NYISO, utilities and others.....	16,532		
Losses and unaccounted for.....	<u>(526)</u>		
Total Available.....	<u>42,893</u>		
	<u>MWh</u>	<u>Revenues From Power and Energy Sales(1)</u>	<u>% of Total Revenue</u>
Sold to:			
Commercial and industrial customers.....	4,845	\$ 131,100	5%
Municipal, other public and cooperative customers.....	16,995	1,170,300	44%
Sales to the NYISO and utilities for resale(2).....	<u>21,053</u>	<u>1,364,600</u>	<u>51%</u>
Total Sales.....	<u>42,893</u>	<u>\$2,666,000</u>	<u>100%</u>
	<u>MWh</u>		<u>% of Total</u>
Authority Generation by Fuel Source:			
Hydroelectric.....	20,149		75%
Oil/Gas.....	6,150		23%
Gas Turbines.....	<u>588</u>		<u>2%</u>
	<u>26,887</u>		<u>100%</u>

(1) Includes wheeling and transmission charges.

(2) Primarily sales to the NYISO, the investor-owned electric utilities in New York State (including replacement and expansion power for industrial users in the Niagara area) and LIPA. Sales to the NYISO amounted to 9,603,931 MWh.

The electric power and energy of the Authority are sold principally pursuant to contracts and agreements described below. In addition to these sales, the Authority has executed short-term supply agreements that provide for sales by the Authority of power and energy for periods of short duration (less than one year) on terms and conditions mutually agreeable to the Authority and customers. Such sales are only transacted after all firm commitments are satisfied. The Authority also bids its generation and buys energy in the markets administered by the NYISO.

Generally, the Authority has no obligation to meet load growth that may be experienced by its customers. However, pursuant to agreements with its SENY governmental customers, the Authority has assumed the load growth responsibility for its governmental customers in New York City and Westchester County (see "Marketing Issues and Developments," below). In addition, the Authority serves the full requirements of certain municipal electric system and rural cooperative system customers.

Contracts for the sale, transmission and distribution of power and energy generated by the Niagara and St. Lawrence-FDR Projects and by other projects (i) to provide an adequate supply of energy for optimum utilization of its hydroelectric projects, (ii) to attract and expand high load factor industry, (iii) to

provide for the additional needs of the Authority's municipal electric and rural electric cooperative customers, and (iv) to assist in maintaining an adequate, dependable electric power supply for New York State, are subject to the approval process specified in Section 1009 of the Act. Such approval process requires, in addition to agreement between the Authority and the other contracting parties, (i) submission of the contract to the Governor and representatives of the State Senate and Assembly, (ii) public hearings and further review and, if deemed necessary, renegotiation of the contract by the Authority, and (iii) approval of the Governor.

Marketing Issues and Developments

(1) The power market in New York State has experienced significant changes in recent years, creating a more competitive environment for power producers. As a major participant in New York's power market, the Authority has been affected by these changes. With increased focus on customer needs, the Authority has initiated marketing programs and taken other actions to retain its customers. As part of this strategy, the Authority has entered into the 2005 Agreements with all of its NYC Governmental Customers, including: the MTA, The City of New York, the Port Authority, the New York City Housing Authority, and the New York State Office of General Services. The 2005 Agreements have replaced the earlier long-term agreements with those customers that were in place. Under the 2005 Agreements, the NYC Governmental Customers will purchase their electricity from the Authority through December 31, 2017, with these customers having the right to terminate service from the Authority at any time on three year's notice provided that they compensate the Authority for any above-market costs associated with certain of the resources used to supply them, and under certain limited conditions, on one year's notice.

Under the 2005 Agreements, the Authority has implemented a new price-setting process, which commenced with the 2006 rates, under which the NYC Governmental Customers request the Authority to provide indicative electricity prices for the following year reflecting market-risk hedging options designated by them. The NYC Governmental Customers can elect to have a full cost pass-through arrangement relating to fuel, purchased power, and NYISO-related costs, including such an arrangement with some cost hedging, or a sharing plan pricing option. Except for any such amounts borne by the Authority under a sharing plan, the NYC Governmental Customers would pay all of the costs incurred to serve them, including hedging costs. If the customers choose a sharing plan pricing option, the customers and the Authority would share equally in actual cost variations (up to \$60 million) above a projected amount for the year, and cost variations in excess of \$60 million would be borne by the Authority. In addition, if actual costs are below the projected amount, the NYC Governmental Customers and the Authority would share equally in such savings after the customers receive the first \$10 million in savings, in the aggregate, over the term of the 2005 Agreements. Beginning in 2009, NYPA will also offer the NYC Governmental Customers a minimum volatility pricing option. For 2006, the NYC Governmental Customers chose the sharing plan option which was implemented by the Authority. For 2007, these customers chose an "energy charge adjustment with hedging" option pursuant to which all variable costs, including fuel, purchased power and NYISO costs, are passed on to them. Under the 2005 Agreements, this option once selected applies for two consecutive years; thus, the "energy charge adjustment with hedging" option is in effect for 2007 and 2008 as well.

Pursuant to the 2005 Agreements, the Authority will modify rates annually through a formal rate proceeding before the Authority if there is a change in fixed costs to serve the NYC Governmental Customers. Except for the minimum volatility price option, changes in variable costs, which include fuel and purchased power, will be captured through contractual pricing adjustment mechanisms. Under these mechanisms, actual and projected variable costs will be reconciled and either charged or credited to the NYC Governmental Customers. Pursuant to the 2005 Agreements, these customers are committed to pay for any supply secured for them by the Authority which results from the collaborative process provided for in the agreements. Also, with the NYC Governmental Customers' guidance and approval, the Authority will continue to offer to these customers at least an aggregate of \$100 million annually in financing for energy efficiency projects and initiatives at their facilities, with the costs of such projects to be recovered from them. Many of these projects fall within the scope of the Authority's existing energy services program (see "PART 2—ENERGY SERVICES").

The revenues from the NYC Governmental Customers were approximately 34% and 35% of the Authority's 2006 and 2005 Operating Revenues (including wheeling charges), respectively.

The Authority's other SENY Governmental Customers are Westchester County and numerous municipalities, school districts, and other public agencies located in Westchester County (collectively, the "Westchester Governmental Customers"). Effective January 1, 2007, the Authority entered into a new supplemental electricity supply agreement with Westchester County in replacement of a prior agreement. Among other things, under the new agreement, Westchester County will remain a full requirements electricity customer of the Authority through at least December 31, 2008 (thereafter, on at least one year's notice, the customer may fully terminate the agreement), an energy charge adjustment mechanism is applicable, the Authority may modify the rates charged the customer pursuant to a specified procedure, the customer is committed to pay for any supply resources secured for it by the Authority under a specified collaborative process, and the Authority will continue to make available financing for energy efficiency projects and initiatives, with the costs thereof to be recovered from the customer. The Authority expects that all of the other Westchester Governmental Customers will execute this form of agreement with the Authority.

The revenues from the Westchester Governmental Customers were approximately 2% of the Authority's 2006 and 2005 Operating Revenues (including wheeling charges), respectively.

(2) The Authority has existing power sales arrangements that contain certain pricing commitments with approximately 105 business customers served under programs formerly supplied from the Authority's James A. Fitzpatrick Nuclear Power Plant that was sold in 2000. In some instances, these customers are served directly by the Authority; in other cases, the customers receive Authority power through resale arrangements with municipal distribution agencies or investor-owned utilities. These agreements allow customers to purchase Authority power and energy for terms initially ending in either 2005 or 2007 (or in some cases for a longer term), depending on the option chosen by the customer. All contractual pricing commitments with these customers (except one with a longer term) will expire in the fall of 2007 and will be replaced with the Energy Cost Savings Benefits discussed in section 3(d) below pursuant to contract modifications and Authority tariff provisions.

These agreements encompass approximately 360 MW of energy and accounted for approximately 4% of the Authority's 2006 Operating Revenues (including wheeling charges).

(3) Legislation was enacted into law in July 2005 (Chapter 313, 2005 Laws of New York) (the "2005 Act") which amends the Act and the New York Economic Development Law ("EDL") in regard to several of the Authority's economic development power programs and the creation of new Energy Cost Savings Benefits to be provided to certain Authority customers. A summary of the 2005 Act and certain related legislation enacted in 2006 and 2007 is set forth below.

(a) Industrial Power Programs

The 2005 Act amends numerous provisions of the Act and the EDL to authorize the Authority to purchase power in the marketplace and to use certain other Authority resources to serve economic development power programs. Among the affected programs are the Economic Development Power program, which supplies electricity to businesses across New York State, the High Load Factor Power program, which provides electricity to energy-intensive industries throughout New York State, and the Municipal Development Agency Power program, which supplies electricity for certain municipal distribution agencies (also known as municipal utility service agencies ("MUSAs")) to serve businesses in their territories. Power supplied under these programs is hereinafter referred to as "Industrial Power."

(b) Replacement Power

The 2005 Act creates a state law basis for continuation of the "Replacement Power" program. These provisions ensure the continued availability of low-cost hydroelectric power from the Niagara Project to serve businesses in western New York State. Replacement Power was established by the federal Niagara Redevelopment Act ("NRA") in 1957 and

provided up to 445 MW of hydroelectric power to industries in the Niagara Mohawk Power Corporation (now named National Grid) service territory within a 30-mile radius of the Niagara Project switchyard. The federal mandate for the Replacement Power program expired at the end of 2005. Most existing Replacement Power contracts ran through August 31, 2007, the end of the original Niagara Project license. These contracts were extended by the Authority through 2012 in accordance with the 2005 legislation enacted to continue the Replacement Power program, subject to the issuance of a new Niagara Project license which has now occurred. The 2005 Act treats new applications for Replacement Power under the same criteria as apply to the Authority's "Expansion Power" program, established under the Act. Allocations will be awarded on a competitive basis to businesses that commit to create jobs, increase electric load, build new or expanded facilities, and have at least 100 kilowatts ("kW") of demand. The Expansion Power program, which provides up to 250 MW of hydroelectric power to businesses within a 30-mile radius of the Niagara Project, remains unchanged and is not addressed by the 2005 Act.

(c) *Preservation Power*

The 2005 Act also creates the Preservation Power program, which will allow businesses in northern New York State to continue to be served with low-cost hydroelectric power from the St. Lawrence-FDR Project. The new Preservation Power program will govern the future allocation of up to 490 MW of firm and interruptible power from the St. Lawrence-FDR Project to industry in Jefferson, St. Lawrence and Franklin Counties. It will also apply the same criteria for allocations as are applicable to Replacement and Expansion Power. Renewals of existing contracts for business use of power under the Preservation Power program will be subject to the criteria in the Act, as amended by the 2005 Act.

(d) *Energy Cost Savings Benefits*

The 2005 Act revises the Act and the EDL to allow up to 70 MW of relinquished Replacement Power, up to 38.6 MW of Preservation Power that might be relinquished or withdrawn in the future, and through 2006 up to an additional 20 MW of unallocated St. Lawrence-FDR Project power, to be sold by the Authority into the market and to use the net earnings along with other funds of the Authority, as deemed feasible and advisable by the Authority's Trustees, for the purpose of providing Energy Cost Savings Benefits ("ECS Benefits"). The ECS Benefits are administered by the Economic Development Power Allocation Board ("EDPAB") and awarded based on criteria designed to promote economic development, maintain and develop jobs, and encourage new capital investment throughout New York State. Initially, and through December 31, 2006, the ECS Benefits were available only for business customers served under the Authority's High Load Factor, Economic Development Power and Municipal Distribution Agency programs which would, in the absence of the ECS Benefits, face rate increases beginning November 1, 2005. In August 2006, legislation was enacted into law that extended the ECS Benefits through June 30, 2007 and also provides that the Authority make available for allocation to customers the hydropower that has been utilized as a source of funding the ECS Benefits. In June 2007, legislation was enacted into law that extends the ECS Benefits through June 30, 2008. From the inception of the ECS Benefits program through June 30, 2007, there have been no ECS Benefits paid by the Authority from internal funds, as opposed to funds derived from the sale of hydropower. It is estimated that the Authority will pay from internal funds, as opposed to funds derived from the sale of hydropower, approximately \$17 million in ECS Benefits for the period July 1, 2007 through June 30, 2008.

(e) *Power for Jobs Program*

The 2005 Act amends the EDL to authorize the EDPAB to recommend contract extensions or electricity cost reimbursements to Power for Jobs recipients on the basis of revised job creation or retention commitments.

(f) *World Trade Center Economic Recovery*

The 2005 Act authorizes the Authority to approve renewals of contracts for periods of at least three years to business customers currently receiving allocations made under the World Trade Center Economic Recovery Power Program. The 2005 Act allows companies that received power under this program to apply for three-year extensions of their benefits, and will ensure that allocations are made only to companies located in the Liberty and Resurgence Zones.

(4) In 1997, 1998, 2000, and 2002, legislation was enacted into New York law which authorized the Power for Jobs program (the “PFJ Program”) to make available low-cost electric power to businesses, small businesses, and not-for-profit organizations. Under the PFJ Program, EDPAB recommends for Authority approval allocations to eligible recipients of power from power purchased by the Authority through a competitive procurement process and power from other sources. Pursuant to the 2000 legislation, the Authority is authorized to provide power through an alternate method to the competitive procurement process if the cost of the power through the alternate method is lower than the cost of power available through a competitive procurement process, provided that the use of power from Authority sources does not reduce the availability of, or cause an increase in the price of, power provided by the Authority for any other program. If the Authority decides to not make power available to an entity whose allocation has been recommended by EDPAB, the Authority must explain the reasons for such denial. The PFJ Program power is sold to the local utilities of the eligible recipients pursuant to sale for resale agreements at rates which are based on the cost of the competitive procurement (or alternate acquisition) power plus a charge for the transmission of such power.

In 2004, legislation was enacted into law which amended the PFJ Program in regard to contracts of certain customers. Under the amendment, certain contracts terminating in 2004 and 2005 could be extended by the affected customer, or the customer could opt for “Power for Jobs electricity savings reimbursements” (“PFJ Reimbursements”) from the Authority, through December 31, 2005. Generally, the amount of such PFJ Reimbursements for a particular customer is based on a comparison of the current cost of electricity to such customer with the cost of electricity under the prior Power for Jobs contract during a comparable period.

In April 2005, the PFJ Program, with its contract extensions and PFJ Reimbursements aspects, was extended until December 31, 2006, as part of the approved State budget. In August 2006, the Governor signed legislation that extended the PFJ Program, including the PFJ Reimbursements aspects, through June 30, 2007; authorizes certain customers that had elected to be served by contract extensions to elect to receive PFJ Reimbursements instead; and requires the Authority to make payments to certain customers to reimburse them with regard to program electric prices that are in excess of the electric prices of the applicable local electric utility. In June 2007, legislation was enacted into law that extended without change the PFJ Program through June 30, 2008. As of July 31, 2007, approximately 323 PFJ Program customers had opted to extend their contracts and 171 customers had opted to receive PFJ Reimbursements payments. The Authority made PFJ Reimbursements payments of \$37 million for 2005, \$46 million for 2006, and expects that such payments for 2007 will not exceed the 2006 levels. See “PART 2—LEGISLATION AFFECTING THE AUTHORITY” for related information on the PFJ Program involving voluntary contributions to the State.

In February 2007, two PFJ Program customers initiated suit in Albany County Supreme Court challenging the Authority’s implementation of the August 2006 legislation as it pertains to payments for program electric prices in excess of the local utility’s prices and the methodology for calculating PFJ Reimbursements. The Authority thereafter filed its answering papers and, by decision dated April 26, 2007, the court upheld the Authority’s actions and dismissed the petition in all respects. See “PART 1—APPENDIX D—Litigation—Item (f)” for a further discussion of this lawsuit.

(5) To meet customer energy needs, the Authority entered into (i) two contracts for differences (“CFDs”) with a counterparty, which will effectively result in the supply at specified prices of up to 450 MW of energy in the years 2004-2007 and 100 MW of energy in the years 2005-2008, (ii) two energy supply contracts with two entities to supply an aggregate of 500 MW of energy at specified prices to the Authority for the period 2004-2008, (iii) a CFD with a counterparty which will effectively result in the supply at

specified prices of 100 MW in peak hours for the period 2008-2010; and (iv) two energy supply contracts with two entities to supply an aggregate of 200 MW for the period January 1, 2009-September 27, 2013.

(6) At their November 2006 meeting, the Authority's Trustees authorized entering into negotiations for the execution of long-term supply agreements with Hudson Transmission Partners, LLC (Hudson) and FPL Energy, LLC (FPLE), as the winning bidders in response to the Authority's Request for Proposals for Long-Term Supply of In-City Unforced Capacity and Optional Energy issued in March 2005. These supply agreements are intended to serve the long-term requirements of the NYC Governmental Customers. The Authority would secure these long-term supplies through the transmission rights associated with Hudson's proposed transmission line extending from Bergen County, New Jersey, to Con Edison's West 49th Street substation and the Unforced Capacity associated with FPLE ownership of capacity produced at the existing Red Oak combined cycle power plant in Sayreville, New Jersey. In accordance with the bidders' proposals, the purchases would qualify as 500 MW of locational capacity in New York City, and facilitate the purchase of energy from the neighboring PJM Interconnection for resale into New York City. Subject to reaching final negotiated contract terms and the approval thereof by the NYC Governmental Customers, the costs associated with the contracts would be borne by these customers. Based on an impact study completed in June 2007, PJM Interconnection notified Hudson that it would be responsible for substantial interconnection and system upgrade costs in order to obtain the firm transmission withdrawal rights for the Bergen, New Jersey substation it had requested. Thereafter, Hudson agreed to sponsor the facilities study relating to such interconnection and upgrade facilities.

(7) In September 2006, as part of New York State's Advanced Clean Coal Power Plant Initiative, the Authority issued a non-binding request for proposals that solicited up to 600 MW of electric capacity and energy from one or more clean coal facilities that may be developed in the State by one or more private sector entities and which would be subject to one or more purchased power agreements with the Authority. In December 2006, the Authority's Trustees, in response to proposals from four bidders, determined that NRG Energy, Inc. (NRG) was the highest evaluated bidder but that the pricing terms of NRG's bid (and the other highly evaluated bidders) were too high to be workably competitive for the Authority. The Trustees authorized the Authority to negotiate a strategic alliance with NRG, to explore approaches for bringing down the cost of the project and its output, including securing additional financial assistance, grants, or tax credits. The Trustees also conditionally awarded a power purchase agreement to NRG, contingent upon, among other things, the success of the strategic alliance and future Trustee approval. Depending on the success of the strategic alliance and other subsequent developments, Authority staff in the future may seek authorization from the Trustees to establish a clean coal initiative fund in the amount of \$50 million, to be financed by deposits of \$10 million per year for five years, which would be available to be awarded to NRG for the actual deployment of carbon sequestration technologies at the project.

St. Lawrence-FDR and Niagara

Power and energy from the St. Lawrence-FDR and Niagara hydroelectric facilities are sold to three investor-owned electric utility companies: National Grid, New York State Electric & Gas Corporation ("NYSEG"), and Rochester Gas and Electric Corporation ("RG&E"), 47 municipal electric systems and four rural electric cooperatives in New York State, three industrial plants at Massena, New York, the MTA, the NFTA and seven out-of-state customers. Energy is also sold to the St. Lawrence Seaway Development Corporation and to the New York State Office of Parks, Recreation and Historic Preservation. Service was provided to the three investor-owned utilities under contracts providing for sale of 553 MW of firm and 360 MW of peaking hydroelectric power for a term ending upon the expiration of the Authority's original Niagara license on August 31, 2007. In July 2007, the Authority's Trustees authorized contract extensions to June 30, 2008, subject to withdrawal upon thirty days' notice by the Authority for reallocation as may be authorized by law or otherwise as may be determined by the Trustees, for sales to these companies effective September 1, 2007 of 455 MW of firm and 360 MW of peaking hydroelectric power. Contracts expiring in 2013 provide for the sale of up to 250 MW of hydroelectric Expansion Power to National Grid and NYSEG for resale to industries generally located within 30 miles of the Niagara Project. A contract for sale of a portion of the 445 MW of hydroelectric Replacement Power to National Grid for resale to industries in the vicinity of Niagara expired on August

31, 2007. Thereafter, Replacement Power allocations that are bundled with National Grid's delivery service are continuing on a sale-for-resale basis in accordance with a FERC-filed rate schedule. Replacement Power allocations that are sold on an unbundled basis are continuing pursuant to a sale-for-resale agreement with National Grid effective through 2012. Contracts with Aluminum Company of America ("ALCOA") for an aggregate of 478 MW expire in 2013. The contracts with ALCOA provide for rate adjustments based upon a formula containing various indices and provision for job credits. The indices used in the ALCOA contracts are the average of the monthly United States Department of Labor, Bureau of Labor Statistics Producer Price Indices for Industrial Power and Industrial Commodities less fuel, which reflect the cost of electricity used by industry and the price of materials used by industry, and a third index based on the average revenues per kilowatt-hour for electric sales to the industrial sector in ten specified states, the bulk of which are in the northeast region. A 12-MW contract with General Motors Corporation ("General Motors") is in effect through 2013. General Motors recently announced that the facility in Massena, New York where this allocation is used will cease operation in approximately 2008. Any relinquished Preservation Power would be available for reallocation to businesses in the vicinity of the St. Lawrence – FDR Project. Contracts for the sale of up to 764 MW through August 31, 2025 with the 47 municipal electric systems and four rural electric cooperatives which own their own electric distribution systems are in effect. The contract with the MTA expired on July 31, 2000, but the Authority is continuing to provide this service to the MTA on a month-to-month basis. Service to NFTA is also on a month-to-month basis.

Contracts with the seven out-of-state customers are in effect through August 31, 2025 and provide for the sale of 191.2 MW of firm and the 40.9 MW of peaking power from the Niagara Project.

The new license issued to the Authority in 2003 for the St. Lawrence-FDR Project (see "PART 2—THE AUTHORITY'S FACILITIES—Generation—*St. Lawrence-FDR Relicensing*") provides for the sale of approximately 4.25% of Project power (approximately 34.5 MW) to six out-of-state customers, along with a corresponding share of non-firm energy, at cost-based rates under contracts with terms through April 30, 2017. Such contracts have been approved by the Authority's Trustees and the Governor and are in effect.

The charges for firm power and associated energy sold by the Authority to the three investor-owned utility companies for the benefit of rural and domestic customers, the municipal electric systems and rural electric cooperatives in New York State, the MTA, the NFTA and seven out-of-state customers have been established in the context of an agreement settling litigation respecting rates for hydroelectric power, judicial orders in that litigation, and contracts with certain of these customers. Essentially, the settlement agreement and relevant judicial orders preclude the inclusion of any expense associated with debt service for non-hydroelectric projects in the hydroelectric rates charged to wholesale customers for the benefit of rural and domestic customers but specifically permit the inclusion of interest on indebtedness and continuing depreciation and inflation adjustment charges with respect to the capital costs of the Niagara and St. Lawrence-FDR Projects. The basic rates for replacement, expansion and General Motors power and energy are subject to annual adjustment in May of each year, based on four economic indices.

Contracts with National Grid, NYSEG and RG&E relating to hydroelectric power from the plants contain various limitations on the obligations of parties under particular circumstances, including, among other things, provisions allowing for withdrawal of power and energy to comply with the NRA, the Authority's Niagara and St. Lawrence-FDR licenses, and orders of FERC. The Authority may discontinue service upon 15-days' written notice for non-payment of bills and terminate any such contract upon 60-days' notice for violations of the terms thereof. A utility company may elect to terminate its contract for any reason on one year's notice to the Authority and on 90-days' notice in the event that the charge for service is increased or the terms, conditions or rules governing the service are materially modified without the agreement of the utility.

Blenheim-Gilboa

The Authority uses all but 50 MW of the Blenheim-Gilboa Pumped Storage Power Project ("Blenheim-Gilboa Project") output to meet the requirements of the Authority's business and governmental customers and to provide services in the NYISO market. The Authority has a contract for the sale of 50 MW of firm capacity from the Blenheim-Gilboa Project to LIPA.

Service under the contract with LIPA commenced on April 1, 1989 and will terminate April 30, 2015, unless terminated by LIPA upon not less than 6 months advance notice. The Authority and LIPA have executed an agreement under which LIPA transferred its contractual rights to the Authority in return for the Authority agreeing to bid the full Blenheim-Gilboa Project generation into the NYISO markets or enter into other marketing arrangements relating to such generation and to make payment to LIPA based on an apportionment of the resultant net revenues on the basis of LIPA's contract demand. This agreement expired on June 30, 2007 and is expected to be extended through June 30, 2008. Unless other arrangements are negotiated, upon termination of this agreement, the original Blenheim-Gilboa LIPA contract will again become effective.

Sales of Purchased Power and Energy for Industrial Power

Eight contracts are in effect for the sale of purchased power and energy ("PPE") to five high-load factor industries, one business under legislation enacted into New York law in 1984, and the United States Department of Energy ("DOE") at Upton, New York. The DOE contract is subject to yearly Federal appropriations. In May 2005, Trustees approved an extension of the DOE contract through June 2008 providing for market prices to be flowed through to DOE and the provision of certain financial incentives by the Authority. Several of the remaining contracts have termination dates of June 30, 2008, the others do not have specific termination dates, and all of these contracts are receiving the ECS Benefits discussed above (See "Marketing Issues and Developments"). Pursuant to those contracts having allocations associated with them, approximately 151 MW of such PPE is sold. In the case of each of the contracts, the Authority may discontinue service upon 15 days' notice for nonpayment of bills and terminate the contract upon 60 days' notice for violation of certain contract provisions. As to certain of the high load factor contracts, the Authority may terminate or reduce deliveries under the contracts in order to provide power for municipal and rural electric cooperative systems and other public bodies upon six years' prior written notice, which may be given no earlier than nine years after service was initiated, or at five-year intervals thereafter.

A total of approximately 193 MW of economic development power ("EDP") being supplied from PPE has been allocated to businesses recommended for allocation by EDPAB. These EDP contracts are receiving ECS Benefits and such contracts have provisions which allow for customer termination on written notice of one year or 90 days, depending upon the contract. The EDPAB legislation provides that power formerly supplied from the FitzPatrick plant which was voluntarily relinquished by businesses, designated as EDP, be made available for allocation to or for businesses recommended by EDPAB. The EDPAB statute expanded the market for industrial power to be supplied by the Authority by establishing a lower 400-kW minimum-demand requirement and no load-factor test for EDP customers. EDPAB must evaluate all applications for the allocation of EDP in accordance with the criteria set forth in the statute and recommend to the Authority such applications which best meet the criteria, with such terms and conditions as it deems appropriate. If the Authority declines to make power available to or for a business whose allocation has been so recommended, it must specify its reasons in writing. At least one-half of all allocations must be recommended for applicants located in southeastern New York.

The legislation also directs the Authority "to identify the net revenues produced by the sale of expansion power and further to identify an amount of the net revenues from the sale of expansion power which shall be used solely for industrial incentive awards." The statute provides that "[n]otwithstanding other lawful purposes for which such revenues may be used, it shall be the preferred purpose of the [A]uthority to make available all such net revenues for industrial incentive awards." Industrial incentive awards are to be made in accordance with an economic development plan proposed by the Authority and approved by EDPAB for each year. In December 2006, the Authority approved economic development plans for 2007 providing for the use of net revenues from the sale of expansion power to support industrial rates for Industrial Power customers, and EDPAB is expected to approve these plans.

The Authority has also contracted for the sale of up to 96.5 MW of Industrial Power to MUSAs, not all of which is presently allocated, located in the service territories served by Con Edison, LIPA, Orange & Rockland Utilities, Inc. ("Orange & Rockland"), and Central Hudson Gas & Electric Corporation ("Central Hudson"), for resale to business customers approved by the Authority. A total of 12.1 MW is being sold to the County of Westchester Public Utility Service Agency ("COWPUSA") for resale to

10 such customers, and 51.9 MW has been made available to the New York City Public Utility Service Agency for resale to 11 such customers, of which 44.35 MW is currently being delivered. In addition, 5 MW of such power is being made available to the Suffolk County Electrical Agency for resale to seven customers, and 5 MW has been made available to the Nassau County Public Utility Agency for resale to five customers.

The Authority utilizes approximately 156 MW of PPE to meet the needs of the Authority's PFJ Program customers that are receiving power allocations through June 30, 2008 rather than PFJ Reimbursement payments (see "Marketing Issues and Developments," above).

The Authority also sells incremental PPE to 14 of its 51 municipal electric system and rural electric cooperative customers to meet their electric power requirements in excess of their hydroelectric power allocations, which incremental power amounts during the peak winter months, in the aggregate, to approximately 98 MW (22 MW of which is from other Authority sources) and during the off-peak summer period diminishes to a small fraction of the winter amount. With passage of the Federal Energy Policy Act of 1992, these customers gained increased access to the wholesale power market. The Authority successfully negotiated long term agreements with 13 of the municipal and rural cooperative systems, under which the customers agreed not to exercise certain termination rights and the Authority agreed to forego certain rate adjustment rights. These agreements are scheduled to expire in 2007 and the Authority has entered into negotiations to continue to supply incremental PPE after 2007 to those customers that desire it. One system continues to purchase incremental power from the Authority, but not under a long term contract.

SENY Governmental Customers

The Authority supplies power and energy from acquisitions in the energy and capacity markets, as well as from Authority sources, to the NYC Governmental Customers and the Westchester Governmental Customers for use for education, public housing, street lighting, subways, airports, bridges and tunnels and other public purposes. The contracts with such governmental bodies provide for firm power service under the Authority's applicable service tariffs and its rules and regulations for power service, as supplemented by long term agreements with many of these customers (see "Marketing Issues and Developments," above). The rates established vary from customer to customer in accordance with load characteristics, and, in most cases, include both demand and energy rates. Authority power is delivered to these customers over the transmission and distribution system of Con Edison. The Authority pays Con Edison a delivery service charge to cover the cost of delivering this power to the point of use by the customer, which cost is recovered by the Authority from the customer.

The Authority's Ashokan and Kensico facilities and Small Hydroelectric Development Project No. 1 are used to support service to SENY Governmental Customers under the arrangements discussed above.

Since the sale of the Authority's Indian Point 3 nuclear plant and the completion of the initial purchase power agreement with the Entergy Subsidiaries, the Authority has provided for the power and energy needs of its SENY Governmental Customers through acquisitions in the energy and capacity markets, and, to the extent necessary, power and energy from the Authority's generating units. To serve these customers in the future, the Authority will have as resources its existing generation, including the 500-MW Plant (see "PART 2—THE AUTHORITY'S FACILITIES—Generation—500-MW *Combined-Cycle Electric-Generating Plant*") and market-based purchases. The Authority anticipates that through these various sources it will be able to meet the power and energy needs of such customers. See "PART 2—NEW YORK INDEPENDENT SYSTEM OPERATOR—Certain Authority Plant Outage Risks" for a discussion of risks relating to outages at Authority units or non-performance of counterparties to energy supply contracts.

Poletti Project

The installed capacity of the Poletti Project is being used by the Authority to meet its installed capacity needs. The Authority is bidding the generation of Poletti into the DAM and the real time market in such a manner as the Authority deems advisable so as to, among other things, recover the costs of the

operation of the unit and to maximize the unit's availability to the NYISO to assure the economical and reliable supply of electricity in the SENY area. For a discussion relating to the closure of the Poletti plant in 2010, and restrictions on future Poletti Project operations, see "PART 2—THE AUTHORITY'S FACILITIES—Generation—500-MW Combined-Cycle Electric-Generating Plant."

Small Clean Power Plants

The installed capacity of the SCPPs is being used by the Authority to meet its installed capacity needs or, if not needed by the Authority, is subject to sale to other users. The Authority is bidding the generation of the SCPPs into the DAM and the real time market in such a manner as the Authority deems advisable so as to maximize the SCPPs' availability to the NYISO to assure the economical and reliable supply of electricity in the SENY area. The Authority believes that the revenues derived from the sale of the SCPPs' generation into the NYISO energy markets, along with other available funds of the Authority, will be sufficient to meet the costs associated with the SCPPs.

Flynn

The Authority is supplying the full output of the Flynn plant to LIPA pursuant to a capacity supply agreement (the "CS Agreement") between the Authority and LIPA, which commenced in 1994 and had an initial term of 20 years (see below for a discussion of an amendment which extended such period).

The CS Agreement was amended, effective January 1, 2004, by an agreement (the "Supplementary Agreement"), which, among other things, extended the CS Agreement to April 30, 2020 (with either party having the right to terminate the extension on or before April 30, 2012) and modified the pricing provisions for the period January 1, 2004 to December 31, 2008. Under the revised pricing provisions of the Supplementary Agreement, the daily energy price for all Flynn energy sold to LIPA is the lesser of a market-based gas price defined in the Supplementary Agreement or 95 percent of the 24-hour average of the DAM energy price (the "LI Price") for the NYISO Long Island zone. To the extent that 95 percent of LI Price applies for any day, the Authority would under-recover its gas cost. A daily shared savings arrangement allows the Authority the opportunity to recover a portion of its uncollected gas costs as long as LIPA's energy cost savings from Flynn are at least 20 percent for the day. Under the revised pricing provisions of the Supplemental Agreement, the monthly capacity payments made by LIPA have been reduced by \$3 million annually. The intent of the Supplemental Agreement is to allow the Authority to recover more of its gas costs than would have been the case under the CS Agreement. Notwithstanding the Supplementary Agreement, the Authority cannot guarantee that this arrangement will allow it to recover all of its Flynn plant gas costs.

TRANSMISSION SERVICE

The NYISO is responsible for scheduling the use of the bulk transmission system in New York State, which normally includes all of the Authority's transmission facilities, and for collecting for ancillary services, losses and congestion fees from transmission customers. Each IOU, LIPA and the Authority retains ownership, and is responsible for maintenance, of its respective transmission lines. All customers of the NYISO pay fees to the NYISO. Each such customer also pays a separate fee for the benefit of the Authority that is designed to assure that the Authority will recover its entire annual transmission revenue requirement. If the NYISO does not maintain a FERC-accepted tariff which provides for full recovery by the Authority of its annual transmission revenue requirement, the Authority would be permitted to withdraw from the NYISO on 90-days' notice to the other parties. In addition, any of the IOUs, LIPA and the Authority may withdraw from the NYISO on 90-days' notice to the Board of Directors of the NYISO, but, in the case of an IOU, such withdrawal is conditioned upon the effectiveness of an "open access" transmission facilities tariff on file with FERC. In 1996 the Authority adopted an open access transmission tariff which would be available to the Authority's customers and the public should the Authority ever withdraw from the NYISO.

In an order dated July 28, 1999, FERC approved the NYISO Open Access Transmission Tariff, the NYISO Market Administration and Control Area Tariff (under which non-transmission services are provided by the NYISO), and each of the related agreements submitted to it for approval in connection with the formation of the NYISO. In an Order issued January 27, 1999, FERC approved the use of the Authority's present transmission system revenue requirement in developing the rates for service under the NYISO tariff and declined to set the revenue requirement for hearing. Such action does not, however, foreclose further review by FERC of any modifications of the Authority's transmission system revenue requirement.

FERC also approved, among other things, the imposition of the NYPA Transmission Adjustment Charge and the NYPA Transmission Service Charges (the tariff elements for the recovery of the Authority's annual transmission revenue requirement), establishment of the NYISO and the Reliability Council, the Reliability Rules, and the commencement of operations by the NYISO.

Transmission agreements between the IOUs, LIPA and the Authority and their customers in existence remain in effect unless modified pursuant to Sections 205 or 206 of the Federal Power Act ("FPA"). The IOUs have made Section 205 filings with respect to virtually all transmission agreements applicable to the Authority and its customers. The Authority concurred in these filings, and they have been approved by FERC. These customers have the right to elect to convert their service to service under the NYISO Open Access Transmission Tariff.

Cable Agreement

The Authority and LIPA are parties to the Sound Cable Facilities and Marketing Agreement (the "Cable Agreement"), relating to the Authority's Long Island Sound Cable (the "Cable") (see "PART 2—THE AUTHORITY'S FACILITIES—Transmission—*Long Island Sound Cable*"), which was executed for the purposes of providing lower cost energy from upstate New York and Canadian sources to consumers on Long Island and of increasing the reliability of their electric supply by strengthening interconnection capability between Long Island and the rest of New York State. The Cable Agreement provides that LIPA will reimburse the Authority for the costs it incurs in connection with the Cable, including but not limited to debt service, reserves, and operation and maintenance expenses, in return for the use of the capacity of the project. LIPA was initially allocated the full capacity of the Cable and to the extent that the Authority has allocated capacity to other parties, LIPA's payment obligations are proportionately reduced, with such other parties making payments pursuant to applicable rates. The Authority has allocated capacity of the Cable to certain loads served by the Authority in LIPA's service territory when there has been insufficient capacity to serve such loads on another cable jointly owned by LIPA and Con Edison. For a discussion of certain damage to the Cable and its repair, see "PART 2—THE AUTHORITY'S FACILITIES—Transmission—*Long Island Sound Cable*."

ENERGY SERVICES

The Authority implements two energy services programs, one for its SENY governmental customers and the other for various other public entities throughout the State. Under these programs, the Authority finances the installation of energy saving measures and equipment which are owned by the customers and public entities upon their installation and which focus primarily on the reduction of the demand for electricity. The Authority has authorized as of June 30, 2007, the expenditure of an aggregate of \$1.89 billion on these programs, the funds for which are provided from the sale of the Authority's Commercial Paper Notes and from internally generated funds. Except for certain audit and financial incentive costs, which have been or, in the case of audit costs, will be borne by the Authority, the Authority expects to recover its expenditures on these programs, including its financing costs, from the participants in these programs and/or, for certain of these expenditures which have been incurred, those customer classes receiving benefit from the programs, over periods not exceeding ten years, except for certain projects meeting specified criteria and implemented after April 1, 2002 which may have recovery periods extending up to 20 years. These programs generally provide funding for, among other things, high efficiency lighting technology conversions, high efficiency heating, ventilating and air conditioning systems and controls, boiler conversions, replacement of inefficient refrigerators with energy efficient units in public housing projects, distributed generation technologies and clean energy technologies, and installation of non-electric energy saving measures. Participants in these programs include departments, agencies or other instrumentalities of the State, the Authority's SENY public customers, public school districts or boards and community colleges located throughout New York State, county and municipal entities with facilities located throughout New York State, certain not-for-profit entities, the Authority's municipal and rural electric cooperative customers, and industrial customers of the Authority.

By recently enacted legislation, the Authority is also authorized to engage in (1) energy efficiency services and clean energy technologies projects for public and non-public elementary and secondary schools in New York; (2) energy efficiency and conservation services and projects involving facilities using conventional or new energy technologies for certain specified military establishments in New York; and (3) financing and administration of programs to replace inefficient refrigerators with energy efficient units in certain public and private multiple dwelling buildings.

As of June 30, 2007, the Authority had outstanding aggregate expenditures of \$300.4 million (excluding POCR funds, discussed below) for these programs and projects associated with POCR funding, discussed below, and expects to spend an additional \$500 million for these programs and projects associated with POCR funding, discussed below, over the period 2007-2011 (see "PART 2—CERTAIN FINANCIAL AND OPERATING MATTERS—Projected Capital and Financing Requirements").

The Authority has also established a variety of programs to be funded by available petroleum overcharge restitution ("POCR") funds and, to a lesser extent, other State funds (see "PART 2—LEGISLATION AFFECTING THE AUTHORITY"), with authorized funding of \$60.9 million. These programs include an interest free loan program for independent colleges and universities in New York State to fund energy conservation measures, with such loans to be repaid over a period not to exceed 10 years; a grant program for public school coal-fired boiler plant conversions to dual fuel (oil-gas) operation; a grant program for certain participants in the Authority's other energy services programs; and grant programs relating to solar energy technology, hybrid electric transit buses, an advanced vehicle technology center, and other energy services projects throughout New York State. The Authority is also statutorily authorized to utilize its internally generated funds and the proceeds of Authority debt to finance energy service projects receiving POCR financing.

The New York State Clean Water/Clean Air Bond Act of 1996 (the "1996 Bond Act") allocated to the Authority \$125 million of 1996 Bond Act proceeds to undertake the implementation of Clean Air for Schools projects for elementary, middle and secondary schools, which funds have been received. These projects are designed to improve air quality for schools, including, but not limited to, the replacement of coal-fired and certain other furnaces and heating systems with furnaces and systems fueled by oil or gas. The Authority anticipates that the funding for the projects will allow the conversion of 80 schools, of which 76 have been completed. The conversion program is scheduled to be completed in 2008.

Funds received by the Authority under the 1996 Bond Act and POCR funds received by the Authority are not available to pay debt service on the Authority's debt obligations.

THE AUTHORITY'S FACILITIES

Generation

General Information

The Authority's generating facilities and certain related capacity and generation information are listed in the following table:

Authority Generating Facilities

	Type	First Year of Operation	Total Installed Capability-MW	Net Dependable Capability-MW	2006 Net Generation MWh
St. Lawrence-FDR	Hydro	1958	912	760	6,797,312
Niagara	Hydro	1961	2,755	2,650	13,533,003 ⁽¹⁾
Blenheim-Gilboa	Pumped Storage	1973	1,070	1,040	(396,988) ⁽¹⁾
Poletti	Oil/Gas	1977	885	890 ⁽²⁾	1,885,370
Flynn	Oil/Gas	1994	167	135 ⁽²⁾	1,212,592
SCPPs ⁽³⁾	Gas	2001	517	460 ⁽²⁾	587,469
Small hydroelectric ⁽⁴⁾	Hydro	See note (4)	40	12 ⁽²⁾	215,860
500-MW Plant	Gas	2005	500	475	3,052,373
Totals			6,846	6,422	26,886,991

(1) Net of pumping energy.

(2) Summer capability period rating.

(3) Consists of 10 generating units located in New York City and one located in the service territory of LIPA.

(4) Consists of Ashokan and Kensico facilities, which were placed in service in 1982 and 1983, respectively, and facilities at the Hinckley (Jarvis plant), Crescent and Vischer Ferry sites, which are part of Small Hydroelectric Development Project No. 1 and which went into commercial operation on July 1, 1991.

St. Lawrence-FDR

The St. Lawrence-FDR Project consists primarily of the Robert Moses Power Dam located at Massena, New York, and two additional dams. The construction and operation of the St. Lawrence-FDR Project were authorized by a 50-year license issued to the Authority by the Federal Power Commission effective as of November 1, 1953. By order issued October 23, 2003, a new 50-year license has been issued to the Authority by FERC (see "St. Lawrence-FDR Relicensing" below). Commercial production of power started in July 1958. The last of the Authority's sixteen generating units was installed in July 1959. All power is generated at the Robert Moses Power Dam, which contains sixteen 57-MW hydro-turbine generators having an aggregate nameplate capacity of 912 MW. Under the new license, a specified amount of the plant's output must be made available to neighboring states (see "St. Lawrence-FDR Relicensing" below). For a discussion of litigation commenced by Native American tribes claiming ownership of various lands within the boundary of the St. Lawrence-FDR Project, see "PART 1—APPENDIX D—Litigation—Item (a)."

St. Lawrence-FDR Relicensing

(1) The New St. Lawrence-FDR License

On October 23, 2003, FERC issued a new 50-year license (the "New License") for the St. Lawrence-FDR Project to the Authority. Among other things, the New License provides for the following:

- (1) establishment of a \$24 million fund for fish enhancement and mitigation to be used for research, construction and operation of projects benefiting fisheries in the Lake Ontario/St. Lawrence River basin;

- (2) construction of a fish ladder to assist the upstream passage of American eel;
- (3) allocation of power from the Project to the states of Vermont, Rhode Island, Connecticut, New Jersey, Pennsylvania and Ohio;
- (4) development of various habitat improvement projects within the Project boundary;
- (5) construction of new recreational facilities and rehabilitation and expansion of existing recreational facilities, including additional trails, camping facilities and boat launches; and
- (6) a shoreline management plan to effectively maintain eroding shorelines in the Project's boundary.

A more detailed description of certain of these elements of the New License is set forth in the context of the discussion of the Comprehensive Accord below and the discussion of the allocation of Project power to out-of-state customers below. See also "PART 1—APPENDIX D—Litigation—Item (c)" for a discussion of litigation relating to the license.

The Authority estimates that the total costs associated with the relicensing of the St. Lawrence-FDR Project for a period of 50 years will be approximately \$210 million, consisting of approximately \$148 million which has already been spent or will be spent in the near future, including for payment of administrative costs associated with relicensing activities to date, and approximately \$62 million of additional expenditures to be paid in the future, the timing of such expenditures varying with the nature of the expenditure. These total costs could increase in the future as a result of authorities reserved by FERC in the New License. A significant portion of such estimated costs is reflected in the Authority's estimate of its capital requirements for the period 2007-2011 (see "PART 2—CERTAIN FINANCIAL AND OPERATING MATTERS—Projected Capital and Financing Requirements"). The Authority believes that it will be feasible to collect in its rates for the sale of St. Lawrence-FDR power amounts necessary to fund such relicensing costs.

(2) The Comprehensive Accord Relating to the New License

In February 2003, pursuant to FERC regulations, the Authority filed the Comprehensive Relicensing Settlement Accord (the "Comprehensive Accord") by and between the Authority, the United States Fish and Wildlife Service of the United States Department of the Interior (the "FWS"), the National Park Service of the United States Department of the Interior (the "NPS"), the New York State Department of Environmental Conservation ("DEC"), the New York State Department of State (the "DOS"), OPRHP, St. Lawrence Aquarium and Ecological Center Inc. (the "SLAEC"), New York Rivers United (the "NYRU"), and the St. Lawrence Local Government Task Force (consisting of St. Lawrence County, New York, and various municipalities and school boards in St. Lawrence-FDR Project area) (the "Local Government Task Force") (collectively, the "Settling Parties").

The Comprehensive Accord is a comprehensive settlement package that resolved all issues among the Settling Parties associated with the Authority's application for the New License (the "Application"). The Comprehensive Accord specifically adopts and incorporates five individual agreements (the "Individual Agreements") between the Authority and one or more Settling Parties and a letter of understanding between the Authority and the National Marine Fisheries Services (the "NMFS"). It also provides that all signatories to the Comprehensive Accord agree to the terms of each of these six documents. These six documents adopted and incorporated into the Comprehensive Accord are as follows:

- (1) Fish Enhancement, Mitigation and Research Fund Settlement Agreement between the Authority and FWS (the "FEMRF Agreement");
- (2) Ecological Mitigation and Enhancement Measures Settlement Agreement between the Authority, FWS, DEC and NYRU (the "Ecological Agreement");
- (3) Relicensing Settlement Agreement between the Authority and Local Government Task Force (the "Task Force Agreement");
- (4) Agreement between the Authority and SLAEC (the "Aquarium Agreement");

- (5) Agreement between the Authority and OPRHP (the “OPRHP Agreement”); and
- (6) Letter of Understanding between the Authority and NMFS (the “NMFS Letter”).

Certain key substantive obligations of the Settling Parties under the Individual Agreements are set forth below. Except as noted, these obligations have been substantially incorporated into the New License.

1. *Fish Enhancement, Mitigation and Research Fund (the “FEMRF”).* Under the FEMRF Agreement, the Authority has agreed to establish through the National Fish and Wildlife Foundation, the \$24 million FEMRF. The Authority has met the requirement. The purpose of the FEMRF is to provide mitigation for impacts to fish resources of the Lake Ontario/St. Lawrence River basin and to continue research on the American eel and other species that may be affected by the Project, as the same may be caused by the operation of the Project.

2. *Upstream American Eel Passage Facility.* Under the FEMRF Agreement, the Authority agreed to construct, operate and maintain a ladder for upstream American eel passage on the Robert Moses Power Dam. The Authority has met this requirement.

3. *Habitat Improvement Projects.* Under the Ecological Agreement, the Authority has agreed to design, construct, operate and maintain ten Habitat Improvement Projects within the Project boundary and one outside the Project boundary (the “HIPs”). To facilitate construction of these HIPs, pursuant to the Ecological Agreement, the Authority has developed an implementation plan, approved by FERC in 2004, for the design, construction and effectiveness monitoring of the ten HIPs within the Project boundary.

4. *Future Habitat Improvement Fund.* The Ecological Agreement also requires the Authority to set aside \$3.92 million (in 2003 dollars) for the design, construction, environmental monitoring, operation and maintenance of future HIPs to be located on the St. Lawrence River or its tributaries within New York State that will benefit the ecology of the St. Lawrence River. The Authority has met this requirement.

5. *Enhancements to Wilson Hill Wildlife Management Area (“WHWMA”).* Pursuant to the Ecological Agreement, the Authority has agreed to implement, in consultation with DEC, several improvement projects to WHWMA, which is located within the Project boundary. The WHWMA includes approximately 1,800 acres of open water habitat, including large, shallow freshwater impoundments.

6. *St. Lawrence River Research and Education Fund.* The Authority agreed, as part of the Ecological Agreement, to establish the \$1.008 million St. Lawrence River Research and Education Fund (the “SLRREF”), the purpose of which is to provide financial support for environmental research and environmental education projects related to the ecology of the St. Lawrence River watershed in the immediate vicinity of the Project. The Authority has met this requirement.

7. *South Channel Water Temperature Monitoring.* Under the Ecological Agreement, the Authority will monitor water temperature in shallow areas of the South Channel downstream of Long Sault Dam from approximately April 1 until June 30 of each year. The New License also requires the Authority to monitor dissolved gases in the South Channel. In addition, the Authority has developed a temperature and dissolved gases monitoring plan, approved by FERC in 2004, providing for the location of monitors, the frequency at which data will be collected, and notification requirements for spill events at Long Sault Dam.

8. *Recreational Enhancements.* Pursuant to, among other things, the Task Force Agreement, the Authority has agreed to construct, rehabilitate, operate and maintain numerous recreational facilities throughout the following locations at the Project: (1) Town of Massena; (2) Town of Louisville; (3) Town and Village of Waddington; (4) Robert Moses State Park; (5) Coles Creek State Park; and (6) Wilson Hill Boat Launch.

9. *Land and Vegetation Management Plans.* Under the Task Force Agreement and the Ecological Agreement, the Authority has developed a Land Management Plan (the “LMP”) for the Project, approved by FERC in February 2005. The LMP has established guidelines for public access to Project

lands, use of Project lands by adjoining landowners, and use of Project lands for appropriate commercial activities that are dependant upon either access to or proximity of Project waters. The LMP also includes a Vegetation Management Plan (the “VMP”).

10. *Shoreline Stabilization Plan.* Under the Task Force Agreement, the Authority has developed a plan, approved by FERC in January 2005, to stabilize eroding shoreline at 31 sites within the Project boundary over an 8- to 10-year period following issuance of the New License.

11. *Navigation Enhancements.* Under the Task Force Agreement, the Authority has agreed to address navigation hazards within the Project by: (1) installing information kiosks and staff gauges at eight boat launch locations within the Project boundary; and (2) locating and marking with seasonal buoys several known submerged navigational hazards and providing information of such hazards to the National Ocean Service within the National Oceanic and Atmospheric Administration and the Canadian Hydrographic Service for publication in navigation charts.

12. *Removal of Lands from Project Boundary.* Pursuant to the Task Force Agreement, the Authority had requested in its application for the New License several changes to the Project boundary. The New License required the Authority to file with FERC data regarding the frequency and level to which lands outside of the proposed Project boundary are flooded under the International Joint Commission’s requirements for operation of the Project. The Authority made this filing, and FERC issued an order approving the Project boundary proposed by the Authority. With the finalization of this boundary issue, the Authority has been conveying certain lands which fall outside the Project boundary to various parties.

13. *Settled Issues Not to be Included in New License.* In addition to the measures in the Comprehensive Accord that are incorporated into the New License, the Authority has agreed, under the Comprehensive Accord, to undertake several measures that are beyond the scope of the New License, including the following:

(1) As part of the Task Force Agreement, the Authority has established a Community Enhancement Fund for the benefit of St. Lawrence County; the Towns of Massena, Louisville, Waddington and Lisbon; the Villages of Massena and Waddington; and the Massena, Madrid-Waddington and Lisbon Central School Districts (the “Beneficiaries”). Subject to the terms of this agreement, the principal amount of the fund at the time established was \$31.5 million for the purpose of generating \$2 million a year in payments to the Beneficiaries for the term of the New License, such payment amount to be guaranteed by the Authority. In addition, the sum of \$4 million was paid to the Beneficiaries, along with a payment of \$500,000 to the Town of Lisbon, upon the execution of the Task Force Agreement. Any positive balance in the fund at the end of the term of the New License would be paid to the Beneficiaries. In addition, the Beneficiaries would receive additional payments over the term of the license if the Project generates electricity above certain specified levels.

(2) As part of the Task Force Agreement, the Authority will design and arrange for the construction and/or rehabilitation of recreational facilities in the Town of Lisbon and will renegotiate with local governments existing agreements for maintenance of recreational facilities and adjust the annual payments to reflect the cost of maintenance of all facilities.

(3) The Authority will convey lands removed from the Project boundary to local municipalities and/or adjoining landowners.

(4) The Authority will work with the Task Force to identify potential sites for private marina development.

(5) Pursuant to the Aquarium Agreement, the Authority undertook to establish a \$20 million fund (principal amount in 1999 dollars), to be held by the Authority until transfer to SLAEC, if certain conditions were met, for the purpose of constructing and implementing an aquarium and research center.

In July 2005, the Authority informed SLAEC that it was exercising its right to withdraw from the Aquarium Agreement based on SLAEC’s failure, among other things, to obtain certain required financial support. The Authority is exploring potential alternative uses in northern New York of the monies in the

fund, including for economic development purposes. In September 2005, the Trustees authorized the Authority to enter into agreements to grant up to \$10 million of these monies to a not-for-profit entity that would provide for the investment of such monies in technology businesses in order to further economic development in St. Lawrence County.

The Comprehensive Accord neither incorporates measures to comply with the consultation requirements under the National Historic Preservation Act (the “NHPA”) nor includes the Authority’s proposed measures to address specific cultural resources issues identified by the Mohawk community at Akwesasne. On October 1, 2003 a Programmatic Agreement was entered into among FERC, New York State Historic Preservation Office (the “SHPO”) and the Advisory Council on Historic Preservation (the “ACHP”), with the Authority concurring, which addresses NHPA requirements. Specific measures to manage and protect cultural resources have been identified in an Historic Properties Management Plan (“HPMP”), which FERC approved in May 2005.

During the development of the Application, the Mohawk community at Akwesasne identified specific cultural issues related to the return of artifacts, repatriation, cultural resources management, and establishment of a St. Regis Mohawk Tribe (the “SRMT”) historic preservation officer. The Authority has proposed to work with the SRMT to address the cultural issues on a case-by-case basis and, where appropriate, in the HPMP.

(c) The Out-of-State Allocation of Project Power

The continuation of St. Lawrence-FDR Project power sales to the seven out-of-state customers which had received power under the old license was the subject of dispute in the FERC relicensing proceeding for the Project. The seven out-of-state customers opposed the Authority’s proposal to eliminate all out-of-state customer sales under the New License. Ultimately, in September 2003, the Authority filed with FERC a proposed settlement with six of the seven out-of-state customers receiving St. Lawrence-FDR Project power that would reduce by approximately one-half, to 34.5 MW, the amount of St. Lawrence-FDR Project power sold to such customers. In the New License order, FERC approved the six-state settlement agreement and in the course of determining various petitions for rehearing, FERC declined to require that power be provided to the seventh out-of-state customer.

St. Lawrence-FDR Modernization Program

The St. Lawrence-FDR Project has been operating with original equipment in the Project’s powerhouse since the Project’s commissioning in 1958. The Project’s turbines will reach the end of the turbines’ design life within the next 15 years, and most of the other equipment will require renovation or replacement within that time period. To address these concerns, on November 25, 1997, the Trustees of the Authority approved the initiation of a program to extend the life of, and modernize, the generation equipment at the St. Lawrence-FDR Project (the “Modernization Program”). Engineering and procurement are continuing and contracts have been placed for other major items of the work, including new generation control systems, generator exciters, generator circuit breakers, and rotor pole modifications.

The Authority expects that installation of new turbines will result in a two-to-four percent increase in efficiency. In addition, the Modernization Program is expected to accomplish the following: reduce the probability of catastrophic equipment failures; result in a renovated plant that is maintainable for another 50 years; reduce maintenance requirements of equipment; and render the Project capable of improved response.

The Modernization Program commenced in 1998 and will take approximately 15 years to complete. The Program’s schedule allows four years for engineering through the testing of a prototype unit and then rehabilitation of approximately three units every two years until completion. The Authority believes this timetable to be optimal for minimizing generation revenue loss while the units are being modernized.

Modernization of eight units has been completed, and modernization of a ninth unit is expected to be completed in late 2007.

The estimated cost of the Modernization Program is \$281 million, of which approximately \$148 million has been expended.

Niagara

The Niagara Project consists of a water intake, waterways, a generating plant (the “Robert Moses Niagara Power Plant”), a pump-generating plant (the “Lewiston Pump-Generating Plant”) with storage reservoir, and power transformation and transmission facilities. It is located at Lewiston, New York, and was constructed to implement a 1950 treaty (the “1950 Treaty”) between the United States and Canada. Power was first generated in January 1961, and the final generator went into commercial operation in October 1962.

The Robert Moses Niagara Power Plant contains thirteen hydro-turbine generators, with a nameplate capacity totalling 2,429 MW, and the Lewiston Pump-Generating Plant contains twelve hydro-turbine motor-generators, with a nameplate capacity totalling 240 MW. The nameplate capacity of Niagara is 2,669 MW.

Pursuant to a FERC-approved license amendment, the Authority, in December 2006, completed a \$298 million upgrade (including licensing and preliminary engineering costs) of the Niagara Project which entailed an upgrade of the thirteen units at the Robert Moses Niagara Plant and the eleven units at the Lewiston Pump-Generating Plant. As a result of this work, it is expected that the Niagara Project will be able to produce approximately 32 additional MW of power that will be available on a firm basis.

Niagara Relicensing

In 1958 the Federal Power Commission issued the Authority a license for a period of 50 years, effective as of September 1, 1957 and expiring August 31, 2007, for the construction, operation and maintenance of the Niagara Project. Under the NRA, pursuant to which the license was granted, the Authority must give preference to public bodies and non-profit cooperatives in disposing of half of the Project’s total output. A reasonable amount of such total output subject to preference (not in excess of 10% of total output) must be made available to neighboring states. Failure of the Authority to receive a license renewal for the Niagara Project could have a material adverse impact on the Authority’s financial condition.

In 2002, the Authority proposed that development of the application for the new license be governed by the Alternative Licensing Process (“ALP”) provided for by FERC regulations. FERC approved the request on July 15, 2002. The Authority filed its application for a new Niagara Project license (“Application”) with FERC on August 18, 2005. By order issued March 15, 2007, FERC issued the Authority a new, 50-year license for the Niagara Project effective September 1, 2007, and approved various settlement agreements (discussed further below). In mid-April 2007, two petitions for rehearing were filed by certain entities with FERC regarding its March 15, 2007 order, which petitions have not yet been acted upon.

FERC’s regulations provide for filing settlement agreements pursuant to which license applicants and settling parties can reduce the number of contested issues involved in a relicensing. Four settlement agreements with various public and private entities were submitted to FERC contemporaneously with the Application, and they provide for certain Settlement Packages as follows:

(1) Greenway

In 2004, legislation was enacted into law creating the Niagara Greenway Commission (“Greenway Commission”), a new entity charged with developing and implementing a plan to create a greenway that will “enhance waterfront access, complement economic revitalization of the communities along the river, and ensure the long-term maintenance of the greenway”. The aggregate amount of the greenway Settlement Package funds is calculated by assuming that \$7 million per year will be made available for the term of a 50-year license. The net present value of this Settlement Package is estimated at approximately \$113.3 million. (All dollar amounts in these Settlement Packages descriptions are expressed in terms of net present value using 2007 as the base year.)

(2) Ecological

Pursuant to Section 401 of the Federal Clean Water Act (“CWA”), the New York State Department of Environmental Conservation (“DEC”) will condition the new license issued by

FERC for the Niagara Project through the issuance of a certificate confirming that the license will comply with CWA requirements. In addition, the Federal Power Act confers authority on federal and state wildlife agencies to recommend conditions to be included in the FERC license. In view of these provisions, the Authority engaged in discussions with DEC, the Fish and Wildlife Service of the U.S. Department of the Interior, and certain other interested organizations regarding appropriate enhancement and protection of ecological resources in and around the Niagara River. The resulting Settlement Package includes construction, operation, and maintenance of 8 “Habitat Improvement Projects,” a Fish and Wildlife Habitat Enhancement and Restoration Fund, and a Land Acquisition Fund. The net present value of this Settlement Package is estimated at approximately \$30.7 million. In addition, \$1 million per year of the greenway funds discussed above will be earmarked for ecological projects.

(3) Recreational

The original design of the Niagara Project involved the creation of Reservoir State Park within the Niagara Project Boundary established by FERC pursuant to the original license. Studies conducted as a part of the relicensing of the Niagara Project confirmed that Reservoir State Park and a number of other recreational facilities located on Authority lands within or in the vicinity of the Niagara Project Boundary are in need of repair, maintenance, and/or rehabilitation. To address this concern, a Settlement Package was developed around a series of improvements to be undertaken at Reservoir State Park, the Niagara Project Intakes, the Niagara Discovery Center, Artpark, and other public access improvements. The net present value of this Settlement Package is estimated at approximately \$11.1 million. In addition, \$3 million per year of the greenway funds discussed above will be earmarked for state parks recreation and tourism projects.

(4) Groundwater Infiltration Abatement

Pursuant to Section 10(a) of the FPA, FERC has jurisdiction to require the modification of a project to address adverse impacts arising out of project operations. Studies conducted as part of the relicensing of the Niagara Project have confirmed that, in the vicinity of the intersection of the Niagara Project Conduits (“Conduits”) and the Falls Street Tunnel (“Tunnel”), which has been incorporated into the wastewater treatment system operated by the Niagara Falls Water Board, the hydraulic influence of the Conduits causes an increase in the infiltration of groundwater into the Tunnel. Given the demonstrated impact of the Project on the Tunnel, a Settlement Package was developed around a project that involves reducing infiltration of groundwater into the Tunnel. The net present value of this Settlement Package is estimated at \$19 million.

(5) Tuscarora Nation

To address a number of concerns advanced by the Tuscarora Nation (“Nation”), including cultural, environmental and historical concerns, a Settlement Package was developed involving establishment of a community fund, the conveyance of certain surplus land, the provision of up to one megawatt of low-cost power to serve the Nation’s needs, the creation of a scholarship program, and the conferral of certain other benefits. The net present value of this Settlement Package is estimated at approximately \$27.6 million (which includes the value of the power allocation), including payments totalling approximately \$23.8 million in net present value (2007 dollars) over the term of the new license, either in the form of a single payment or a series of payments.

(6) Out-of-State Power Allocations

Pursuant to the requirements of the NRA, the Authority is required to sell fifty percent of Niagara Project power as “preference power” to public bodies and non-profit cooperatives and of that amount a “reasonable portion” but not more than twenty percent of the preference portion (or ten percent of the total) must be made available for sale in “neighboring states”. The Authority is currently selling ten per cent of Niagara Project firm and peaking power to seven “neighboring states”, 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. The Authority reached a settlement with the neighboring states under which license articles consistent with the NRA’s neighboring state sales requirements would be included in the

Authority's new license for the Project and the seven states would support the Authority's application to FERC for a new fifty-year license and the settlements with other parties. The settlement also provides that the Authority staff will recommend to its Trustees that they approve and recommend to the Governor for his approval new contracts with terms through September 1, 2025 for the continued sale of ten percent of Project power to the states at cost-based rates. The Trustees took such action on December 13, 2005. The form of contract allows the Authority to petition FERC to allow the sale of less than ten percent (but not less than 7.5%) of Niagara Project power to the neighboring states, with such reduction to take effect prospectively only after a final, non-appealable FERC order.

(7) Host Communities

The Niagara Project Boundary encompasses lands within seven taxing jurisdictions: Niagara County, the Towns of Lewiston and Niagara, the City of Niagara Falls, and three school districts. While some of these lands were acquired by the Authority from entities that were already tax-exempt (e.g., Niagara University and the Tuscarora Nation), most of the land so acquired became tax-exempt at the time the Niagara Project was created. To address this concern and a number of other concerns advanced by these municipal entities, including socioeconomic concerns, a Settlement Package was developed that involves establishing a community fund, conveying certain surplus land, and providing 25 MW of low-cost power. The net present value of this Settlement Package is estimated at approximately \$182.6 million (which includes the value of the power allocation). In addition, \$3 million per year of the greenway funds discussed above will be earmarked for local projects aimed at enhancing recreation and tourism in Niagara County.

The Settlement Packages identified above are estimated to cost, in the aggregate, approximately \$498.9 million (2007 dollars), which includes the value of the power allocations, as well as the capital and operations and maintenance costs associated with the settlement elements contained in each package.

On December 6, 2005, the Governor announced that the Authority had reached an additional relicensing settlement agreement with the City of Buffalo and Erie County. The Authority's commitments pursuant to this agreement include establishment of an Erie County Greenway Fund to be funded by the Authority through annual payments of \$2 million throughout the term of the new license; contribution of a minimum payment of \$2.5 million per year throughout the term of the new license into a Buffalo Waterfront Development Fund, \$1.5 million of which will represent a monetized, net value of 5 MW of firm hydropower; the payment of \$4 million to be used for projects on Buffalo's waterfront; the payment of \$1 million annually to Empire State Development Corporation for economic development and revitalization activities in the vicinity of Buffalo's waterfront; and the possible return of a parcel of waterfront property currently used by the Authority as an ice boom storage area.

In May 2006, the Authority entered into a settlement agreement with Niagara University consisting of a \$10.5 million capital/aesthetics fund and a 3 MW power allocation from the Niagara Project to be sold to the university at the Authority's business rate. The net present value of this settlement package (including the value of the power allocation) is estimated to be \$21.6 million.

Each agreement was, among other things, conditioned on issuance of a 50-year license by FERC that is fully consistent with the terms set forth therein, and that FERC's action on the final license application must be preceded by and based on review of associated environmental impacts pursuant to the National Environmental Policy Act.

The Authority currently expects that the costs associated with the relicensing of the Niagara Project for a period of 50 years will be at least \$545 million (2007 dollars), including approximately \$46.7 million in administrative costs associated with the relicensing effort, with the final amount of such costs and the timing of expenditures to meet such costs being uncertain at this point. The amount of such costs will depend upon the final results of the relicensing process and any requirements imposed by FERC in the future pursuant to the new license. In addition to internally generated funds, the Authority will issue debt obligations in the future to fund Niagara relicensing costs. The Authority believes that it will be feasible to collect in its rates for the sale of Niagara power amounts necessary to fund such relicensing costs.

Blenheim-Gilboa

The Blenheim-Gilboa Project is located on the Schoharie Creek in the towns of Blenheim and Gilboa, Schoharie County, New York, and was built pursuant to a 50-year license issued by the Federal Power Commission effective May 1, 1969. The Project was first operated in 1973, and consists primarily of a lower and upper reservoir and pump-generating power plant containing four reversible hydraulic pump-turbines. The pump-generating plant was designated as the “George L. Ingalls Pump-Generating Plant” by the Authority on September 25, 1990. It has an installed capacity of 1070 MW.

Each of the four pump-turbine units at the Blenheim-Gilboa Project undergoes routine maintenance every eighteen months. Maintenance includes removal of damaged metal due to cavitation, and inspection of the bearings, the air circuit breaker and the monitoring system.

On November 25, 2003, the Authority’s Trustees approved the initiation of a Life Extension and Modernization Program (“LEM Program”), estimated to cost \$135.5 million, to renovate and modernize the Blenheim-Gilboa Project’s generating equipment. A principal component of the LEM Program is the replacement of the four pump turbines with modern designs to achieve improvements in cycle efficiency, pumping flows and range of operation. The LEM Program also involves the rehabilitation and modernization of numerous Project systems, including structural rehabilitation of the motor-generators, replacement of the main power transformers and rehabilitation of the spherical valves that seal the units from the upper reservoir. The LEM Program began in the Fall of 2006 and is expected to be completed in the Spring of 2010.

The increase in plant capacity as a result of the new pump turbines required the Authority to file an application for an amendment to its FERC license, which the Authority did and which FERC approved in April 2006. Other aspects of the LEM Program may require permits from other regulatory agencies which the Authority anticipates obtaining in due course.

A portion of the estimated cost of the LEM Program (\$99.6 million) is included in the Authority’s estimated capital expenditures for the years 2007-2011 (see “PART 2—CERTAIN FINANCIAL AND OPERATING MATTERS—Projected Capital and Financing Requirements”).

Poletti

The Poletti plant is located on the East River in the Borough of Queens in New York City on a site adjacent to a tract that houses five generating units and other related facilities owned by other entities (the “Adjacent Facilities”). The plant was placed in commercial operation in March 1977, and is operated independently of the Adjacent Facilities. The Authority has agreements with the owners of the Adjacent Facilities for sharing some of the facilities and operations conducted at the site.

The steam turbine and electric generator were supplied by Westinghouse Electric Corporation, and the source of steam is a balanced draft boiler manufactured by Foster Wheeler Corporation. Poletti has an installed generator capacity of 885 MW.

The unit has a dual fuel capability, allowing it to burn either low sulfur No. 6 oil or natural gas, or a combination of both, whichever is more economic. Poletti’s availability factors for 2004, 2005, and 2006 were 77%, 93%, and 96%, respectively, and its capacity factors for such years were 27%, 31%, and 24% respectively.

For a discussion of an agreement entered into by the Authority in connection with the licensing of its 500-MW Plant which will result in the closure of the Poletti Project in 2010 and imposes certain restrictions on Poletti Project operations, see “500-MW Combined-Cycle Electric-Generating Plant” below.

500-MW Combined-Cycle Electric-Generating Plant

To serve its SENY governmental load and to comply with the NYISO in-City capacity requirement in the New York City area (see “PART 2—NEW YORK INDEPENDENT SYSTEM OPERATOR—NYISO Capacity Requirements Matters”), the Authority has constructed a 500-MW combined-cycle

natural-gas-and-distillate-fueled power plant at the Poletti site as the most cost-effective means of effectuating such compliance. The 500-MW Plant is centered around two combustion turbines, each exhausting to a dedicated heat recovery steam generator. It also includes a steam turbine and an air-cooled condenser.

The resolution of issues relating to the construction of the Authority's 500-MW Plant has resulted in the Project entering into commercial operation on December 31, 2005 and estimated direct construction and overhead costs of the Project of approximately \$745 million.

In June 2007, the Authority awarded a long-term service agreement ("LTSA") for the 500-MW Plant with a term of up to 15 years and at a cost of up to \$105 million. The LTSA will cover scheduled major maintenance, including parts and labor; contingencies for escalation of materials and labor; and potential extra work.

To license the 500-MW Plant, in August 2000, the Authority filed applications with the New York State Board on Electric Generation Siting and the Environment (the "Siting Board") and DEC pursuant to Article X of the New York Public Service Law ("Article X") for a Certificate of Environmental Compatibility and Public Need (the "Certificate") to construct the facility and for federally delegated water and air permits, respectively. A Certificate and federally delegated air permits were issued to the Authority by the Siting Board and DEC, respectively, as of October 2, 2002.

To resolve certain issues that arose in the course of the Siting Board proceeding, the Authority entered into a Supplemental Joint Stipulation (the "Stipulation Agreement") with certain parties (the "Signing Parties") whereby, among other things, the Signing Parties agreed not to oppose the issuance of a Certificate for the proposed plant and the Authority has agreed, among other things, to the following:

- (a) upon acceptance of a Certificate for the 500-MW Plant, the Authority shall adhere to specified reductions in the use of fuel oil at the existing Poletti Project in the period from January 1, 2003 to the closure of the existing Poletti Project;
- (b) sixty days after commencement of commercial operation of the 500-MW Plant, the Authority shall limit operation of the existing Poletti Project to an average annual capacity factor of 30% based on a three-year rolling average, with the capacity factor in any year not exceeding 35% except under specified limited circumstances;
- (c) the Authority shall permanently cease operation of the existing Poletti Project as of February 1, 2008, unless it provides the notice discussed in paragraph (d) below by June 1, 2006;
- (d) if the Authority provides notice by June 1, 2006, to the parties to the Stipulation Agreement that it has received a determination from the NYISO that closure of the existing Poletti Project on February 1, 2008, would cause the aggregate in-City electric generating capacity (exclusive of the existing Poletti Project) to be less than 80% of the total in-City projected peak demand for the Summer of 2008, then the Authority's obligation to cease operation of the existing Poletti Project shall be deferred until February 1, 2009 (The Authority provided such notice and received such NYISO determination);
- (e) a similar deferral of closure for reliability reasons until January 31, 2010 is permitted under the Stipulation Agreement, and because such deferral has occurred, on that date the Authority will be obligated to permanently cease operation of the existing Poletti Project;
- (f) commencing January 1, 2003, the Authority shall increase its expenditures for energy efficiency programs to be implemented within New York City by no less than \$10 million annually for each of the years 2003-2007, and as of January 1, 2003, provide funds in the aggregate amount of \$2 million for air pollution reduction programs in northwestern Queens, New York.

When the existing Poletti Project ceases operation, the Authority will use the 500-MW Plant, the Blenheim-Gilboa Project, any other existing or future Authority resources, and energy and capacity

purchases from other sources, including the NYISO markets, to meet the energy and capacity needs of its customers in the metropolitan New York City area.

The Authority expects that by February 15, 2008, all debt associated with the existing Poletti Project will have been retired.

The Authority believes that the restrictions on fuel use and capacity factor relating to the existing Poletti Project set forth in the Stipulation Agreement and the closure of the existing Poletti Project under the terms of the Stipulation Agreement will not have a material adverse effect on the Authority's financial condition or operations.

SCPPs

To meet potential capacity deficiencies in the New York City metropolitan area, which could also adversely affect the statewide electric pool, and to meet installed capacity requirements relating to its SENY and Long Island customers, the Authority installed eleven natural-gas-fueled electric generation units at six sites in New York City and at one site on Long Island. The DEC air permits for the generators were issued in January and February, 2001, for a term of 3 years. DEC issued new five-year air permits for the generators in October 2005.

Each small power plant has a nameplate rating of 47 MW. However, as a result of commitments made by the Authority in the course of obtaining regulatory authorizations for the plants, at sites which house two units, the combined output of the plants cannot exceed 79.9 MW. The plant equipment supporting each unit includes gas and air compressors, air chillers and associated cooling tower, water treatment and storage system pumping facilities, ammonia storage and injection system, generator step-up transformer, electric switch gear, and transmission interconnections.

The New York City plants are located as follows: one plant is located at a site in Williamsburg, Brooklyn; one plant is located at a site in Staten Island at Lynhurst Avenue and Edgewater; two plants are located at a site in Sunset Park, Brooklyn; two plants are located at a site in Long Island City, Queens; two plants are located at a site in the Bronx at Hell Gate; and two plants are located at a site in the Bronx at the Harlem River Yards.

In December 2001, the Authority, DEC, The City of New York (the "City"), and certain of the petitioners involved in litigation relating to the SCPPs located at Vernon Boulevard, Long Island City, site in Queens (the "Stipulation Petitioners") entered into a Stipulation of Settlement (the "Stipulation") which settled the litigation. Among other things, the Stipulation provides that the Authority will cease operations of its two small power plants (the "VB Power Plants") at the Vernon Boulevard site (the "VB Site") upon the date of commencement of the commercial operation of either:

- (i) the Authority's 500-MW Plant; or
- (ii) a proposed 1000-MW plant (the "1000-MW Plant") to be built by another entity and known as the Astoria Energy LLC project;

provided that the Authority's cessation and removal obligations can only be enforced by the Mayor of the City of New York, when the Mayor deems it advisable and after consulting with the President of the Borough of Queens and the Councilmember from the 26th Council District in Queens, New York City.

Upon a decision to remove the plants, the Authority would be required to expeditiously remove the turbines, generators, skids and associated equipment from the VB Site within 90 days after such cessation.

Under the Stipulation, the Stipulation Petitioners agree to reasonably support any voluntary activities by the Authority, to the extent permitted by law, aimed at relocating the two VB Power Plants to an appropriate site in the Borough of Queens.

The Stipulation also provides that if, as of the day prior to the date on which the Authority is obligated to cease operations of the VB Power Plants pursuant to the Mayor's enforcement action, discussed above, the aggregate electrical generating capacity (exclusive of the VB Power Plants) as determined by the NYISO or any successor entity, amounts to less than 81% of the total in-City projected peak electrical demand as determined by the NYISO or a successor entity for the summer of the year in

which the Authority ceases such operation, then the City shall, within 6 months of receipt of documentation of project cost and expenses, reimburse the Authority in an amount equal to the Authority's unamortized cost for the Vernon Boulevard facility (including, without limitation, the costs of purchasing and installing the units and all associated equipment, all site acquisition and remediation costs, and the costs of all foundation, piling and duct work), but in no event shall such reimbursement exceed \$40 million. The City's payment obligation, however, is conditioned upon the Authority having offered, for a specified period, to sell at fair market value the VB Power Plants to an entity willing to remove and relocate those units to another location serving the New York City load pocket. For purposes of this payment obligation, such unamortized cost shall equal the Authority's documented Vernon Boulevard facility costs up to an aggregate of \$100 million, plus the amount the Authority pays for removal, less (a) any net revenue received by the Authority from operation of the VB Power Plants, including, without limitation, capacity, energy and ancillary service revenues, if such services are being billed through the contracts with the City, (b) the actual resale value or the fair market value, whichever is greater, of any such equipment sold or otherwise disposed of by the Authority upon the cessation of operations of the VB Power Plants and (c) the fair market value of the VB Site at such time.

The Authority does not believe that cessation of operations and removal of the VB Power Plants, if that should occur, will have any additional material impact on the Authority.

Flynn

The Flynn Project consists of a combined-cycle, natural-gas-and-distillate-fueled electric-generating plant and associated facilities, including a 102-MW combustion turbine-generator, a 56-MW steam turbine-generator, a heat-recovery steam generator, and a powerhouse building. The Project also includes a 13.8/138-kV switchyard, two step-up transformers, an underground 138-kV electrical cable, and gas-compression, metering and pipeline facilities. The plant was built on a site at Holtsville in Suffolk County, New York, leased from an affiliate of KeySpan. The Project began commercial operation in May 1994. The Flynn plant has a nameplate rating of 164 MW. The full output of Flynn is being sold to LIPA under a capacity supply agreement, as amended (see "PART 2—POWER SALES—Flynn").

The availability factors for the Flynn Plant for 2005 and 2006 were 92% and 95%, respectively.

Small Hydroelectric Facilities

(1) *Ashokan and Kensico.* Ashokan is a small hydroelectric facility with a nameplate rating of 4.75 MW, consisting of the addition of hydroelectric generating equipment to the headworks of the Catskill Aqueduct at Ashokan Reservoir, in the Township of Olive, near Kingston, in Ulster County, New York. Kensico is a small hydroelectric facility with a nameplate rating of 3 MW, consisting of the addition of hydroelectric generating equipment to the headworks of the lower Catskill Aqueduct at Kensico Reservoir in the Town of Mount Pleasant, near White Plains, in Westchester County, New York. The plants are exempt from Federal licensing requirements.

(2) *Small Hydroelectric Development Project No. 1.* The Project facilities, having a combined nameplate capacity of 32.2 MW, in general, consist of dam structures, intake and power conduits, powerhouses with turbine generator units, tailraces, and switchgear and transmission interconnections deemed necessary or desirable at the following sites in New York State: Crescent Dam on the Mohawk River in Albany and Saratoga Counties; Vischer Ferry Dam on the Mohawk River in Saratoga and Schenectady Counties; and Hinckley Dam on West Canada Creek, near the Hamlet of Hinckley in Oneida and Herkimer Counties. The 40-year FERC licenses for these facilities expire on May 31, 2024, May 31, 2024 and July 31, 2022, respectively.

Transmission

The Authority's Transmission System

The Authority owns, operates and maintains more than 1,400 circuit miles of high voltage (115-kV—765-kV) transmission lines in New York State. These lines include a 765-kV line south from the

Canadian border to Marcy, New York; two 345-kV lines from the Niagara Project east to Niagara Mohawk's Edic Substation in central New York; two 345-kV lines from Marcy, New York, connecting to other utility substations in southeastern New York; three 345-kV lines from the Blenheim Gilboa Project extending to substations near Athens, New Scotland, and Delhi, respectively; two 230-kV lines extending east from the St. Lawrence Project to Plattsburgh, New York, and to the Vermont border; two 230-kV lines extending south from the St. Lawrence Project to Belfort, New York; a single circuit underground and underwater line extending across Long Island Sound between Con Edison's substation in Westchester County and LIPA's substation in Nassau County, New York; several 115-kV lines connected directly to large industrial customers and other shorter lines connecting the Authority's generating facilities to the transmission grid.

In 2003, the Authority completed construction of a transmission control device known as the Convertible Static Compensator at its Marcy substation. This new technology provides voltage control and helps reduce congestion on heavily used transmission lines between Utica and Albany, New York.

Long Island Sound Cable

The Cable consists of a 345-kV underground and underwater transmission cable, extending for approximately 26.6 miles from the Sprain Brook substation owned by Con Edison in Westchester County, New York, to the East Garden City substation owned by LIPA in Nassau County, New York, and includes an underwater crossing of approximately 7.9 miles of Long Island Sound, two transition stations consisting of terminators and dielectric fluid pressurization and circulation systems for the 345-kV cable, and certain facilities and additional equipment required for the modification or expansion of the Sprain Brook and East Garden City substations. The Authority has entered into a facilities agreement with Con Edison for the use of a bay in its Sprain Brook substation to accommodate the northerly cable termination. Installation of the Cable was completed on May 31, 1991.

Due to damage to the 345-kV reactor equipment at the Sprain Brook substation, the Authority is financing the cost of replacement of the two 345-kV reactors and associated equipment at a cost of approximately \$7 million. The repairs were completed in June 2003. Pursuant to the Cable Agreement with LIPA, the Authority will be reimbursed by LIPA for the repair costs over a 20-year period, along with financing costs related to the extended repayment period.

Tri-Lakes Transmission Reinforcement Project

In October 2004, the Authority, National Grid, and the Villages of Tupper Lake and Lake Placid executed a settlement agreement designed to settle a dispute relating to cost responsibility for certain transmission system upgrades. Under the settlement agreement, the Authority has contracted with National Grid for the construction of substation equipment and a new overhead line to alleviate serious transmission capacity deficiencies in the Lake Placid, Tupper Lake and Saranac Lake, New York, area of the Adirondacks. The upgrades will consist of (a) one 46-kV Static Var Compensator ("SVC") at Tupper Lake, with a projected in-service date of 2007, and one 115-kV SVC at Lake Colby with an in-service date of 2007 (collectively, the "SVCs"); and (b) a new overhead 46-kV line from Stark/Townline substation to a new regulator station at Piercefield with a projected in-service date of 2008 (the "New Line") (collectively, the "Tri-Lakes Project").

National Grid is responsible for the design, engineering, procurement, construction, installation, testing, and overall project management for the Tri-Lakes Project, subject to oversight by the Authority. The Authority will be the applicant for any governmental permits or approvals required for the siting or construction of the New Line, and National Grid will be the applicant for any permits or approvals required for the SVCs. The Authority will own and finance the Tri-Lakes Project up to January 1, 2012, at which time the Tri-Lakes Project will be transferred to National Grid upon payment of the Net Project Cost, as defined below. National Grid will acquire the rights to any real property necessary for the construction of the Project.

The current cost estimate, in 2007 dollars, for the Tri-Lakes Project is \$46.5 million which could increase in the future ("Total Project Cost"). The Net Project Cost shall equal the Total Project Cost less

\$9.7 million (in 2004 dollars), which is the portion of the Tri-Lakes Project cost borne by Tupper Lake (\$3.2 million) and Lake Placid (\$6.5 million). The Authority will finance both National Grid's and the Villages' share of the Total Project Cost but will be reimbursed for these costs. The Authority and National Grid will share equally in any cost increases above the estimated cost of the transmission line part of the Project (estimated to cost \$15.8 million).

The Authority has received Adirondack Park Agency, DEC, and U.S. Army Corps of Engineers permits and approvals from the State Historic Preservation Office to build the Tri-Lakes Project on a route that bypasses the State forest preserve. Concurrently, the Authority is also working with environmental groups, state agencies, municipalities, and other interested parties to amend Article XIV of the New York State Constitution to permit the construction of a portion of the Project in the forest preserve adjacent to State Route 56.

Certain Operating Information

Effective in 1965, the Authority and Ontario Hydro entered into a Memorandum of Understanding containing provisions for coordinated operation of the two systems, for interchange of power and energy at the Niagara and St. Lawrence-FDR Project interconnections and for the use of generating equipment of either system by the other in order to make optimum use of all available water at all times. The agreement provides for the sale by either party to the other of various classes of power and energy, and continues in force from year to year, subject to termination by either party on not less than five years' prior notice in writing.

The operation of Authority projects is subject to various federal and State licensing and permit requirements which have constrained facility operations and have caused and are expected to continue to cause the Authority to incur additional costs or to experience a reduction of revenues. Further plant improvements and modifications may be required by regulatory action or be deemed desirable by the Authority as the result of problems identified from its operating experience or that of operators of similar facilities (see "PART 2—THE AUTHORITY'S FACILITIES—Generation—*St. Lawrence-FDR; Niagara; Blenheim-Gilboa*").

Fuel Supply

Poletti, Flynn, and 500-MW Plant

The Authority maintains an inventory of oil at the Poletti, Flynn, and 500-MW Plant sufficient, together with gas supplies, to satisfy the fuel needs of the plants for a reasonable period in light of current market conditions. To meet the requirements of the three plants, the Authority, in addition to using its oil inventories, effects purchases of oil and gas on the spot market as well as under term supply contracts.

Gas Transportation and Supplies

The Authority has entered into service agreements with Texas Gas Transmission, LLC, Dominion Transmission, Inc., and Transcontinental Gas Pipe Line Corporation terminating in October 2016 under which these pipelines provide firm natural gas transportation service at an estimated average annual cost to the Authority of \$8.5 million per year, based on current rates applied to the Authority's full allocation of capacity. The transportation serves the Flynn plant, and may serve the Poletti plant, the SCPPs, the 500-MW Plant, or any other gas-fired plant built by the Authority. To the extent transportation costs are for gas used at the Flynn plant, the recovery of such costs from LIPA would be governed by the terms of the capacity supply agreement, as supplemented, relating to the plant (see "PART 2—POWER SALES—Flynn").

The Authority entered into an agreement with Con Edison ending July 31, 2008, which provides gas transportation and balancing services to the Authority to serve its expected Poletti and 500-MW Plant fuel needs and those SCPPs located in Con Edison's service territory, at an estimated annual cost of \$4.3 million, exclusive of applicable taxes and balancing charges, if any. The Authority has also entered into gas transportation and balancing agreements with KeySpan Energy Delivery Long Island, Inc., and KeySpan Energy Delivery New York, Inc., ending February 28, 2009 which provide gas transportation and balancing needs of its SCPPs located in the service territories of such utilities, at an estimated annual cost of \$1.8 million, exclusive of applicable taxes and balancing charges, if any.

LEGISLATION AFFECTING THE AUTHORITY

Section 1011 of the Act constitutes a pledge of the State to holders of Authority obligations not to limit or alter the rights vested in the Authority by the Act until such obligations together with the interest thereon are fully met and discharged or unless adequate provision is made by law for the protection of the holders thereof. Several bills have been introduced into the New York State Legislature, some of which propose to limit or restrict the powers, rights and exemption from regulation which the Authority currently possesses under the Act and other applicable law or otherwise would affect the Authority's financial condition or its ability to conduct its business, activities, or operations, in the manner presently conducted or contemplated hereby (see, for example, paragraph (9) below). It is not possible to predict whether any of such bills or other bills of a similar type which may be introduced in the future will be enacted.

In addition, from time to time, legislation is enacted into New York law which purports to impose financial and other obligations on the Authority, either individually or along with other public authorities or governmental entities. The applicability of such provisions to the Authority would depend upon, among other things, the nature of the obligations imposed and the applicability of the pledge of the State set forth in Section 1011 of the Act to such provisions. There can be no assurance that in the case of each such provision, the Authority will be immune from the financial obligations imposed by such provision. Examples of such legislation affecting only the Authority include legislation relating to (i) authorization of voluntary contributions by the Authority to the State, discussed below; (ii) the EDPAB program and the PFJ Program discussed under "PART 2—POWER SALES"; and (iii) POCR funds described below (see also "PART 2—ENERGY SERVICES"). Set forth below are descriptions of the voluntary contributions legislation, the PFJ Program, the POCR funds legislation, and other legislative provisions, and how they have affected the Authority.

(1) For a discussion of legislation enacted into law in 2006 which created the Temporary State Commission on the Future of New York State Power Programs for Economic Development, see "PART 2—TEMPORARY STATE COMMISSION ON THE FUTURE OF NEW YORK STATE POWER PROGRAMS FOR ECONOMIC DEVELOPMENT."

(2) Legislation enacted into law, as part of the 2000-2001 State budget, as amended in 2002, 2003, and 2004, provides that the Authority "as deemed feasible and advisable by the trustees, is authorized to make an additional annual voluntary contribution into the state treasury to the credit of the general fund," in connection with the PFJ Program in an aggregate amount not to exceed \$275 million. As part of the State Fiscal Year 2005-2006 budget bill enacted into law in April 2005, the PFJ Program was extended to December 31, 2006, and the Authority was authorized to make additional voluntary contributions to the State, with the maximum amount of such contributions increasing to \$394 million. In 2006, legislation was enacted into law that extended the PFJ Program through June 30, 2007, with the maximum amount of voluntary contributions provided for through the State Fiscal Year 2006-2007 remaining at \$394 million. In June 2007, additional legislation was enacted into law that extended the PFJ Program through June 30, 2008 and provided for an additional voluntary contribution of \$30 million for the State Fiscal Year 2007-2008.

As of the date hereof, the Authority has made voluntary contributions to the State totaling \$219 million. The Authority's Trustees have not as of the date hereof authorized additional voluntary contributions but have taken the position that the total amount of Authority monies to be applied to the estimated cost of extensions of the Power for Jobs and ECS Benefits Programs and 2006-2007 State Fiscal Year voluntary contributions to the State be limited to an aggregate amount of \$100 million. However, the ultimate decision as to the amount of additional voluntary contributions made by the Authority will be based on future events and the potential resolution of uncertainties, including the possible creation of new power programs based on the December 2006 recommendations of the Temporary Commission on the Future of New York State Power Programs for Economic Development (See "PART 2—TEMPORARY COMMISSION ON THE FUTURE OF NEW YORK STATE POWER PROGRAMS FOR ECONOMIC DEVELOPMENT"). Prior to making any voluntary contributions, the Authority, under the General Resolution, must determine that the monies applied to such payments are not needed for the payment of certain expenses or the funding of certain reserves specified in the General Resolution or the payment of principal and interest on debt.

(3) In May, 2003, legislation was enacted into law that established, among other things, a minimum annual contribution by employers commencing with the fiscal year of New York State and Local Retirement System (“System”) ending March 31, 2004. This law will reduce the volatility of employer contributions in future years by requiring employers to make a minimum contribution of 4.5% of gross salaries every year, including years in which investment performance by the fund would make a lower contribution possible.

Under this plan, the Authority’s required contributions to the System were \$12.7 million, \$15.3 million, and \$15.9 million for the years ended March 31, 2007, 2006 and 2005, respectively (paid on or about December 15, 2006, 2005 and 2004).

(4) Section 2975 of the New York Public Authorities Law establishes a Governmental Cost Recovery System, pursuant to which certain public benefit corporations, defined as having three or more members appointed by the Governor, are subjected to assessment for the costs of central governmental services attributable to such public benefit corporations, pursuant to a statutory assessment methodology. Such a public benefit corporation may, however, pursuant to Section 2975, opt to enter into an agreement with the State Director of the Budget providing for alternative cost recovery to the State.

Consistent with such alternative agreement mechanism, the Authority voluntarily entered into an agreement with the Division of the Budget, pursuant to which the Authority was obligated to pay the State’s General Fund \$5 million relating to the cost recovery assessments for the five year period which commenced January 1, 2001 and ended December 31, 2005, including the assessments for the 2001-2002 through the 2005-2006 State fiscal years. The \$5 million payment was made by the Authority in October 2003. In January 2006, the Authority entered into a similar, one-year agreement to pay \$1 million to the State’s General Fund, which payment was made.

(5) For a discussion of the legislation which extended the PFJ Program and ECS Benefits through June 30, 2008, see “PART 2—POWER SALES—Marketing Issues and Developments.”

(6) For a discussion of legislation enacted into law which authorizes the Authority to provide power and energy to businesses formerly located at the WTC and other entities affected by the WTC tragedy, see “PART 2—POWER SALES—Marketing Issues and Developments.”

(7) In the period 1995-2002 legislation was enacted into New York law which contains provisions which authorize the Authority to utilize an aggregate of \$59.6 million in POCR funds and \$600,000 of other State funds, to be made available to the Authority by the State pursuant to the legislation, for a variety of energy-related purposes with certain funding limitations. The legislation also states that the Authority “shall transfer” equivalent amounts of money to the State prior to dates specified in the legislation. The use of POCR funds is subject to comprehensive Federal regulations and judicial orders, including restrictions on the type of projects which can be financed with POCR funds, the use of funds recovered from such projects, and the use of interest and income generated by such funds and projects. Pursuant to the legislation, the Authority is implementing various energy services programs utilizing such appropriated funds, which programs have received all necessary approvals (see “PART 2—ENERGY SERVICES”).

The Authority entered into agreements with the State Division of the Budget obligating it to transfer \$60.2 million to the State upon the transfer of the \$60.2 million in POCR and other State funds to the Authority. The disbursement of the appropriated funds to the Authority, and the Authority’s transfer of \$60.2 million to the State, took place in the period May 1996—March 2003. The appropriated funds are being held in an escrow account for the approved purposes. In April 2007, legislation was enacted into New York law authorizing the transfer of an additional \$700,000 in POCR funds to the Authority and the transfer by the Authority of a like amount of monies to the State. Such transfers are expected to be completed in 2007.

(8) The New York Executive Law was amended in 2004 to add a new Section 713, entitled “Protection of Critical Infrastructure including Energy Generating and Transmission Facilities.” The statute provides, in relevant part, that the New York State Director of Public Security (“Director of Public Security”) shall conduct a review and analysis of measures being taken by the New York Public Service Commission (“PSC”) and any other agency or authority of the State or any political subdivision thereof

and, to the extent practicable, of any federal entity, to protect the security of critical infrastructure related to energy generation and transmission located within New York State. The Director of Public Security shall have the authority to review any audits or reports related to the security of such critical infrastructure, including audits or reports conducted at the request of the PSC or any other agency or authority of the State or any political subdivision thereof or, to the extent practicable, of any federal entity. The owners and operators of such energy generating or transmission facilities shall, in compliance with any federal and State requirements regarding the dissemination of such information, provide access to the Director of Public Security to such audits or reports regarding such critical infrastructure, provided, however, that exclusive custody and control of such audits and reports shall remain solely with the owners and operators of such energy generating or transmission facilities.

On or before December 31, 2003, and not later than three years after such date, and every five years thereafter, the Director of Public Security shall report to the Governor, the Temporary President of the New York Senate, the Speaker of the New York Assembly, the Chairperson of the PSC and the chief executive of any such affected generating or transmission company or his or her designee. Such report shall review the security measures being taken regarding critical infrastructure related to energy generating and transmission facilities, assess the effectiveness thereof, and include recommendations to the New York State Legislature or the PSC if the Director of Public Security determines that additional measures are required to be implemented, considering, among other factors, the unique characteristics of each energy generating or transmission facility.

The statute provides that “[e]xcept in the case of federally licensed electric generating facilities, the public service commission shall have the discretion to require that the recommendations of the director of public security be implemented by any owner or operator of an energy generating or transmission facility.”

For the purposes of the statute, “critical infrastructure” means systems, assets, or things, whether physical or virtual, so vital to the State that the disruption, incapacitation or destruction of such systems, assets, places or things could jeopardize the health, safety, welfare or security of the State, its residents or its economy.

The Authority cannot predict what effect the requirements set forth in the statute will have on its generation and transmission facilities and the costs of compliance with any such requirements.

(9) Legislation has been enacted into law in 2005-2007 which relates to various aspects of certain Authority power allocation programs (see “PART 2—POWER SALES—Marketing Issues and Developments”).

(10) Legislation was passed by the State Senate and State Assembly in June 2005 and signed into law by the Governor in January 2006 which addresses public authority reform (see “PART 2—PUBLIC AUTHORITIES ACCOUNTABILITY ACT OF 2005” below).

Information on legislation affecting the Authority is also available from sources in the public domain, and potential purchasers of the 2007 Bonds should obtain and review such information.

PUBLIC AUTHORITIES ACCOUNTABILITY ACT OF 2005

This legislation passed the State Senate and State Assembly in June 2005 and was signed into law by the Governor in January 2006. The enactment is entitled the “Public Authorities Accountability Act of 2005” (“PAAA”), and it addresses a wide range of matters pertaining to many public authorities in the State, including the Authority.

Among other things, the PAAA increases the number of Trustees of the Authority from five to seven; increases requirements applicable to public authorities’ annual reports; sets forth requirements relating to independent audits and audit reports of public authorities; sets forth roles and responsibilities of public authority board members and establishes certain restrictions on such board members; establishes certain rules regarding board membership, including financial disclosure requirements; sets forth requirements pertaining to public authorities’ disposition of real and personal property; and creates a State Authority Budget Office and a State Inspector General’s Office.

NEW YORK STATE COMMISSION ON PUBLIC AUTHORITY REFORM

On February 3, 2005, the Governor issued an Executive Order to establish the New York State Commission on Public Authority Reform (the “Commission”). The Commission was charged with reviewing operations at State and local authorities across New York and developing recommendations designed to improve the effectiveness, accountability, governance, and financial reporting of all public authorities. In May 2006, the Commission issued its report addressing these matters, including recommendations for legislation. It is uncertain whether the Commission will undertake any further activities, and whether and to what extent its recommendations may be enacted into law in the future.

TEMPORARY COMMISSION ON THE FUTURE OF NEW YORK STATE POWER PROGRAMS FOR ECONOMIC DEVELOPMENT

Pursuant to legislation enacted into law in April 2006, the Temporary Commission on the Future of New York State Power Programs for Economic Development (the “Commission”) was established. The Commission’s charge was to “make recommendations to the governor and the legislature on whether to continue, modify, expand or replace the state’s economic development power programs, including but not limited to the power for jobs program and the energy cost savings benefit program, and shall recommend legislative language necessary to implement its recommendations.” Following extensive proceedings, the Commission issued its report in December 2006. The Commission’s recommendations include centralization of the administration of the State’s power programs and the designation of the chairman of the New York State Empire Development Corporation as chairman of the EDPAB; that the proceeds of certain unallocated hydroelectric power of the Authority be dedicated to economic development; that the duration of certain types of power allocation contracts be lengthened; that the Authority facilitate the expansion of the State’s power infrastructure by continuing to enter into long term contracts with power producers for the construction of new generation and/or transmission facilities; the creation of stable funding sources for the State’s power programs, potentially including the State Treasury and dedicated funding from the Authority subject to the Authority’s bond covenants and reserve requirements; the expansion of the geographic territory where Replacement Power, Preservation Power, and Expansion Power may be provided by the Authority; and the redeployment of hydroelectric power provided by the Authority to the “rural and domestic” customers of National Grid, NYSEG, and RG&E for Statewide economic development purposes. It is uncertain whether and to what extent the Commission’s recommendations may be enacted into law in the future.

EXECUTIVE ORDER NO. 111

In Executive Order No. 111, dated June 10, 2001 (the “Executive Order”), the Governor, among other things, required State agencies and other affected entities, as defined in the Executive Order, with responsibility for purchasing energy to increase their purchases of energy generated from the following renewable energy technologies: wind, solar thermal, photovoltaics, sustainably managed biomass, tidal, geothermal, methane waste and fuel cells. State agencies and other affected entities must seek to purchase sufficient quantities of energy (or renewable energy attributes) from these technologies so that 10 percent of the overall annual electric energy requirements of buildings owned, leased or operated by such entities will be met through these technologies by 2005, increasing to 20 percent by 2010. No agency or affected entity will be exempt from these goals except pursuant to criteria to be developed by the New York State Energy Research and Development Authority. For the purposes of the Executive Order, “State agencies and affected entities” means agencies and departments over which the Governor has Executive authority and all public benefit corporations and public authorities the heads of which are appointed by the Governor. Regarding those Authority governmental customers falling within the scope of the Executive Order, the Authority has offered to provide such renewable energy attributes, and is providing them, to several such customers.

CERTAIN FACTORS AFFECTING THE ELECTRIC UTILITY INDUSTRY

The Electric Utility Industry Generally

Energy Policy Act of 1992

The Energy Policy Act of 1992 made fundamental changes in the federal regulation of the electric utility industry, particularly in the area of transmission access. The purpose of these changes, in part, was to bring about increased competition in the wholesale electric power supply market. These changes have increased, and will continue to increase, competition in the electric utility industry. The Authority cannot predict what further effects such increased competition will have on the business and financial condition of the Authority.

Federal Initiatives under the Energy Policy Act of 1992

On April 24, 1996, FERC issued a Final Rule (“Order No. 888”) significantly changing the regulation of transmission service performed by electric utilities subject to FERC’s jurisdiction under sections 205 and 206 of the FPA. Among other things, FERC ordered pro forma, open-access, non-discriminatory transmission tariffs be placed into effect for all jurisdictional utilities on or before July 9, 1996. The goal of Order No. 888, according to FERC, is to remove impediments to competition in the wholesale bulk power marketplace and to bring more efficient lower cost power to the nation’s electricity consumers by denying to a generator of electric energy any unfair advantage over its competitors that exists by virtue of its ownership of its transmission system.

Although the Authority was not subject to FERC’s jurisdiction under sections 205 and 206 of the FPA at the time Order No. 888 was issued, Order No. 888 nevertheless has had a significant effect on the Authority and has been the impetus to the Authority participating in the formation of the NYISO (see “PART 2—NEW YORK INDEPENDENT SYSTEM OPERATOR”). In Order No. 888, FERC stated that it intended to apply the principles set forth in Order No. 888 to the maximum extent to consumer-owned and other non-jurisdictional utilities, both in deciding cases brought under sections 211 and 212 of the FPA and by requiring such utilities to agree to provide open access transmission service as a condition to securing transmission service from jurisdictional investor-owned utilities under open access tariffs (see “Energy Policy Act of 2005” below).

In a decision decided March 4, 2002, dealing with certain challenges to aspects of Order No. 888, the United States Supreme Court ruled that: (1) if a public utility “unbundles”—*i.e.*, separates—the cost of transmission from the cost of electrical energy when billing its retail customers, FERC has the statutory authority to require the utility to transmit competitors’ electricity over its lines on the same terms that the utility applies to its own energy transmission, and (2) FERC is not required to impose that requirement on utilities that continue to offer only “bundled” retail sales.

Energy Policy Act of 2005

On August 8, 2005, President Bush signed into law comprehensive energy legislation entitled the “Energy Policy Act of 2005” (the “Energy Policy Act”). Among other things, the Energy Policy Act: (a) authorizes FERC to require “unregulated transmitting utilities” that formerly were exempt from regulation under sections 205 and 206 of the FPA (including the Authority) to provide open access to their transmission systems and to comply with certain rate change provisions of section 205 of the FPA; (b) authorizes FERC to order refunds for certain short-term wholesale sales made by state and municipal power entities (including the Authority) if such sales violate FERC-approved tariffs or FERC rules; (c) allows load serving entities holding certain firm transmission rights to continue to use those rights to serve their customers; (d) provides that an “electric reliability organization” (“ERO”) shall develop reliability standards for operation of the transmission grid subject to FERC approval, that compliance with such standards will be mandatory and enforceable by the ERO and FERC, and that the ERO may delegate its authority to regional entities subject to FERC approval; (e) adds to the FPA a prohibition on market manipulation and submission of false information, and expands civil and criminal penalties for violation of the FPA; (f) authorizes FERC to issue construction permits for transmission projects located in “national interest electric transmission corridors” (to be designated by DOE) in circumstances where the applicable state or regional siting agency does not timely authorize a project or imposes unreasonable conditions; (g) eliminates certain ownership restrictions on electric utilities regarding “qualifying facilities” under section 210 of the Public Utility Regulatory Policies Act (“PURPA”), and authorizes FERC to eliminate prospectively the obligation of electric utilities to purchase and sell electricity to such qualifying facilities if certain market condition findings are made by FERC; (h) requires state utility regulatory commissions and “non-regulated electric utilities” (including the Authority) to consider adopting certain standards on net metering, fuel diversity, fossil fuel plant diversity, certain metering and time-based rate schedules and demand response, and interconnection with distributed generation facilities; (i) repeals the Public Utility Holding Company Act (“PUHCA”), effective six months after enactment of the Energy Policy Act; (j) increases FERC’s authority to review mergers of public utility companies; and (k) directs FERC to establish transmission investment incentives in transmission rate structures for public utilities.

It is uncertain what the effects of the Energy Policy Act will be on the Authority. The foregoing discussion of certain provisions of the Energy Policy Act does not purport to be a comprehensive discussion of the Energy Policy Act. Information on the Energy Policy Act is available from many sources in the public domain, and potential purchasers of the 2007 Bonds should obtain and review such information.

New York State Electric Utility Industry Restructuring Matters

Development of a Competitive Market for Electricity in New York

Following extensive proceedings, the PSC issued an Opinion and Order on May 20, 1996 (“Order 96-12”) in the competitive opportunities proceeding which set forth the PSC’s goals of, among other things, increasing competition and customer choice in the retail electric market, lowering electric rates, and encouraging the New York investor-owned electric utilities to divest their generation assets. In Order 96-12, the PSC required these investor-owned electric utilities (with certain exceptions) to file individual restructuring and rate proposals that were responsive to the PSC’s goals. The PSC ultimately approved multi-year restructuring and rate plans for each of the investor-owned electric utilities that the PSC deemed to be consistent with its goals set forth in Order 96-12.

In its appearances in proceedings before the PSC, the Authority has been primarily concerned with the potential application of charges for the “stranded costs” (*i.e.*, those costs incurred by a utility while it was regulated that cannot be recovered during transition to a competitive environment or from the application of proceeds of sales of assets) of the utilities that would be applicable to the Authority and its customers. Treatment of stranded costs and other rate matters under the National Grid, Con Edison and NYSEG restructuring and rate plans currently in effect is described below.

National Grid

Under National Grid's restructuring plan, delivery charges for customers receiving service under the Authority's EDP, PFJ Program, and high load factor programs are maintained at their current levels for a specified period, unless otherwise mandated through legislative changes. The delivery charges for certain new allocations will be set at National Grid's otherwise applicable unbundled rates. Except for certain new allocations, transmission and distribution rates for delivery of Authority replacement and expansion power allocations are maintained at their current levels through 2011.

National Grid's plan contemplates recovery of its stranded costs, including losses from sales of power plants, over a period ending in 2011. However, any recovery of stranded costs by National Grid from Authority customers will be governed by the existing agreement between National Grid, the Authority, and the New York State Department of Public Service, which allows continued delivery by National Grid of such Authority power for existing Authority customers without such customers paying any National Grid stranded cost charges. In addition, within limitations specified in the agreement, which terminates January 1, 2010, certain new Authority EDP customers can receive Authority power delivered by National Grid without a stranded cost charge. Unless exempted from such charges by the agreement, other Authority customers served by National Grid would be subject to any stranded cost charges imposed on customers as a result of restructuring arrangements concerning National Grid approved by the PSC.

Con Edison

By order issued March 24, 2005, the PSC approved a settlement agreement, materially as submitted, by Con Edison and other parties, including the Authority, pertaining to Con Edison's delivery charges for the three-year period ending March 31, 2008 ("Joint Proposal"). Under the Joint Proposal, Con Edison's delivery charges for service to the Authority's governmental and EDP customers will increase by approximately 19% and 5%, respectively, over the three years. These increases in delivery charges are significantly less than those originally proposed by Con Edison.

The Joint Proposal provides that prior to March 31, 2008, Con Edison will collect its full stranded costs from its customers, except for certain Authority customers. After March 31, 2008, Con Edison will be given a reasonable opportunity to recover its remaining stranded costs.

The Joint Proposal provides that the Authority's EDP customers in the Con Edison service territory will be exempt from Con Edison stranded cost charges up to a maximum of 235 MW of allocations. Existing Authority governmental customers as of October 1, 1996 and their load growth, will be exempt from Con Edison stranded cost charges. With certain limited exceptions, to the extent that customers transferring from Con Edison to Authority service cause governmental customer load levels to exceed the load forecast included in the Joint Proposal, then those governmental customer loads would be subject to Con Edison stranded cost charges.

In May 2007, Con Ed filed with the PSC a request for significant rate increases covering the three-year period ending March 31, 2011. The Authority and its major SENY Governmental Customers are actively participating in the proceeding in opposition to the magnitude of the proposed rate increases. The PSC's final decision in the proceeding is expected in March 2008.

NYSEG

Under previous settlements approved by the PSC, NYPA's existing allocations have been exempt from stranded costs. By order issued July 20, 2007, the PSC approved a settlement agreement between NYSEG, the Authority, and other parties that addresses stranded costs for new NYPA allocations. Under the settlement agreement, new NYPA allocations up to a total of 100 MW (excluding the PFJ Program which is exempt from stranded costs by design) will not be charged a stranded costs component.

Long Island Local Reliability Rule

The NYISO has established a local reliability rule for Long Island, New York, that requires entities serving load on Long Island to have at least 99% of the capacity necessary to service such load located on Long Island. Through a combination of existing generation, capacity purchases and other arrangements, the Authority is meeting the NYISO's capacity requirements for the Summer 2007 Capability Period and expects to meet through these means future capacity requirements.

Environmental

Electric utilities are subject to continuing environmental regulation. Federal, state and local standards and procedures which regulate the environmental impact of electric utilities are subject to change. These changes may arise from continuing legislative, regulatory and judicial action regarding such standards and procedures. Consequently, there is no assurance that the Authority's facilities will remain subject to the regulations currently in effect, will always be in compliance with future regulations, or will always be able to obtain all required operating permits. An inability to comply with environmental standards could result in additional capital expenditures to comply, reduced operating levels or the complete shutdown of individual electric generating units not in compliance.

On July 6, 2005, the U.S. Fish and Wildlife Service ("FWS") initiated a status review under the Endangered Species Act (16 U.S.C. 1531 *et seq.*) to determine if listing the American eel as threatened or endangered is warranted. American eels are a fish species that migrate between freshwater and the ocean, and their wide range includes the Atlantic seaboard of the United States and Canada and the Great Lakes' drainages. In findings issued February 2, 2007, the FWS determined that such a listing is not warranted. However, in the event the FWS were to determine in the future to list the American eel as threatened or endangered, such a determination could potentially result in significant additional costs and operational restrictions on hydroelectric generating facilities located within the range of the species, including the Authority's St. Lawrence-FDR Project.

There is concern by individuals, the scientific community and Congress regarding environmental damage resulting from the use of fossil fuels. The Authority's Poletti, 500-MW Plant, and Flynn plants and its SCPPs use fossil fuels. Congressional action for the increased regulation of air, water and contaminants is periodically considered, and there are a number of pending or enacted legislative proposals which affect the electric utility industry. In particular, legislation was enacted in 1990 that substantially revises the Federal Clean Air Act (the "1990 Amendments"). The 1990 Amendments seek to improve the ambient air quality throughout the United States. A main feature of the 1990 Amendments is the reduction of sulfur dioxide and nitrogen oxide emissions caused by electric utility power plants. The 1990 Amendments also provide for possible further regulation of toxic air emissions from electric-utility fossil-fuel power plants. The impact on the Authority's operations of any such further regulation cannot yet be predicted.

The 1990 Amendments provide facility operators with sulfur dioxide "allowances" based upon a facility's prior operating emission levels and additional statutory allowances as applicable. The sulfur dioxide emissions from a facility are limited to these allocated sulfur dioxide allowances. The sulfur dioxide allowances available to the Authority will be sufficient to operate the Poletti and Flynn plants even during the periods when natural gas may not be available, subject, however, in the case of the Flynn plant, to certain restraints under applicable DEC permits on the use of distillate fuel during winter periods. Moreover, the 1990 Amendments allow facility operators to buy and sell excess sulfur dioxide allowances. In May 2000, the State enacted a law which regulates the sale of these allowances by New York State generators to generators in certain mid-west and southern states and establishes an "offset" payable to the State in an amount equal to the sale price for any such allowance.

In accordance with the 1990 Amendments, the State was required to submit a State Implementation Plan to demonstrate attainment of ozone standards. The 1990 Amendments required the State to submit plans to the United States Environmental Protection Agency ("EPA") that provide a mechanism for reduction of volatile organic compounds and nitrogen oxides, that define Reasonably Available Control Technology ("RACT") for nitrogen oxides, and that require all stationary combustion units, including electric utility power plants, to comply with RACT emission limits in three phases.

A Phase I limit was issued by the State and became effective May 31, 1995. Poletti meets this limit. Phase II limits became effective on May 15, 1999. The State is following the "cap and trade" principle by

allocating nitrogen oxide allowances to the utility power plants during ozone control season (May 1 to September 30). The facility operator cannot exceed these nitrogen oxide allowances. However, operators can purchase additional nitrogen oxide allowances in the open market. The State has also established Phase III limits, which became effective in the year 2003. Pursuant to State regulations, the State has allocated 138 nitrogen oxide allowances per control period to the Flynn plant and 912 to the Poletti plant. The Authority has obtained sufficient allocations to operate the Poletti and Flynn plants, as well as the SCPPs, at their present operating levels.

In regard to the Authority's 500-MW Plant, as part of the initial licensing of the project, the Authority was required to and has obtained Emission Offsets for specified amounts of oxides of nitrogen ("NOX") and volatile organic compounds. The Authority must secure for the 500-MW Plant allowances for each ton of NOX and sulfur dioxide emitted which the Authority has done.

The Regional Greenhouse Gas Initiative ("RGGI") is a cooperative effort by Northeastern and Mid-Atlantic states (including New York) to reduce carbon dioxide emissions commencing in 2009. Central to this initiative is the proposed implementation of a multi-state cap-and-trade program with a market-based emissions trading system. The proposed program will require electricity generators to hold carbon dioxide allowances in a compliance account in a quantity that matches their total emissions of carbon dioxide for the compliance period. The Authority's Poletti, Flynn, SCPPs, and 500-MW Plant will be subject to the RGGI requirements. Depending on the final program design and prices of the allowances, the costs of compliance to the Authority and other generators in the region could be significant.

As discussed above, the electric utility industry is currently confronting issues and developments in a number of areas. The Authority is unable to predict the extent to which its construction programs and operations will be affected by such factors, but they could result in its incurrence of substantial additional costs and could adversely affect its revenues.

Other Factors

The electric utility industry in general has been, or in the future may be, affected by a number of other factors which could impact the financial condition and competitiveness of many electric utilities and the level of utilization of generating and transmission facilities.

Investigations into the causes of the August 2003 massive power failure in the Northeastern United States may result in the necessity to upgrade transmission lines or other electrical equipment by the Authority and other electric utilities.

Electric and magnetic fields ("EMF") exist wherever electricity flows, around high voltage transmission and distribution equipment ("power Frequency EMF"), as well as near electrical appliances, computers, and other electrical devices. Epidemiological studies, clinical studies and laboratory experiments have shown that EMF can cause changes in living cells, but there is little evidence that these changes suggest any risk to human health.

In 1999, the National Institute of Environmental Health Sciences ("NIEHS") completed a five-year federally supported EMF research program, concluding that the scientific evidence suggesting that power frequency EMF exposures pose any health risk is weak. The NIEHS study, however, could not discount the epidemiological findings showing associations observed in human populations with two forms of cancer: childhood leukemia and chronic lymphocytic leukemia in occupationally exposed adults. In 2001, the International Agency for Research on Cancer conducted a similar evaluation, and it classified power frequency EMF fields as "possibly carcinogenic to humans" based on a statistical association of power frequency EMF with increased risk of childhood leukemia. "Possibly carcinogenic to humans" is a classification used to denote an agent for which there is limited evidence of carcinogenicity in humans and less than sufficient evidence for carcinogenicity in experimental animals. In 2002, the California Department of Health Services prepared a report examining the evidence regarding possible EMF risk for some 21 different diseases. The report found that the possible risk, while potentially low, nonetheless could be of concern to regulators.

Claims for damages against electric utilities for injuries alleged to have been caused by power frequency EMF has increased electric utilities attention on this issue. At this time, it is not possible to

predict the extent of the costs and other impacts, if any, which power frequency EMF may have on the Authority and other electric utilities.

In addition to the factors affecting the electric utility industry discussed above, such factors also include, among others: (a) effects of compliance with rapidly changing environmental, safety, licensing, regulatory and legislative requirements other than those described above, (b) changes resulting from conservation and demand-side management programs on the timing and use of electric energy, (c) effects of competition from other electric utilities (including increased competition resulting from mergers, acquisitions, and “strategic alliances” of competing electric and natural gas utilities and from competitors transmitting less expensive electricity from much greater distances over an interconnected system) and new methods of, and new facilities for, producing low-cost electricity, (d) the role of independent power producers and marketers, brokers and federal power marketing agencies in power markets, (e) “self-generation” or “distributed generation” (such as microturbines and fuel cells) by industrial and commercial customers and others, (f) effects of inflation on the operating and maintenance costs of an electric utility and its facilities, (g) changes from projected future load requirements, (h) increases in costs and uncertain availability of capital, (i) shifts in the availability and relative costs of different fuels (including the recent high cost of natural gas), (j) sudden and dramatic increases in the price of energy purchased on the open market that may occur in times of high peak demand in an area of the country experiencing such high peak demand, (k) inadequate risk management procedures and practices with respect to, among other things, the purchase and sale of energy and transmission capacity, and (l) other legislative changes, voter initiatives, referenda and statewide propositions. Any of these factors (as well as other factors) could have an adverse effect on the financial condition of any given electric utility and likely will affect individual utilities in different ways.

Effects on the Authority

Currently, the Authority is a provider of low cost power and energy in New York State. However, the Authority cannot predict what effect any of the foregoing factors will have on the business operations and financial condition of the Authority, but the effect could be significant. To maintain its position in this changing environment, the Authority has undertaken and continues to carry out a multifaceted program, including:

- the upgrade and relicensing of the Niagara and St. Lawrence-FDR Projects;
- execution of new long-term agreements with its NYC Governmental Customers (see “PART 2—POWER SALES—Marketing Issues and Developments”);
- implementing an active energy risk assessment and control policy at the Authority (see “PART 2—Energy Risk Assessment and Control Activities”);
- the construction of its 500-MW Plant (see “PART 2—THE AUTHORITY’S FACILITIES—Generation—500-MW Combined-Cycle Electric-Generating Plant”); and
- a significant reduction in the Authority’s outstanding debt since 1995.

The Authority can give no assurance that even with these measures the Authority will not lose customers in the future as a result of the restructuring of the New York State electric utility industry and the emergence of new competitors or increased competition from existing competitors. In addition, the Authority’s ability to market power and energy on a competitive basis is limited by provisions of the Act which restrict the marketing of Poletti output, restrictions under State and federal law as to the sale and pricing of a large portion of the output from the Niagara and St. Lawrence-FDR Projects, and restrictions on marketing arising from Federal tax laws and regulations.

The foregoing is a brief discussion of certain factors affecting the electric utility industry. This discussion does not purport to be comprehensive or definitive, and these matters are subject to change subsequent to the date hereof. Extensive information on the electric utility industry is, and will be, available from the legislative and regulatory bodies and other sources in the public domain, and potential purchasers of the 2007 Bonds should obtain and review such information.

REGULATION

The operations of the Authority are subject to regulation or review by various State and federal agencies, discussions of which appear in various segments throughout this Official Statement. The principal agencies having a regulatory impact on, or a monitoring function over, the Authority and the conduct of its activities, are as follows:

New York State

Public Service Commission. The PSC is the principal agency in the State regulating the generation, transmission and sale of electric power and energy. It has no jurisdiction over rates for power generated or transmitted by the Authority but does regulate the rates of New York State's investor-owned utilities and certain municipal systems to which the Authority sells power. The PSC is empowered by the New York Public Service Law to issue Certificates of Environmental Compatibility and Public Need prior to the construction of power transmission lines of certain capacities and lengths.

Department of Environmental Conservation. The DEC administers and manages the State program for oil and chemical containment and spill prevention and provides for abatement of water, land and air pollution. Pursuant to State and federal laws, the DEC regulates the transport, treatment and disposal of hazardous and toxic wastes. In addition, the DEC regulates the use of tidal and freshwater wetlands and flood plains. Before any Federal license or permit can be issued for any activity involving a discharge into navigable waters, the DEC must certify that the discharge will comply with the State water quality standards, or otherwise waive certification. Certain aspects of the DEC's regulatory authority over pollutant discharge permits, air quality and hazardous waste regulation arise from delegation of such authority to the State by federal legislation.

New York State Comptroller. The Office of the State Comptroller (the "OSC") audits the Authority's programs, management and operations at least once every five years.

In May 2005, the OSC commenced its most recent "program, financial and operations audit" of the Authority by stating that it would audit the Authority's system of internal controls over procurement operations. In its report issued in July 2006, the OSC concluded that NYPA "has incorporated the necessary controls to ensure that procurement-related expenditures are authorized and appropriate."

In June 2005, the OSC commenced an audit of the vehicle acquisition and use policies and practices of selected New York State public authorities and public benefit corporations including the Authority. The OSC has not yet issued its report.

In March 2006, the OSC commenced an audit of the Authority's financial records and related controls over financial reporting of revenues pertaining to the Niagara Project for the period 2004-2005. In its report issued in October 2006, the OSC concluded that for both years "all Niagara revenue and expense items were properly accounted for." The report recommended that the Authority in the future present expense and revenue information separately for the Niagara and St. Lawrence-FDR Projects, and in its response the Authority stated that it would do so in its annual reports prepared pursuant to section 2800 of the New York Public Authorities Law.

During the second half of 2006, the OSC conducted an audit of the Authority's policies and procedures under the Freedom of Information Law ("FOIL") as part of a multi-authority audit. The OSC's July 2007 report and summary stated that the Authority was "generally in compliance" with FOIL and that there also was an "opportunity for some improvement."

In addition, in March 2006, the OSC issued regulations that are applicable in whole or in part to many public authorities in New York State, including the Authority. Among other things, the regulations require public authorities, including the Authority, to adhere to prescribed budgeting and financial plan procedures, certain financial reporting and certification requirements, and detailed investment guidelines and procedures, including obtaining the approval of the OSC before adoption of certain changes in accounting principles.

Federal

Federal Energy Regulatory Commission. FERC is authorized by the FPA to license certain hydroelectric power plants and transmission lines, to issue wheeling and interconnection orders and to prescribe rules for the sale of electrical energy to and the purchase of energy from qualifying cogeneration and small power production facilities. See “PART 2— CERTAIN FACTORS AFFECTING THE ELECTRIC UTILITY INDUSTRY—The Electric Utility Industry Generally—*Energy Policy Act of 2005*” for a discussion of FERC’s increased regulatory authority over certain entities, including the Authority.

Environmental Protection Agency. With the exception of the nuclear facilities matters regulated by the United States Nuclear Regulatory Commission, the EPA is the principal agency of the Federal government regulating air and water quality and the use, storage and disposal of hazardous substances. While most of its air, water and waste programs have been delegated to the State, the EPA retains approval authority over the individual state programs, in many instances disapproval authority over individual permit issuance and enforcement authority over all the delegated programs. It is also empowered to initiate administrative and legal action to compel responsible parties to clean up hazardous waste sites. The Authority is subject to EPA rules requiring the securing of routine discharge permits for emissions and effluents from all Authority facilities.

Department of Energy. The Economic Regulatory Administration of DOE is authorized to issue Presidential permits for international transmission interconnections.

SUMMARY OF CERTAIN PROVISIONS OF THE GENERAL RESOLUTION

The following is a summary of certain provisions of the General Resolution. The following summary is not to be considered a full statement of the terms of the General Resolution and, accordingly, is qualified by reference thereto and is subject to the full text thereof. Capitalized terms not otherwise previously defined in this Official Statement or defined below have the meaning set forth in the General Resolution.

Definitions

The following are definitions in summary form of certain terms contained in the General Resolution and used hereinafter:

Authorized Investments means and includes any of the following securities, if and to the extent the same are at the time legal for investment of the Authority's funds pursuant to any law, to the extent permitted under any applicable regulation, guideline and policy of the Authority as each is in effect from time to time: (i) any security which is (a) a direct obligation of, or is unconditionally guaranteed by, the United States of America or the State for the payment of which the full faith and credit of the United States of America or the State is pledged or (b) an obligation of an agency or instrumentality of the United States of America the payment of which is unconditionally guaranteed as a full faith and credit obligation by the United States of America; (ii) any obligation of any state or political subdivision of a state or of any agency or instrumentality of any state or political subdivision ("Municipal Bond") which Municipal Bond is fully secured as to principal and interest by an irrevocable pledge of moneys or direct and general obligations of, or obligations guaranteed by, the United States of America, which moneys or obligations are segregated in trust and pledged for the benefit of the holder of the Municipal Bond, and which Municipal Bond is rated in the highest Rating Category by at least two Rating Agencies and provided, however, that such Municipal Bond is accompanied by (1) a Counsel's Opinion to the effect that such Municipal Bond is not subject to redemption prior to the date the proceeds of such Municipal Bond will be required for the purposes of the investment being made therein and (2) a report of a nationally recognized independent certified accountant verifying that the moneys and obligations so segregated are sufficient to pay the principal of, premium, if any, and interest on the Municipal Bond; (iii) bonds, debentures, notes or other obligations issued or guaranteed by any of the following: Federal National Mortgage Association (including Participation Certificates), Government National Mortgage Association, Federal Financing Bank, Federal Home Loan Mortgage Corporation and Federal Home Loan Banks, the Federal Housing Administration, the Federal Farm Credit Banks Funding Corporation, Federal Farm Credit Banks, Federal Intermediate Credit Banks, Federal Banks for Cooperatives, Federal Land Banks, or any other agency controlled by or supervised by and acting as an instrumentality of the United States government; (iv) obligations of any state of the United States of America or any political subdivision thereof or any agency, instrumentality or local government unit of any such state or political subdivision which shall be rated at the time of the investment in any of the three highest long-term Rating Categories or the highest short-term Rating Category by a Rating Agency; (v) certificates or other instruments that evidence ownership of the right to payments of principal of or interest on Municipal Bonds provided that such obligations shall be held in trust by a Bank meeting the requirements for a successor Trustee pursuant to the General Resolution, and provided further that the payments of all principal of and interest on such certificates or such obligations shall be fully insured or unconditionally guaranteed by, or otherwise unconditionally payable pursuant to a credit support arrangement provided by, one or more financial institutions or insurance companies or associations which at the date of investment shall have an outstanding, unsecured, uninsured and unguaranteed debt issue rated in the highest Rating Category by a Rating Agency or, in the case of an insurer providing municipal bond insurance policies insuring the payment, when due, of the principal of and interest on Municipal Bonds, such insurance policy shall result in such Municipal Bonds being rated in the highest Rating Category by a Rating Agency; (vi) certificates that evidence ownership of the right to payments of principal of or interest on obligations described in clause (i) or (ii) above, provided that such obligations shall be held in trust by a Bank meeting the requirements for a successor Trustee pursuant to the General Resolution; (vii) certificates of deposit,

whether negotiable or non-negotiable, and banker's acceptances of the 25 largest Banks (measured by aggregate capital and surplus) in the United States or commercial paper issued by the parent holding company of any such Bank which at the time of investment has an outstanding unsecured, uninsured and unguaranteed debt issue rated in the highest short-term Rating Category by a Rating Agency (including the Trustee and its parent holding company, if any, if it otherwise qualifies); (viii) any repurchase agreement or other investment agreement with any Bank as defined in clause (i) or (ii) of the definition thereof or government bond dealer reporting to, trading with, and recognized as a primary dealer by the Federal Reserve Bank of New York, which agreement is secured by any one or more of the securities described in clause (i), (iii) or (vii) above, which securities shall at all times have a market value of not less than the full amount of the repurchase agreement and be delivered to another such Bank, as custodian; (ix) any agreement or other investment agreement with any insurance company or reinsurance company or investment affiliates thereof the obligations of which are rated by a Rating Agency in one of the two highest Rating Categories, which agreement is continuously secured by any one or more of the securities described in clause (i), (iii) or (vii) above, which securities shall at all times have a market value of not less than the full amount held or invested pursuant to the agreement and be delivered to a Bank as defined in clause (i) or (ii) of the definition thereof, as custodian; (x) obligations of any domestic corporation which shall be rated at the time of the investment in either of the two highest long-term Rating Categories or the highest short-term Rating Category by a Rating Agency; and (xi) any other investment in which the Authority is permitted to invest under applicable law, notwithstanding any limitations set forth in clauses (i) through (x) above.

Authorized Officer means any trustee of the Authority or officer of the Authority and any other person authorized by by-laws or resolution of the Authority to perform the act or sign the document in question.

Bank means any (i) bank or trust company organized under the laws of any state of the United States of America, (ii) national banking association, (iii) savings bank or savings and loan association chartered or organized under the laws of any state of the United States of America, or (iv) federal branch or agency pursuant to the International Banking Act of 1978 or any successor provisions of law, or domestic branch or agency of a foreign bank which branch or agency is duly licensed or authorized to do business under the laws of any state or territory of the United States of America.

Capital Costs means the Authority's costs of (i) physical construction of or acquisition of real or personal property or interests therein for any Project, together with incidental costs, working capital and reserves deemed necessary or desirable by the Authority and other costs properly attributable thereto; (ii) all capital improvements or additions, including but not limited to, renewals or replacements of or repairs, additions, improvements, modifications or betterments to or for any Project; (iii) the acquisition of any other real property, capital improvements or additions, or interests therein, deemed necessary or desirable by the Authority for the conduct of its business; (iv) any other purpose for which bonds, notes or other obligations of the Authority may be issued under the Act or under other applicable State statutory provisions (whether or not also classifiable as an Operating Expense); and (v) the payment of principal, interest, and redemption, tender or purchase price of any (a) Obligations issued by the Authority for the payment of any of the costs specified above, (b) any Obligations issued to refund such Obligations, or (c) Obligations issued to pay capitalized interest; provided, however, that the term Capital Costs shall not include any costs of the Authority relating to a Separately Financed Project.

Capital Fund means the fund by that name established pursuant to the General Resolution.

Commercial Paper Notes means any notes issued and outstanding at any time under the Commercial Paper Resolution.

Commercial Paper Resolution means the Amended and Restated Resolution Authorizing Commercial Paper Notes adopted by the Authority on November 25, 1997, as the same may be amended and supplemented in accordance with its terms.

Counsel's Opinion means an opinion signed by an attorney or firm of attorneys of nationally recognized standing in the field of law relating to municipal bonds selected by the Authority.

Credit Facility means any letter of credit, standby bond purchase agreement, line of credit, policy of bond insurance, surety bond, guarantee or similar instrument, or any agreement relating to the reimbursement thereof, which is obtained by the Authority and is issued by a financial, insurance or other institution and which provides security or liquidity in respect of any Outstanding Obligations, Parity Debt or Subordinated Indebtedness.

Defeasance Security means (a) an Authorized Investment as specified in clause (i) of the definition thereof, which is not callable or redeemable at the option of the issuer thereof; (b) any depositary receipt issued by a Bank as custodian with respect to any Defeasance Security which is specified in clause (a) above and held by such Bank for the account of the holder of such depositary receipt, or with respect to any specific payment of principal or interest on any such Defeasance Security which is so specified and held, provided that (except as required by law) such custodian is not authorized to make any deduction from the amount payable to the holder of such depositary receipt from any amount received by the custodian in respect of the Defeasance Security or the specific payment of principal or interest evidenced by such depositary receipt; (c) any certificate of deposit specified in clause (vii) of the definition of Authorized Investments, including certificates of deposit issued by the Trustee or by a Paying Agent; (d) an Authorized Investment as specified in clause (ii) of the definition thereof and (e) any other security designated in a Supplemental Resolution as a Defeasance Security for purposes of defeasing the Obligations authorized by such Supplemental Resolution.

Event of Default has the meaning provided in the discussion of **Event of Default** below.

Fiduciary or Fiduciaries means the Trustee, any Registrar, any Paying Agent, or any or all of them, as may be appropriate.

General Resolution means the Power Authority of the State of New York General Resolution authorizing Revenue Obligations adopted on February 24, 1998, as from time to time amended or supplemented by any Supplemental Resolutions.

1985 Note Resolution means the resolution adopted by the Authority on April 30, 1985 entitled "Resolution Authorizing the Issuance of \$200,000,000 Adjustable Rate Tender Notes," as amended and supplemented in accordance with the terms thereof.

1985 Notes means any notes issued and outstanding under the 1985 Note Resolution.

1974 Bonds means any bond or bonds issued in one or more series under the 1974 Resolution.

1974 Resolution means the General Purpose Bond Resolution adopted by the Authority on November 26, 1974, as amended and supplemented in accordance with the terms thereof.

Obligations means any obligations, issued in any form of debt, authorized by a Supplemental Resolution, including, but not limited to, bonds, notes, bond anticipation notes, and commercial paper, which are delivered under the General Resolution, but such term shall not include any Subordinated Contract Obligation or Subordinated Indebtedness.

Operating Expenses means the Authority's expenses for operation, maintenance, ordinary repairs and ordinary replacements of any Project, including, without limiting the generality of the foregoing, the costs of supplies, fuel, fuel assemblies and components required by the Authority for the operation of any Project (including any payments made pursuant to a "take-or-pay" fuel supply or energy contract that obligates the Authority to pay for fuel, energy or power regardless of whether fuel or energy is delivered or made available for delivery, other than any such contract or portion thereof that is designated by the Authority as either a Subordinate Contract Obligation or a Parity Contract Obligation), administrative expenses, insurance premiums, legal and engineering expenses, consulting and technical services, payments for energy conservation and load management programs, payments relating to fuel or electricity hedging instruments, payments for employee benefits, including payments to savings, pension, retirement, health and hospitalization funds, charges payable by the Authority pursuant to any licenses, orders or mandates from any agency or regulatory body having lawful jurisdiction, any payments in lieu of taxes or other payments to municipal governments agreed to be paid by the Authority and any taxes, governmental charges, and any other expenses required to be paid by the Authority, all to the extent properly and directly attributable to any Project; financing costs of any Series of Obligations; the

expenses, liabilities and compensation of the fiduciaries required to be paid under the General Resolution or pursuant to any agreement executed by the Authority; all costs and expenses associated with or arising out of the research, development (including feasibility and other studies) and/or implementation of any project, facility, system, task or measure deemed desirable or necessary by the Authority; and all other costs and expenses arising out of or in connection with the conduct of Authority business (other than costs and expenses attributable to a Separately Financed Project), including those expenses the payment of which is not immediately required, such as those expenses referenced in the second paragraph of the discussion of **Operating Fund**. Operating Expenses shall not include any costs or expenses for new construction or for reconstruction other than restoration of any part of a Project to the condition of serviceability thereof when new.

Operating Fund means the fund by that name established pursuant to the General Resolution.

Outstanding, when used with reference to Obligations or Obligations of a Series, means, as of any date, Obligations or Obligations of such Series theretofore or thereupon being delivered under the General Resolution except: (i) Any Obligations cancelled at or prior to such date; (ii) Obligations the principal and Redemption Price, if any, of and interest on which have been paid in accordance with the terms thereof; (iii) Obligations in lieu of or in substitution for which other Obligations shall have been delivered pursuant to the General Resolution; (iv) Obligations deemed to have been paid as provided in the General Resolution; and (v) Put Obligations tendered or deemed tendered in accordance with the provisions of the Supplemental Resolution authorizing such Obligations on the applicable tender date, if the purchase price thereof and interest thereon shall have been paid or amounts are available and set aside for such payment as provided in such Supplemental Resolution, except to the extent such tendered Put Obligations thereafter may be resold pursuant to the terms thereof and of such Supplemental Resolution.

Owner or any similar terms, means the registered owner of any Obligation as shown on the books for the registration and transfer of Obligations maintained in accordance with the General Resolution.

Parity Contract Obligation has the meaning provided in the discussion of **Credit Facilities; Qualified Swaps and Other Similar Arrangements; Parity Debt** herein.

Parity Debt means the 1985 Notes, any note issued pursuant to the 1995 Revolving Credit Agreement, and any Parity Contract Obligation, Parity Reimbursement Obligation or Parity Swap Obligation.

Parity Reimbursement Obligation has the meaning provided in the discussion of **Credit Facilities; Qualified Swaps and Other Similar Arrangements; Parity Debt** herein.

Parity Swap Obligation has the meaning provided in the discussion of **Credit Facilities; Qualified Swaps and Other Similar Arrangements; Parity Debt** herein.

Paying Agent means any paying agent for the Obligations of any Series and its successor or successors and any other Person which may at any time be substituted in its place pursuant to the General Resolution.

Person means any individual, corporation, firm, partnership, joint venture, association, joint-stock company, trust, unincorporated association, limited liability company, or other legal entity or group of entities, including a governmental entity or any agency or subdivision thereof.

Project means any project, facility, system, equipment, or material related to or necessary or desirable in connection with the generation, production, transportation, distribution, transmission, delivery, storage, conservation, purchase or use of energy or fuel, whether owned jointly or singly by the Authority, including any output in which the Authority has an interest, heretofore or hereafter authorized by the Act or by other applicable State statutory provisions; provided, however, that the term "Project" shall not include any Separately Financed Project.

Purchase Price means, with respect to any Obligation, 100% of the principal amount thereof plus accrued interest, if any, plus in the case of an Obligation subject to mandatory tender for purchase on a date when such Obligation is also subject to optional redemption at a premium, an amount equal to the premium that would be payable on such Obligation if redeemed on such date.

Put Obligations means Obligations which by their terms may be tendered by and at the option of the owner thereof, or are subject to a mandatory tender, for payment or purchase prior to the stated maturity or redemption date thereof.

Qualified Swap means, to the extent from time to time permitted by law, with respect to Obligations, any financial arrangement (i) which is entered into by the Authority with an entity that is a Qualified Swap Provider at the time the arrangement is entered into, (ii) which is a cap, floor or collar; forward rate; future rate; swap (such swap may be based on an amount equal either to the principal amount of such Obligations of the Authority as may be designated or a notional principal amount relating to all or a portion of the principal amount of such Obligations); asset, index, price or market linked transaction or agreement; other exchange or rate protection transaction agreement; other similar transaction (however designated); or any combination thereof; or any option with respect thereto, executed by the Authority for the purpose of moderating interest rate fluctuations or otherwise, and (iii) which has been designated in writing to the Trustee by an Authorized Officer as a Qualified Swap with respect to such Obligations.

Qualified Swap Provider means an entity whose senior long term obligations, other senior unsecured long term obligations, financial program rating, counterparty rating, or claims paying ability, or whose payment obligations under an interest rate exchange agreement are guaranteed by an entity whose senior long term debt obligations, financial program rating, counterparty rating, other senior unsecured long term obligations or claims paying ability, or whose payment obligations under an interest rate exchange agreement are guaranteed by an entity whose senior long term debt obligations, other senior unsecured long term obligations or claims paying ability, are rated either (i) at least as high as the third highest Rating Category of each Rating Agency then maintaining a rating for the Qualified Swap Provider, but in no event lower than any Rating Category designated by each such Rating Agency for the Obligations subject to such Qualified Swap, or (ii) any such lower Rating Categories which each such Rating Agency indicates in writing to the Authority and the Trustee will not, by itself, result in a reduction or withdrawal of its rating on the Outstanding Obligations subject to such Qualified Swap that is in effect prior to entering into such Qualified Swap.

Rating Agency means each nationally recognized securities rating agency then maintaining a rating on the Obligations at the request of the Authority.

Rating Category means one of the generic rating categories of any Rating Agency without regard to any refinement or gradation of such rating by a numerical modifier or otherwise.

Redemption Price means, with respect to any Obligation, 100% of the principal amount thereof plus the applicable premium, if any, payable upon the redemption thereof pursuant to the General Resolution.

Registrar means any registrar for the Obligations of any Series and its successor or successors and any other person which may at any time be substituted in its place pursuant to the General Resolution.

Revenues means all revenues, rates, fees, charges, rents, proceeds from the sale of Authority assets, proceeds of insurance, and other income and receipts, as derived in cash by or for the account of the Authority directly or indirectly from any of the Authority's operations, including but not limited to the ownership or operation of any Project, but not including any such income or receipts attributable directly or indirectly to the ownership or operation of any Separately Financed Project and not including any federal or state grant moneys the receipt of which is conditioned upon their expenditure for a particular purpose.

Securities Depository means The Depository Trust Company, New York, New York, or any substitute Securities Depository, or any successor to any of them.

Separately Financed Project means any project described as such pursuant to the General Resolution.

Series means all of the Obligations delivered upon original issuance pursuant to a single Supplemental Resolution and denominated therein a single series, and any Obligations thereafter delivered in lieu of or in substitution therefor pursuant to the General Resolution, regardless of variations in maturity, interest rate, or other provisions.

Subordinated Contract Obligation means any payment obligation (other than a payment obligation constituting Parity Debt or Subordinated Indebtedness) arising under (a) any Credit Facility which has been designated as constituting a “Subordinated Contract Obligation” in a certificate of an Authorized Officer delivered to the Trustee, (b) any Qualified Swap which has been designated as constituting a “Subordinated Contract Obligation” in a certificate of an Authorized Officer delivered to the Trustee, (c) the 1995 Revolving Credit Agreement, and (d) any other contract, agreement or other obligation authorized by resolution of the Authority and designated as constituting a “Subordinated Contract Obligation” in a certificate of an Authorized Officer delivered to the Trustee. Each Subordinated Contract Obligation shall be payable from the Trust Estate subject and subordinate to the payments to be made with respect to the Obligations and Parity Debt, as provided for in the General Resolution and which shall be secured by a lien on and pledge of the Trust Estate junior and inferior to the lien on and pledge of the Trust Estate created pursuant to the Resolution for the payment of the Obligations and Parity Debt.

Subordinated Indebtedness means any Commercial Paper Notes, and any bond, note or other indebtedness authorized by resolution of the Authority and designated as constituting “Subordinated Indebtedness” in a certificate of an Authorized Officer delivered to the Trustee, and which shall be secured by a lien on and pledge of the Trust Estate junior and inferior to the lien on and pledge of the Trust Estate created for the payment of the Obligations and Parity Debt.

Supplemental Resolution means any resolution supplemental to or amendatory of the General Resolution, adopted by, or adopted pursuant to authorization granted by, the Authority in accordance with the General Resolution.

Tax-Exempt Obligations means any Obligations the interest on which is intended by the Authority to be excluded from gross income for federal income tax purposes and which are designated as Tax-Exempt Obligations in the Supplemental Resolution authorizing such obligations.

Trust Estate means, collectively: (i) all Revenues; (ii) the proceeds of the sale of Obligations until expended for the purposes authorized by the Supplemental Resolution authorizing such Obligations; (iii) all funds, accounts and subaccounts established by the General Resolution, including investment earnings thereon; and (iv) all funds, moneys, and securities and any and all other rights and interests in property, whether tangible or intangible, from time to time hereafter by delivery or by writing of any kind conveyed, mortgaged, pledged, assigned or transferred as and for additional security pursuant to the General Resolution for the Obligations by the Authority, or by anyone on its behalf, or with its written consent, to the Trustee, which is authorized to receive any and all such property at any and all times, and to hold and apply the same subject to the terms of the General Resolution.

Trustee means the trustee appointed in accordance with the General Resolution, and its successor or successors and any other Person which may at any time be substituted in its place pursuant to the General Resolution.

(General Resolution, Sec. 101)

Book-Entry-Only System

Notwithstanding any other provision of the General Resolution, the Authority may employ a book-entry-only system of registration with respect to any Obligations, all as more fully set forth in the General Resolution and the Supplemental Resolution authorizing such Obligations. Any provisions of the

General Resolution inconsistent with book-entry-only Obligations shall not be applicable to such book-entry-only Obligations.

(General Resolution, Sec. 309)

Credit Facilities; Qualified Swaps and Other Similar Arrangements; Parity Debt

The Authority may include such provisions in a Supplemental Resolution authorizing the issuance of a Series of Obligations secured by a Credit Facility as the Authority deems appropriate, and no such provisions shall be deemed to constitute an amendment to the General Resolution.

The Authority may secure such Credit Facility by an agreement providing for the purchase of the Obligations secured thereby with such adjustments to the rate of interest, method of determining interest, maturity, or redemption provisions as specified by the Authority in the applicable Supplemental Resolution. The Authority may also in an agreement with the issuer of such Credit Facility agree to directly reimburse such issuer for amounts paid under the terms of such Credit Facility (together with interest thereon, the “**Reimbursement Obligation**”); provided, however, that no Reimbursement Obligation shall be created, for purposes of the General Resolution, until amounts are paid under such Credit Facility. Any such Reimbursement Obligation which may include interest calculated at a rate higher than the interest rate on the related Obligation, may be secured by a pledge of, and a lien on, the Trust Estate on a parity with the lien created by the General Resolution to secure the Obligations (a “**Parity Reimbursement Obligation**”), but only to the extent principal amortization requirements with respect to such reimbursement are equal to the amortization requirements for such related Obligations, without acceleration, or may constitute a Subordinated Contract Obligation, as determined by the Authority. In addition, the Authority may enter into a Reimbursement Obligation with respect to a Credit Facility securing Parity Debt, and any such Reimbursement Obligation may be a Parity Reimbursement Obligation (but only to the extent principal amortization requirements with respect to such reimbursement are substantially equal to the amortization requirements [including principal payments in connection with any optional or mandatory tender for purchase] for such related Parity Debt, without acceleration) or may constitute a Subordinated Contract Obligation, as determined by the Authority. Parity Reimbursement Obligations shall not include any payments of any fees, expenses, indemnification, or other obligations to any such provider, or any payments pursuant to term-loan or other principal amortization requirements in reimbursement of any such advance that are more accelerated than the amortization requirements on such related Obligations or Parity Debt, which payments shall be Subordinated Contract Obligations.

In connection with the issuance of any Obligations or at any time thereafter so long as Obligations remain Outstanding, the Authority also may, to the extent from time to time permitted pursuant to law, enter into Qualified Swaps. The Authority’s obligation to pay any amount under any Qualified Swap may be secured by a pledge of, and a lien on, the Trust Estate on a parity with the lien created pursuant to the General Resolution to secure the Obligations (a “**Parity Swap Obligation**”), or may constitute a Subordinated Contract Obligation, as determined by the Authority. Parity Swap Obligations shall not include any payments of any termination or other fees, expenses, indemnification or other obligations to a counterparty to a Qualified Swap, which payments shall be Subordinated Contract Obligations.

The Authority’s obligation to pay that portion of any rates, fees, charges or payments which the Authority is contractually obligated to pay to another entity for fuel, energy or power, for the specific purpose of meeting principal or interest or both on that entity’s obligations directly associated with such contract and payable to such entity regardless of whether fuel or energy is delivered or made available for delivery, may be secured by a pledge of, and lien on, the Trust Estate on a parity with the lien created by the General Resolution to secure the Obligations (a “**Parity Contract Obligation**”), or may constitute a Subordinated Contract Obligation or an Operating Expense, as determined by the Authority.

(General Resolution, Sec. 310)

Pledge of Revenues and Funds

The Trust Estate is pledged for the payment of the principal and Redemption Price of, and interest on, the Obligations and, on a parity basis, the Parity Debt, in accordance with their terms and the provisions of the General Resolution.

(General Resolution, Sec. 501)

The General Resolution establishes the following funds:

- (1) Operating Fund, to be held by the Authority, and
- (2) Capital Fund, to be held by the Authority.

The Authority may establish one or more additional funds, accounts or subaccounts by delivering to the Trustee a certificate of an Authorized Officer.

(General Resolution, Sec. 502)

Operating Fund

The General Resolution provides that the Authority shall pay into the Operating Fund all Revenues as and when received. The Authority shall also pay into the Operating Fund such portion of the proceeds of any Series of Obligations which may have been issued to pay Operating Expenses as shall be specified pursuant to the Supplemental Resolution authorizing such Series. Amounts in the Operating Fund shall be paid out or accumulated or withdrawn from time to time for the following purposes and, as of any time, in the following order of priority: (a) payment of reasonable and necessary Operating Expenses or accumulation in the Operating Fund as a reserve (i) for working capital, (ii) for such Operating Expenses the payment of which is not immediately required, or (iii) deemed necessary or desirable by the Authority to comply with orders or other rulings of an agency or regulatory body having lawful jurisdiction; (b) payment of, or accumulation in the Operating Fund as a reserve for the payment of, interest on and the principal or Redemption Price of the Obligations and Payment of Parity Debt, on a parity basis, on their respective due dates or redemption date, as the case may be; (c) payment of principal of and interest on any Subordinated Indebtedness or payment of amounts due under any Subordinated Contract Obligation; (d) withdrawal and deposit in the Capital Fund; and (e) withdrawal for any lawful corporate purpose as determined by the Authority, including but not limited to the purchase or redemption of Obligations or Subordinated Indebtedness, provided, that prior to any withdrawal pursuant to this clause (e), the Authority shall have determined, taking into account among other considerations, anticipated future receipts of Revenues or other moneys constituting part of the Trust Estate, that the funds to be so withdrawn are not needed for any of the purposes set forth in clauses (a), (b) or (c) herein. Amounts paid out, or withdrawn pursuant to clause (e) shall be free and clear of the lien and pledge created by the General Resolution.

The Authority shall from time to time, and in all events prior to any withdrawal of moneys from the Operating Fund pursuant to clause (e) of the preceding paragraph, determine (i) the amount, to be held as a reserve in the Operating Fund, which in the judgment of the Authority is adequate for the purpose of providing for the costs of emergency repairs or replacements essential to restore or prevent physical damage to, and prevent loss of Revenues from, any Project and (ii) the amount, to be held as a reserve in the Operating Fund, which in the judgment of the Authority is adequate to meet the costs of major renewals, replacements, repairs, additions, betterments and improvements with respect to any Project necessary to keep the same in operating condition or required by any governmental agency having jurisdiction over such Project and to provide a reserve for the retirement from service, decommissioning or disposal of facilities comprising either a Project or a part of a Project.

Amounts in the Operating Fund may in the discretion of the Authority be invested in Authorized Investments. Earnings on moneys and investments in the Operating Fund shall be deposited in the Operating Fund. The Authority may sell any such Authorized Investments at any time and the proceeds of such sale shall be deposited in the Operating Fund.

The General Resolution provides that purchases of Obligations, 1985 Notes or Subordinated Indebtedness from amounts in the Operating Fund shall be made at the direction of the Authority, with or without advertisement and with or without notice to other holders of Obligations, 1985 Notes, or Subordinated Indebtedness. In addition, any amounts set aside by the Authority in one or more reserve accounts in the Operating Fund may be used by the Authority as determined by the Authority for the purpose of paying all or a portion of the interest, principal or Redemption Price of Obligations and payment of Parity Debt, on a parity basis.

(General Resolution, Sec. 503)

Capital Fund

The General Resolution provides that the Authority shall pay into the Capital Fund the amounts required to be so paid pursuant to the General Resolution and any Supplemental Resolution authorizing the issuance of any Series of Obligations, for the purpose of financing Capital Costs, including, without limitation, the portion of the proceeds of any such Obligations specified in such Supplemental Resolution, except as may be otherwise provided in a Supplemental Resolution with respect to those Capital Costs referenced in clauses (iv) or (v) of the definition thereof. Amounts in the Capital Fund shall be applied solely to the Capital Costs of the Authority. Any amounts in the Capital Fund which are in excess of the amounts required to pay for such costs may at the direction of the Authority be transferred to the Operating Fund. Amounts in the Capital Fund may in the discretion of the Authority be invested in an Authorized Investments. Earnings on moneys and investments in the Capital Fund shall be deposited in the Capital Fund. The Authority may, and to the extent required for payments from the Capital Fund shall, sell any such obligations at any time, and the proceeds of such sale and of all payment of principal or interest received at maturity or upon redemption or otherwise of such obligations shall be deposited in the Capital Fund. In addition, the General Resolution requires that amounts in the Capital Fund must be applied to the payment of principal and Redemption Price of and interest on the Obligations and the payment of Parity Debt, on a parity basis, when due at any time that other moneys are not available therefor.

(General Resolution, Sec. 504)

Conditions for Issuance of Obligations

General Provisions for Issuance of Obligations. Obligations may be issued pursuant to a Supplemental Resolution in such principal amount or amounts for each such Series as may be specified in such Supplemental Resolution. A Supplemental Resolution shall specify, among other things, the purpose or purposes for which such Obligations are being issued, the authorized principal amount and Series of such Obligations, the maturity date or dates and interest rate or rates of the Obligations and the forms of the Obligations which shall specify terms with respect to tender or redemption, if any. Such Obligations shall be delivered by the Authority under the General Resolution upon the delivery of, among other things, a Supplemental Resolution authorizing such Obligations, a Counsel's Opinion with respect to the validity of the Obligations and a certificate of an Authorized Officer to the effect that, upon delivery of the Obligations, the Authority will not be in default in the performance of the terms and provisions of the General Resolution or of any of the Obligations.

(General Resolution, Sec. 202)

Separately Financed Project. Nothing in the General Resolution shall prevent the Authority from authorizing and issuing bonds, notes, or other obligations or evidences of indebtedness, other than Obligations, for any purpose of the Authority authorized by the Act or by other applicable State statutory provisions (such purpose being referred to herein as a "Separately Financed Project"), which bonds, notes, or other obligations, or evidences of indebtedness and the Authority's share of any operating expenses related to such Separately Financed Project, shall be payable solely from the revenues or other income derived from the ownership or operation of such Separately Financed Project or from other funds withdrawn by the Authority pursuant to the General Resolution.

(General Resolution, Sec. 203)

Rate Covenant

The Authority shall at all times maintain rates, fees or charges and any contracts entered into by the Authority for the sale, transmission or distribution of power shall contain rates, fees or charges, sufficient, together with other moneys available therefor (including the anticipated receipt of proceeds of sale of Obligations or other bonds, notes, or other obligations or evidences of indebtedness of the Authority that will be used to pay the principal of Obligations issued in anticipation of such receipt but not including any anticipated or actual proceeds from the sale of any Project), (i) to pay all Operating Expenses of the Authority, (ii) to pay the debt service on all Obligations then Outstanding and the debt service on all Subordinated Indebtedness then outstanding, and all Parity Debt and Subordinated Contract Obligations, all as the same respectively become due and payable, and (iii) to maintain any reserve established by the Authority pursuant to the General Resolution, in such amount as may be determined from time to time by the Authority in its judgment.

(General Resolution, Sec. 606)

Supplemental Resolutions; Amendments

Any of the provisions of the General Resolution may be amended by the Authority, upon the written consent of the Owners of a majority in principal amount of the Obligations so affected and Outstanding at the time such consent is given, and in case less than all of the Obligations then Outstanding are affected by the modification or amendment, of the Owners of a majority in principal amount of the Obligations so affected and Outstanding at the time such consent is given; provided, however, that if such modification or amendment will, by its terms, not take effect so long as particular Obligations remain Outstanding, the consent of the Owners of such Obligations shall not be required and such Obligations shall not be deemed to be Outstanding for the purpose of any calculation of Outstanding Obligations under the General Resolution. No such modification or amendment shall permit a change in the terms of redemption or maturity of the principal of any Outstanding Obligation or of any installment of interest thereon or a reduction in the principal amount or the Redemption Price thereof or in the rate of interest thereon without the consent of the Owner of such Obligation, or shall reduce the percentages or otherwise affect the classes of Obligations the consent of the Owners of which is required to waive an Event of Default or otherwise effect any such modification or amendment, create a preference or priority of any Obligation or Obligations over any other Obligation or Obligations (without the consent of the Owners of all such Obligations), create a lien prior to or on a parity with the lien of the General Resolution, without the consent of the Owners of all of the Obligations then Outstanding, or shall change or modify any of the rights or obligations of any Fiduciary without its written assent thereto. For purposes of this paragraph, an Obligation shall be deemed to be affected by a modification or amendment of the General Resolution if the same materially and adversely affects the rights of the Owner of such Obligation.

The Authority may adopt (without the consent of any Owner) supplemental resolutions to authorize additional Obligations; to add to the restrictions contained in the General Resolution upon the issuance of additional indebtedness; to add to the covenants of the Authority contained in, or surrender any rights reserved to or conferred upon it by, the General Resolution; to confirm any pledge under the General Resolution of Revenues or other moneys; to amend the General Resolution in such manner as to permit qualification of the General Resolution under the Trust Indenture Act of 1939 or any similar Federal statute and permit the qualification of the Obligations for sale under the securities laws of any state in the United States; to comply with such regulations and procedures as are from time to time in effect relating to establishing and maintaining a book-entry-only system; or otherwise to modify any of the provisions of the General Resolution (but no such other modification may be effective while any of the Obligations of any Series theretofore issued are Outstanding); or to cure any ambiguity, supply any omission or to correct any defect or inconsistent provision in the General Resolution or to insert such provisions or make such other amendments to the General Resolution as are necessary or desirable which will not be materially adverse to the rights of the Owners of Obligations (provided that the Trustee shall consent thereto).

(General Resolution, Secs. 801, 802, and 902)

Event of Default; Remedies Upon Default

Pursuant to the General Resolution, any of the following events set forth in clauses (i) through (v) constitutes an “Event of Default” if the Authority defaults (i) in the payment of principal or Redemption Price of any Obligation, or (ii) in the payment of interest thereon and such default continues for 30 days, or (iii) in the performance or observance of any other covenant, agreement or condition in the General Resolution or the Obligations, and such default continues for 60 days after written notice thereof, provided, however, that if such default shall be such that it cannot be corrected within such 60 day period, it shall not constitute an Event of Default if corrective action is instituted within such period and diligently pursued until the failure is corrected, or (iv) if the Authority (1) files a petition seeking a composition of indebtedness under the Federal bankruptcy laws, or any other applicable law or statute of the United States of America or of the State; (2) consents to the appointment or taking possession by a receiver, liquidator, assignee, custodian, trustee, sequestrator or other similar official of the Authority or any substantial portion of its property; (3) makes any assignment for the benefit of creditors; (4) admits in writing its inability generally to pay its debts generally as they become due; or (5) takes action in furtherance of any of the foregoing or (v) if (1) a decree or order for relief is entered by a court having jurisdiction of the Authority adjudging the Authority a bankrupt or insolvent or approving as properly filed a petition seeking reorganization, arrangement, adjustment or composition in respect of the Authority in an involuntary case under the Federal bankruptcy laws, or under any other applicable law or statute of the United States of America or of the State; (2) a receiver, liquidator, assignee, custodian, trustee, sequestrator or other similar official of the Authority or of any substantial portion of its property is appointed; or (3) the winding up or liquidation of its affairs is ordered and the continuance of any such decree or order remains unstayed and in effect for a period of sixty (60) consecutive days. Upon an Event of Default, the Trustee or the Owners of 25% in principal amount of the Obligations then Outstanding may declare the principal and accrued interest on the Obligations then Outstanding due and payable immediately, subject, however, to rescission of such declaration and annulment of the default upon the remedying thereof.

Under the General Resolution, the Authority covenants that upon a default the books of record of the Authority and all other records relating to all projects and facilities of the Authority will be subject to the inspection and use by the Trustee, and that the Authority will, upon demand by the Trustee, account for the Trust Estate under the General Resolution as if the Authority were the trustee of an express trust. Upon a default, the Trustee may protect and enforce its and the Owners’ rights under the General Resolution by a suit in equity or at law, whether for the specific performance of any covenant contained in the General Resolution, or in aid of execution of any power granted therein or for an accounting against the Authority as if it were the trustee of an express trust, or in the enforcement of any other legal or equitable right as the Trustee deems most effectual to enforce its rights or perform its duties under the General Resolution. No Owner has any right to institute suit to enforce any provision of the General Resolution or the execution of any trust thereunder or for any remedy thereunder, unless the Trustee has been requested by at least 25% of the Owners, and such Owners shall have offered the Trustee adequate security against expenses and liabilities to be incurred therein, and the Trustee has failed to commence such suit in the manner provided in the General Resolution.

(General Resolution, Art. X)

Defeasance

Outstanding Obligations or any portion thereof shall, prior to the maturity or redemption date thereof, be deemed to have been paid pursuant to the General Resolution and shall cease to be entitled to any lien, benefit or security under the General Resolution if the following conditions are met: (i) in the case of Obligations to be redeemed, the Authority shall have given to the Trustee irrevocable instructions to mail the notice of redemption therefor, (ii) there shall have been irrevocably deposited with the Trustee in trust either moneys in an amount which shall be sufficient, or Defeasance Security, the principal of and the interest on which, when due, will provide moneys which, together with any moneys also deposited, shall be sufficient, without further investment or reinvestment of either the principal amount thereof or the interest earnings thereon, to pay when due, the principal or Redemption Price, if applicable, and interest due and to become due on such Obligations on and prior to the redemption date or maturity date

thereof, as the case may be, and (iii) in the event such Obligations are not maturing or subject to redemption within the next succeeding 60 days, the Authority shall have given the Trustee irrevocable instructions to mail, as soon as practicable, a notice to the Owners of such Obligations that the above deposit has been made with the Trustee and that such Obligations are deemed to be paid and stating the maturity or redemption date upon which moneys are to be available to pay the principal or Redemption Price, if applicable, of such Obligations.

(General Resolution, Sec. 1101)

Unclaimed Moneys

Any moneys held by a Fiduciary in trust for the payment and discharge of the principal or Redemption Price of or interest on any of the Obligations which remain unclaimed for 2 years after the date when such principal, Redemption Price or interest, respectively, have become due and payable, either at their stated maturity dates or by call for earlier redemption, if such moneys were held by the Fiduciary after such date, or for 2 years after the date of deposit of such moneys if deposited with the Fiduciary after the date when such principal, Redemption Price or interest, respectively, became due and payable, shall, at the written request of the Authority, be repaid by the Fiduciary to the Authority, as its absolute property and free from trust, and the Fiduciary shall thereupon be released and discharged with respect thereto and the principal, Redemption Price or interest, respectively. Any moneys held by a Fiduciary in trust for the payment and discharge of any Obligations which remain unclaimed after such moneys were to be applied to the payment of such Obligations in accordance with the General Resolution may be applied in accordance with the provisions of the Abandoned Property Law of the State, being Chapter 1 of the Consolidated Laws of the State or any successor provision thereto, and upon such application, the Fiduciary shall thereupon be released and discharged with respect thereto and the Owners of Obligations shall look only to the Authority or the Comptroller of the State for the payment of such Obligations. Before being required to make any such payment to the Authority or to apply such moneys in accordance with the Abandoned Property Law of the State, the Fiduciary shall, at the expense of the Authority, cause to be mailed to the Owners entitled to receive such moneys a notice that said moneys remain unclaimed and that, after a date named in said notice, which date shall be not less than 30 days after the date of the mailing, the balance of such moneys then unclaimed will be returned to the Authority or applied in accordance with the Abandoned Property Law of the State, as the case may be.

(General Resolution, Sec. 1101)

**BACKGROUNDS OF THE AUTHORITY'S TRUSTEES AND
CERTAIN SENIOR MANAGEMENT STAFF****Trustees*****Frank S. McCullough, Jr. Chairman***

Mr. McCullough was appointed a Trustee of the Authority in July 1997 and was elected Vice Chairman in May 2002. He was elected Chairman of the Authority in May 2006. He is also Chairman of the New York State Economic Development Power Allocation Board and a board member of the Seaway Private Equity Corporation which provides funding from the Authority to promote job development in St. Lawrence County. Mr. McCullough is a senior partner in the law firm of McCullough, Goldberger & Staudt, LLP, with offices in White Plains, New York, and has been a partner with the firm since 1972 focusing on administrative law in the land use and development field. He has served as a member of the Board of Trustees and the Executive Committee of New York United Hospital, a division of New York Hospital; the Pace University School of Law Board of Visitors; the Board of Trustees of Greenwood Union Cemetery; and the Board of Directors of Village Bank. Mr. McCullough has also served as Chairman of the Board of Governors of the Westchester Golf Classic; President of the Board of Trustees of St. Vincent's Hospital, Westchester Division, the Rye Historical Society and the Rye Lions Club; and a member of the Iona College Advisory Board of Trustees. He has been a member of the Board of Directors of the Foundation for Westchester Community College since 1985, with service as the Board's President from 1987 to 1990 and as Chairman from 1990 to 1993. Mr. McCullough has a Bachelor of Arts degree from St. Lawrence University and a Juris Doctor degree from Albany Law School.

Michael J. Townsend, Vice Chairman

Mr. Townsend was appointed a Trustee of the Authority in February 2004 and was elected Vice Chairman in April 2006. He is a partner in Harris Beach PLLC, a law firm based in Rochester, New York, and focuses his practice in the areas of public finance and commercial real estate. Mr. Townsend is a director of the State Tobacco Settlement Financing Corporation and the New York State Mortgage Bond Bank Agency. He has also served as counsel to the Monroe County Industrial Development Agency; counsel to the Greater Rochester Outdoor Sports Facility; in-house counsel to the Rochester-Genesee Regional Transit Authority; counsel to the Monroe County Empire Zone, and deputy counsel to the Greater Rochester Sports Authority. Mr. Townsend received a Bachelor of Science degree from the University of Maine in 1976 and received his Juris Doctor degree from Western New England College School of Law in 1981.

Elise M. Cusack, Trustee

Mrs. Cusack was appointed a Trustee of the Authority in June 2005. She was an Erie County Legislator (2002-2005) and has served as a member of the Erie Niagara Regional Partnership and the Buffalo Niagara Convention & Visitors Bureau board. Mrs. Cusack also served as Chair of the Local Organizing Committee for the Empire State Games. She started her career as a legislative assistant to Congressman Bill Paxon, served as finance director for the campaign of former New York State Attorney General Dennis Vacco, and worked in the communications field. Mrs. Cusack has a degree in History from Hamilton College.

Robert E. Moses, Trustee

Mr. Moses was appointed a Trustee of the Authority in March 2006. He was a partner in the law firm of Bond, Schoeneck & King, PLLC, until 2004, where his practice included assisting private companies, industries, institutional investors and municipalities with projects requiring private and public participation to advance economic development in New York State. Mr. Moses also assisted public and private tourism organizations by providing advisory and strategic planning services. His efforts included projects requiring

analysis of economic development and commercial real estate issues, including government incentives. Mr. Moses also served as a member of the New York State Economic Development Council for 25 years. He has been active with other organizations, including the Board of Trustees, SUNY College of Environmental Science and Forestry in Syracuse; the Association of College Trustees of the State University of New York; and the Board of Regents, LeMoyne College in Syracuse.

Thomas W. Scozzafava, Trustee

Mr. Scozzafava was appointed a Trustee of the Authority in March 2006. He is a native of St. Lawrence County, and is the Founder, President, and Chief Executive Officer of Seaway Valley Capital Corporation, a venture capital and buyout company. Seaway co-founded GS AgriFuels Corporation, a publicly traded company focused on renewable fuels and energy from agricultural products. Mr. Scozzafava serves as GS AgriFuels President and CEO. Seaway and Mr. Scozzafava also founded WiseBuy Stores Inc., a chain of retail stores, primarily in Northern New York, specializing in name-brand merchandise. He currently serves as Chief Financial Officer of WiseBuys, which the New York State Small Business Development Center selected for its Excellence Award in 2004. Mr. Scozzafava's earlier career in finance included work with the Prudential Merchant Banking Group, Lehman Brothers and GE Capital Corporation. He has served as Chairman of the St. Lawrence County United Way Campaign and on the Advisory Board for the State University of New York Canton School of Business and Public Service. He earned a Bachelor's degree in Economics from Hamilton College in 1992.

James A. Besha, Trustee

Mr. Besha was appointed a Trustee of the Authority in June 2007. Mr. Besha is a licensed professional engineer and President of Albany Engineering Corporation, a consulting engineering firm specializing in hydroelectric generation projects. He has been involved with the planning, development, design, construction management and operation of hydroelectric projects both in the U.S. and internationally, and has provided engineering services for numerous hydroelectric, flood control and water supply dams. Mr. Besha has been in private engineering practice since 1971. Throughout his career, he has worked on wide-ranging public works projects involving water resources, energy conservation and electric generation. Mr. Besha's professional affiliations include the American Society of Civil Engineers, the New York State Society of Professional Engineers, the Institute of Electrical and Electronics Engineers, the Society of Mining Engineers and the United States Society on Dams. Mr. Besha graduated from Syracuse University in 1970 with a Bachelor of Science degree in Industrial Engineering and a Bachelor of Arts degree in Sociology.

Leonard N. Spano, Trustee

Mr. Spano was appointed a Trustee of the Authority in June 2006. He served as Westchester County Clerk from 1993 to 2005 and on the Westchester County Board of Legislators, representing White Plains and Yonkers, from 1971 to 1993. Mr. Spano headed a home heating and fuel business in Yonkers, Spano Fuel Company, from 1961 to 1978. He served in the U.S. Marine Corps from 1951 to 1954.

Senior Management Staff

The senior management staff of the Authority includes the following:

Roger B. Kelley, President and Chief Executive Officer

Mr. Kelley was appointed to his current position effective July 1, 2007. He is an electrical engineer with more than 30 years experience in the electric utility industry. Mr. Kelley had served since 1997 as Senior Vice President-Chief Technical Officer of Fortistar of White Plains, a leading developer and operator of power plants. He oversaw technical and operational matters for the company's 45 domestic power plants, as well as project acquisition and development in the United States and other countries. As Vice President and General Manager at Fortistar from 1992 to 1997, Mr. Kelley was responsible for financial and operational performance of the company's 200-megawatt gas-fired Lockport Cogeneration

Facility in Western New York. He previously managed construction of the plant and had a lead role in development and negotiation of key commercial contracts, including all environmental permits, natural-gas supply and transportation contracts and operation and maintenance agreements. During this time, Mr. Kelley was extensively involved in the restructuring of New York State's electric utility industry and establishment of the New York Independent System Operator, which administers the State's wholesale power markets and electric transmission system. From 1989 until 1992, he served as Manager, Project Development at Commercial Union Energy Corporation, which had acquired the Lockport Project and then as Vice President, Engineering at LS Power Corp. of North Brunswick, N.J. Mr. Kelley also worked on several other cogeneration and combined-cycle power plants in Massachusetts, Rhode Island, Minnesota and Wisconsin. In 1988, Mr. Kelley was one of four principals who formed Empire Energy Corp. of Vestal, N.Y., and structured a successful bid for the Lockport Cogeneration Project. He served as the company's Vice President, Engineering and, as a member of its Board of Directors, was extensively involved in negotiating the Lockport Project's sale to Commercial Union Energy Corporation. Mr. Kelley began his career in 1974 as an electrical engineer at New York State Electric & Gas Corporation (NYSEG) and served in positions of increasing responsibility during 14 years with the utility. From 1980 to 1986, he was Manager of a corporate engineering group which oversaw all electrical and instrumentation and control work for six multiple-unit coal-fired power stations and eight multiple-unit hydroelectric stations. Mr. Kelley was promoted in 1987 to Supervising Senior Engineer in the Quality Assurance Department, with responsibility for establishing and implementing a testing and examination program to ensure the safety of the high-pressure steam production systems at NYSEG's power plants. He is a registered professional engineer in New York State and is a member of the Institute of Electrical and Electronics Engineers. Mr. Kelley also has served as Chairman of the Independent Power Producers of New York and has authored various technical articles and papers. Mr. Kelley received a Bachelor of Science degree in Electrical Engineering from Northeastern University in 1974 and has done graduate work at C.W. Post College in Engineering Management and Engineering Economics.

Thomas J. Kelly, Executive Vice President, General Counsel and Chief of Staff

Thomas J. Kelly joined the Power Authority in February 2006 as Executive Vice President and General Counsel. He has extensive knowledge of state and federal environmental laws, municipal finance, labor relations and corporate law. Mr. Kelly previously served as President of the New York State Environmental Facilities Corporation (EFC). During his tenure, the EFC became one of the largest revenue bond issuers in the country for environmental projects protecting public health. This included working with local and state governments and private enterprise to finance projects engaged in air-pollution control, drinking-water and wastewater treatment and solid- and hazardous-waste disposal. He initiated a major refunding by EFC that resulted in savings of more than \$140 million for municipal borrowers. Before joining the EFC, Mr. Kelly operated his own law firm in Brewster, New York, along with representing the Village as its municipal attorney. He also served as Assistant Counsel to then-State Senator George Pataki and to State Senator Vincent Liebell. Mr. Kelly graduated from Pace University School of Law in 1989 and holds a Bachelor's degree in Business from the State University of New York at Buffalo.

Vincent C. Vesce, Executive Vice President—Corporate Services and Administration

Mr. Vesce joined the Authority in October 1997 and was promoted to his current position in April 2002. He is responsible for procurement, real estate, corporate support services, fleet operations and all Human Resources policies and practices throughout the Authority, including compensation and benefits, employee ethics, employee/organizational development, employee and labor relations, the Human Resource Information System, and the Information Resource Center. In addition, Mr. Vesce oversees the Authority's Public and Governmental Affairs activities. Prior to joining the Authority, Mr. Vesce was an executive in the footwear industry for BBC International, Ltd., where he served as that company's Executive Vice President. Before working for BBC International, Ltd., Mr. Vesce served in a number of executive positions for the Kinney Shoe Corporation. Mr. Vesce holds a Bachelor of Science degree in Business Administration from Bryant University in Rhode Island.

Joseph M. Del Sindaco, Executive Vice President and Chief Financial Officer

Mr. Del Sindaco joined the Authority in May 2004 as Senior Vice President and Chief Financial Officer. He was appointed to his current position in April 2006. In addition to being responsible for the traditional accounting, finance and treasury areas, he is also responsible for budgeting, the financial planning function, physical asset insurance, risk management, energy resource management, and the information technology group. Mr. Del Sindaco has over 30 years of experience in both the private and public sector. As a government official, he served as Chief Operating Officer of the Empire State Development Corporation. Additionally, he served on the Economic Development Power Allocation Board, and served as Town Supervisor of the Town of Bedford, New York. In the private sector, Mr. Del Sindaco spent over 13 years with the International Paper Corporation, holding several management positions in accounting, treasury and general management. His experience in public/private partnerships included the development of environmentally sensitive energy projects utilizing alternative fuels. Mr. Del Sindaco joined the Authority from Henningson, Durham and Richardson, where he was responsible for programs which enabled local, county and state governments to increase revenues, reduce costs and improve services. Mr. Del Sindaco holds an MBA degree in management from the University of New Haven.

Brian Vattimo, Senior Vice President—Public and Governmental Affairs

Mr. Vattimo was appointed to his current position in August 2004. His areas of responsibility include media relations, internal and external corporate communications, community outreach, relicensing, and state and federal governmental affairs. Prior to joining the Authority, he served as an Assistant Commissioner at the New York State Department of Transportation and as Chief of Staff and Press Secretary for New York State Lieutenant Governor Mary Donohue. He also is a former Director of Communications with the New York State Office of Parks, Recreation and Historic Preservation and worked for several years in the New York State Assembly. He holds a Bachelor of Arts degree in Communications from Buffalo State College.

Steven J. DeCarlo, Senior Vice President—Transmission

Mr. DeCarlo was appointed to his current position in September 2005. He is responsible for the Authority's Energy Control Center, energy scheduling and settlements with the New York Independent System Operator, maintenance of the Authority's transmission system, transmission and operations planning, transmission interconnection agreements, reliability compliance, and meter engineering. Mr. DeCarlo joined the Authority in 1985 as an electrical engineer and throughout his tenure has assumed increasing responsibility in operations, maintenance, engineering, and asset management. He has previously served as Operations Supervisor, Central Region Operations Superintendent, and Regional Manager, Central New York. Mr. DeCarlo is a member of several professional committees. He is a graduate of Manhattan College in Riverdale, New York, with a Bachelor of Engineering degree in electrical engineering and holds an MBA degree in finance from the Long Island University.

William J. Nadeau, Senior Vice President-Energy Resource Management and Strategic Planning

Mr. Nadeau joined the Authority in his current position in September 2006. He is responsible for generation resource management, including bidding the Authority's generation resources into the New York State Independent System Operator markets, fuel planning and operations, energy market analysis, energy supply planning, and strategic planning. Previously, Mr. Nadeau worked for Northeast Utilities System (NU) companies for over 25 years, including service as Vice President and Chief Operating Officer of Northeast Generation Services Company and as Vice President, Fossil and Hydro Engineering and Operations, for three New England states served by NU. From 1972 to 1980, he served in the U.S. Navy's nuclear submarine force, culminating with his becoming Chief Engineer of the U.S.S. Shark. Mr. Nadeau earned a Bachelor of Science degree in Physics from the U.S. Naval Academy in 1972, a Master of Science degree in Nuclear Engineering from M.I.T. in 1973, and a MBA from the University of New Haven in 1985.

Edward A. Welz, Senior Vice President and Chief Engineer—Power Generation

Mr. Welz assumed his current position in December 2005. He joined the Authority in 1982 and throughout his tenure has assumed increasing responsibility in the power engineering, operation and

maintenance, and project and construction management areas. Mr. Welz is responsible for the operation and maintenance, engineering, project management, and asset management of the Authority's generation and transmission facilities, together with the environmental, health, and safety aspects of the Authority's facilities and operations. He is a member of the EPRI Research Council for Power Generation. Mr. Welz is a licensed professional engineer and holds an Associate degree from Queensborough Community College and a Bachelor of Science degree in electric engineering from Pratt Institute in Brooklyn, New York.

James H. Yates, Senior Vice President—Marketing and Economic Development

Mr. Yates assumed his present position in July 2007. He is responsible for Authority customer account management for governmental, business, municipal, cooperative and utility customers; customer load forecasting (short-term and long-term), management of the Authority's power programs for economic development, load research, demand response programs, and customer pricing. He joined the Authority in March 1995 as Director, Business Marketing and Economic Development and was promoted to Vice President, Major Account Marketing and Economic Development in January 2000. Mr. Yates has over 30 years of experience in both the private and public sector. Prior to joining the Authority, Mr. Yates worked for Delmarva Power and Light from 1991 to 1995 in their Strategic Energy Markets group. Mr. Yates began his career with Dayton Power and Light where he held a variety of positions over 16 years including: Manager of Marketing, Manager of Rates, Director of Corporate Staff and Assistant Corporate Secretary, Supervisor of Employee Services, Coordinator of Sales Forecasting and Planning Engineer. Mr. Yates also served as a Senior Consultant for Cresap, McCormick and Paget in 1981 specializing in utility reviews of corporate planning and human resources. Mr. Yates serves on the Board of the New York Energy Consumers Council and the Energy Committee of the New York City Building Congress. Mr. Yates received a Bachelor of Science degree in Electrical Engineering from the University of Cincinnati in 1974 and has done graduate work in Business Administration at the University of Dayton.

Angelo S. Esposito, Senior Vice President—Energy Services and Technology

Mr. Esposito was appointed Senior Vice President of Energy Services and Technology in August 2004. He is responsible for implementation of all energy services and technology programs and electric transportation initiatives for the Authority's customers, including those provided for government entities throughout New York State. In addition, Mr. Esposito is responsible for the Authority's electric transportation and research and technology development activities. This encompasses a broad range of electric drive vehicles and other clean transportation technologies; energy utilization; and advanced mechanical and electrical technologies, such as distributed generation. Mr. Esposito holds a Bachelor's Degree in Business Administration from Bernard M. Baruch College and has done graduate work at Pace University.

Arnold M. Bellis, Vice President—Controller

Mr. Bellis was appointed to his current position in 1994. He is responsible for accounting, budgeting, financial planning, payroll, billing, and accounts payable. Mr. Bellis joined the Authority in 1980 as a member of its marketing department, and since then has headed a number of Authority departments, including strategic planning, information services, budgets, and nuclear business operations prior to assuming his current duties. Before joining the Authority, Mr. Bellis held a number of financial positions with the Atlantic Bank of New York and the East River Savings Bank. He is a graduate of York University with Bachelor's and Master's degrees in Economics, specializing in public utility economics. Mr. Bellis is a member of the New York State Government Finance Officers Association.

Donald A. Russak, Vice President—Finance

Mr. Russak was appointed to his current position in 2003 after having served as Director—Financial Planning since 1997. He joined the Authority in 1979 and held several positions in the marketing and transmission departments including the position of Senior Economist from 1987 to 1997. Mr. Russak's current responsibilities include overseeing the Authority's treasury, revenue planning and physical asset insurance—risk management functions. Prior to joining the Authority, he worked in various capacities in

the pension-actuarial department of the Mutual Life Insurance Company of New York. Mr. Russak holds a Bachelor of Arts degree in Mathematical-Economics from Colgate University.

Thomas H. Warmath, Vice President and Chief Risk Officer—Energy Risk Assessment and Control

Mr. Warmath joined the Authority in April 2002. He is responsible for establishing policies and procedures for identifying, reporting and controlling risk exposure including the impact of energy prices and fuel cost changes. Previously, Mr. Warmath worked for Equiva Trading Company (Shell Oil Products US) in Houston, Texas, where he held the position of Manager, Risk Control. Between 1992 and 1998, he was Marketing Manager for Richardson Products Company a subsidiary of Bass Enterprises, Ft. Worth, Texas. Between 1987 and 1992 he worked for the Coastal Corporation where he held a number of positions including Director, Western Division, and Manager, Gulf Coast. Prior to 1987, he held positions with several energy companies, including El Paso Energy and Amoco Oil Company. He is a Civil Engineering graduate of the Georgia Institute of Technology in Atlanta, Georgia. He is a licensed professional petroleum engineer in Texas.

Daniel Wiese, Inspector General and Vice President—Corporate Security

Col. Daniel Wiese joined the Authority in April 2003. He is responsible for supervising Authority activities in the areas of security and investigations. Prior to joining the Authority, he served in the New York State Police for nearly twenty-five years. His law enforcement experience includes directing protective services for New York State's Chief Executive; managing multi-agency cooperation on anti-terrorism efforts; overseeing activation and deployment of the State Police Mobile Response Team; commanding the Organized Crime Unit while assigned to the Manhattan District Attorney's Office; and investigating crime as a member of the State Police Criminal Squad and Gambling Unit.

Brian McElroy, Treasurer

Mr. McElroy was appointed Treasurer in January 2007. He is responsible for the Authority's cash and investment management, debt management and its interest rate swap program. Mr. McElroy began his career with the Authority in 1989. He has held positions of increasing responsibility, including Treasury Analyst, Senior Investment Analyst, and Deputy Treasurer. He holds a Bachelor of Science degree in Management Information Systems and Managerial Sciences from Manhattan College, and is completing his MBA in Finance and Business Economic and Accounting at Fordham University.

\$340,000,000
POWER AUTHORITY OF THE STATE OF NEW YORK
Revenue Bonds
\$100,000,000 Series 2007 A
\$240,000,000 Series 2007 B (Federally Taxable)

CONTRACT OF PURCHASE

October [], 2007

POWER AUTHORITY OF THE
STATE OF NEW YORK
123 Main Street
White Plains, New York 10601

Dear Ladies and Gentlemen:

The undersigned, Citigroup Global Markets Inc., on behalf of itself and the underwriters named in Schedule I hereto, as said schedule may from time to time be changed by the Representative as defined below, prior to the Closing, as defined below (herein collectively, called the "Underwriters"), offer to enter into the following agreement with the Power Authority of the State of New York (the "Authority") relating to the \$100,000,000 aggregate principal amount of the Authority's Series 2007 A Revenue Bonds (the "2007 A Bonds") and the \$240,000,000 aggregate principal amount of the Authority's Series 2007 B Revenue Bonds (the "2007 B Bonds"; and together with the 2007 A Bonds, the "Bonds"). Under the circumstances described herein, Citigroup Global Markets Inc. will serve as the representative (the "Representative") for the other Underwriters. The offer made hereby is subject to acceptance by the Authority by execution of this Contract of Purchase and delivery thereof to the undersigned at or prior to 5:00 P.M., New York time, on the date first above written. Upon acceptance of such offer by the Authority, this Contract of Purchase will be binding upon the Authority and the Underwriters.

1. Purchase, Sale and Closing

(a) *Bonds.* In reliance on the representations and warranties of the Authority contained herein and subject to the satisfaction of the terms and conditions which can be performed at or prior to the Closing (as defined herein) set forth herein to which the obligations of the Underwriters are subject, the Underwriters will, jointly and severally, purchase from the Authority, and the Authority will sell to the Underwriters, all (but not less than all) of the 2007 A Bonds. The 2007 A Bonds shall be as described in the Official Statement and the Resolution (as hereinafter described) and shall be issued pursuant to the Resolution and the Act, all as hereinafter defined. The aggregate price to be paid by the Underwriters for the 2007 A Bonds, is \$[] or approximately []% of the aggregate principal amount of the 2007 A Bonds (which price reflects an aggregate underwriting discount of \$[] and an aggregate original net issue premium of \$[]).

In reliance on the representations and warranties of the Authority contained herein and subject to the satisfaction of the terms and conditions which can be performed at or prior to the Closing (as defined herein) set forth herein to which the obligations of the Underwriters are subject, the Underwriters will, jointly and severally, purchase from the Authority, and the Authority will sell to the Underwriters, all (but

not less than all) of the 2007 B Bonds. The 2007 B Bonds shall be as described in the Official Statement and the Resolution (as hereinafter described) and shall be issued pursuant to the Resolution and the Act, all as hereinafter defined. The aggregate price to be paid by the Underwriters for the 2007 B Bonds, is \$[] or approximately []% of the aggregate principal amount of the 2007 B Bonds (which price reflects an aggregate underwriting discount of \$[] and an aggregate original net issue premium of \$[]).

The Bonds shall be as described in, and shall be issued pursuant to, the General Resolution Authorizing Revenue Obligations (the "General Resolution"), adopted on February 24, 1998, as amended and supplemented, and as further supplemented by the Eighth Supplemental Resolution adopted on September 25, 2007 (the "Eighth Supplemental Resolution"), authorizing the issuance and sale of the Bonds in the form heretofore delivered to the Representative, all as described in the Official Statement (as defined herein). Such Resolutions are herein called the "Resolution". Pursuant to the Resolution, The Bank of New York, New York, New York, has been appointed Trustee (the "Trustee"). Capitalized terms used herein and not otherwise defined herein shall have the meaning set forth in the Resolution.

The proceeds of the Bonds, together with other moneys of the Authority available therefor, will be used (i) to refund \$[] of the Authority's Commercial Paper Notes, (ii) finance a portion of the costs of the relicensing and modernization of the Authority's St. Lawrence-FDR Project and of the relicensing of the Niagara Project, and (iii) to pay the costs of issuance of the Bonds.

(b) *Closing and Delivery.* The Closing will be held at such time and place on October [], 2007, or such other date as shall have been mutually agreed upon by the Representative and the Authority (the "Closing"). No extension of the Closing date beyond October [], 2007 will be permitted without the written approval of both the Representative and the Authority. At the Closing the Authority will deliver, or cause to be delivered, to the Representative for the account of the Underwriters, the Bonds, in fully registered form, bearing proper CUSIP numbers, duly executed by the Authority and authenticated by the Trustee, together with the other documents hereinafter mentioned, and the Representative, on behalf of the Underwriters, will accept such delivery and pay the purchase price of the Bonds as set forth in Section 1(a) hereof by delivering to the Authority a check or wire payable in Federal funds or other immediately available funds to the order of the Authority, in the amount of such purchase price.

The Bonds will be delivered in registered form in denominations of \$5,000 or any integral multiple thereof and registered in the name of Cede & Co., as nominee of The Depository Trust Company, and will be made available to the Representative for inspection not less than 24 hours prior to the Closing.

It shall be a condition to the Underwriters' obligation to purchase and accept delivery of the 2007 A Bonds that all the 2007 A Bonds be sold and delivered by the Authority at the Closing. It shall be a condition to the Authority's obligation to sell and deliver the 2007 A Bonds to the Underwriters that all of the 2007 A Bonds be accepted and paid for by the Underwriters at the Closing.

It shall be a condition to the Underwriters' obligation to purchase and accept delivery of the 2007 B Bonds that all the 2007 B Bonds be sold and delivered by the Authority at the Closing. It shall be a condition to the Authority's obligation to sell and deliver the 2007 B Bonds to the Underwriters that all of the 2007 B Bonds be accepted and paid for by the Underwriters at the Closing. The obligation hereunder of the Underwriters to purchase one series of the Bonds is not contingent upon the delivery of the other series of Bonds and the failure of the Authority to satisfy the conditions set forth herein with respect to one series of the Bonds shall not excuse the Underwriters from the obligation to purchase the other series of Bonds to the extent that the conditions to the purchase of such other series are satisfied.

2. Commitment

(a) Upon execution of this Contract of Purchase by the Authority and the Representative, on behalf of itself and the other Underwriters, this Contract of Purchase shall be in full force and effect in accordance with its terms and shall be binding upon the Authority and the Underwriters.

(b) Delivered herewith by the Representative, on behalf of the Underwriters, are two corporate checks payable to the order of the Authority in the amounts equal to \$[] for the 2007 A Bonds and \$[] for the 2007 B Bonds. Until the earlier of the Closing or such other termination of this Contract of Purchase as provided herein, the Authority shall hold each such check uncashed. At the Closing, each such check shall be returned to the Representative.

In the event the Authority shall fail to deliver the 2007 A Bonds and/or the 2007 B Bonds at the date fixed for the Closing, or if the Authority shall be unable at the date fixed for the Closing to satisfy the conditions to the obligations of the Underwriters contained herein, or if the obligations of the Underwriters shall be terminated for any reason permitted hereby, the applicable check shall be immediately returned to the Representative for the account of the Underwriters (unless previously returned pursuant hereto) and upon the return of such check, neither the Authority nor the Underwriters shall be under any further obligation or liability hereunder for the related series of Bonds (except for the payment of costs and expenses for which they are respectively responsible pursuant to Section 9 hereof).

In the event the Underwriters shall fail (other than for a reason permitted hereby) to accept and pay for the 2007 A Bonds and/or the 2007 B Bonds upon tender thereof by the Authority as provided herein, the applicable check held by the Authority shall be retained by the Authority as and for full liquidated damages for such failure and for any and all defaults on the part of the Underwriters, and the retention of such moneys shall constitute a full release and discharge of all claims and damages for such failure and for any and all such defaults for the related series of Bonds.

Prior to or simultaneously with the execution of this Contract of Purchase, Ernst & Young LLP, independent auditor, will have delivered to the Authority and the Representative, a letter addressed to the Authority and the Representative on behalf of the Underwriters, in form satisfactory to the Authority and the Representative, consenting to the references to such firm in the Preliminary Official Statement and the Official Statement and setting forth the conclusions and findings of said firm with respect to certain financial information and other matters contained in the Official Statement.

3. Documents

At the time of acceptance hereof by the Authority, the Authority shall deliver to the Representative two counterparts of the Official Statement of the Authority relating to the Bonds in the form heretofore delivered to the Representative, together with such changes as shall have been approved by the Representative (which, together with all exhibits, appendices, diagrams, reports and statements included therein or attached thereto, is herein called the "Official Statement"), dated the date hereof and executed by conformed signature on behalf of the Authority by its Chairman or President and Chief Executive Officer.

Within seven (7) business days hereof (but not later than three (3) business days prior to the delivery of the Bonds), the Authority shall deliver to the Representative copies of the Official Statement in sufficient quantity as may reasonably be requested by the Representative in order to comply with Rule 15c2-12 under the Securities Exchange Act of 1934 ("Rule 15c2-12"), with only such changes as shall have been approved by the Representative, which approval shall not be unreasonably withheld. The Authority authorizes the use of any and all such material (including specifically copies of the Official

Statement, the Resolution and the information therein contained) in connection with the public offering and sale of the Bonds.

The Authority agrees that it will cooperate in qualifying the Bonds for offering and sale under the "Blue Sky" or other securities laws of those states designated by the Underwriters; provided, however, that the Authority shall not be required to qualify to do business in any state nor shall the Authority be required to take any action which would subject it to general service of process in any jurisdiction where it is not now so subject.

4. Representations of the Authority

The Authority acknowledges that the Bonds will be sold to the Underwriters and that the Underwriters will purchase the Bonds in reliance upon the representations and warranties set forth herein and upon the information contained in the Official Statement. Accordingly, the Authority represents and warrants to each of the Underwriters that:

(a) *Organization; Power.* The Authority is and will be at the Closing a duly organized and existing body corporate and politic constituting a corporate municipal instrumentality and political subdivision of the State of New York under the laws of the State of New York with the powers and authority set forth in the Power Authority Act of the State of New York, Title 1 of Article 5 of the Public Authorities Law, Chapter 43-A of the Consolidated Laws of the State of New York, as amended (the "Act"), and as such has and will have at the Closing the legal right to adopt and engage in the transactions contemplated by the Resolution, the Continuing Disclosure Agreement, as hereinafter defined, the Official Statement and this Contract of Purchase.

(b) *Action by the Authority.* The Authority has authorized by appropriate action (i) the issuance and sale of the Bonds upon the terms herein and as set forth in the Official Statement and the Resolution, (ii) the use of the proceeds from the sale of the Bonds as described in the Official Statement, (iii) the execution, delivery, performance, acceptance, approval and receipt, as the case may be, of this Contract of Purchase, the Bonds, the Resolution, the Continuing Disclosure Agreement (as defined herein) and the Official Statement, and (iv) the taking of any and all such action as may be required to carry out, give effect to and consummate the transactions contemplated therein and herein.

(c) *Valid Obligations.* When delivered to and paid for by the Representative on behalf of the Underwriters at the Closing in accordance with the provisions of this Contract of Purchase, the Bonds will have been duly authorized, executed, issued and delivered and will constitute valid, binding and enforceable obligations of the Authority in conformity with the Act and the Resolution and will be entitled to the benefit and security thereof.

(d) *No Defaults.* The Authority is not in default in the performance, observance or fulfillment of any of the obligations, covenants or conditions contained in any bond, debenture, note or other evidence of indebtedness of the Authority or any mortgage, deed of trust, indenture or other agreement or instrument pursuant to which indebtedness of the Authority was incurred. Neither the adoption of the Resolution, the execution and delivery of this Contract of Purchase, the Bonds, the Continuing Disclosure Agreement and the Official Statement, the consummation by the Authority of the transactions contemplated thereby and hereby, nor the compliance by the Authority with the provisions thereof and hereof, will result in any breach of the terms, conditions or provisions of, conflict with, or constitute a breach of or a default (or any event which with the passage of time or the giving of notice, or both, would become a default) under (i) the Act, any currently effective resolution of the Authority, or any contract, agreement or instrument to which

the Authority is a party, (ii) the constitution of the United States or of the State of New York, or (iii) any existing law, administrative regulation, court order or consent decree to which the Authority is subject.

(e) *Security.* Upon their due issuance and sale as contemplated herein, the Bonds will be secured by and payable from certain monies of the Authority as provided in the Resolution. In addition, other than the other liens and encumbrances described in the Official Statement, there are no liens or encumbrances on the revenues or other assets, properties, funds or interest pledged pursuant to the Resolution, and, other than as described in the Official Statement, the Authority has not entered into any contract or arrangement of any kind, and, to the knowledge of the Authority, there is no existing, pending, threatened or anticipated event or circumstance, which might give rise to any such lien or encumbrance.

(f) *Offering Documents.* The Authority has authorized the use of the Preliminary Official Statement, dated September [], 2007 (the "Preliminary Official Statement") and authorizes the use of the Official Statement and the information contained therein furnished by or on behalf of the Authority and the use of copies of the Resolution, in connection with the public offering and sale of the Bonds by the Underwriters. Prior to the date hereof, the Authority delivered to the Representative the Preliminary Official Statement together with a certificate of the Authority which stated that the Preliminary Official Statement is deemed final as of its date for purposes of Rule 15c2-12, except for the information not required to be included therein under Rule 15c2-12, and in form and substance as attached hereto as Schedule II.

(g) *Official Statement.* Both at the time of the Authority's acceptance hereof and at the Closing, the statements and information contained in the Official Statement (as the same may be supplemented or amended with the approval of the Representative, which approval shall not be unreasonably withheld), excluding the information contained in Part 1 of the Official Statement under the caption "BOND INSURANCE" and the information contained in Appendices A, B, C and E to Part 1 of the Official Statement, are and will be true, correct and complete and such Official Statement does not and will not contain any untrue statement of a material fact or omit to state any material fact necessary in order to make the statements and information therein, in the light of the circumstances under which they were made, not misleading. If the Official Statement is supplemented or amended, at the time of each supplement or amendment thereto and (unless subsequently supplemented or amended pursuant to Section 10 hereof), at all times during the period from the date of such supplement or amendment to the end of the period described in Section 10 hereof, the Official Statement (except for the information contained in Part 1 of the Official Statement under the caption "BOND INSURANCE" and the information contained in Appendices A, B, C and E to Part 1 of the Official Statement, as to which no representation or warranty is made) as so supplemented or amended, will not contain any untrue statement of a material fact or omit to state a material fact necessary, in order to make the statements contained therein, in light of the circumstances under which they were made, not misleading in any material respect.

(h) *Financial Statements.* The financial statements included by reference in the Official Statement present fairly the financial position of the Authority at December 31, 2006 and December 31, 2005 and the results of its operations and the changes in its financial position for the years then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding periods.

(i) *Litigation.* Except for the matters disclosed in the Official Statement, there is no pending, or to the knowledge of the Authority threatened, legal, administrative or judicial

proceeding to which the Authority is or would be a party: (i) contesting the official existence or powers of the Authority; (ii) contesting or affecting the authority for the issuance of the Bonds, or seeking to restrain or enjoin the issuance or the delivery of the Bonds; (iii) contesting or affecting, the validity of the Bonds, the Resolution, the Continuing Disclosure Agreement or this Contract of Purchase; (iv) contesting the use of the proceeds of the Bonds as contemplated in the Official Statement; (v) seeking to restrain or enjoin the collection of the income or revenues available for or pledged to the Bonds under the Resolution; or (vi) involving the possibility of any judgment or uninsured liability which may result in any material adverse change in the business, properties, assets or financial condition of the Authority.

(j) *Filings or Approvals.* All approvals, consents or orders of any governmental authority or agency having jurisdiction in the matter which would constitute a condition precedent to, or the absence of which would materially adversely affect, the lawful performance by the Authority of its obligations hereunder and under the Resolution and the Bonds have been obtained and are in full force and effect, except for the approval of the Comptroller of the State of New York provided for in Section 1010-a of the Public Authorities Law of the State of New York.

(k) *Additional Certificates.* Any certificates signed by any authorized officer of the Authority and delivered to the Underwriters pursuant to this Contract of Purchase shall be deemed a representation and warranty by the Authority to the Underwriters as to the statements made therein with the same effect as if such representation and warranty were set forth by the Authority herein.

(l) *Continuing Disclosure Agreement.* At or prior to the Closing, the Authority shall have duly authorized, executed and delivered a continuing disclosure agreement (the "Continuing Disclosure Agreement") substantially in the form of Appendix C to Part 1 of the Official Statement. Except as described in the Official Statement, the Authority has been in compliance with all of its continuing disclosure obligations under Rule 15c2-12.

5. Underwriters' Representation

The Underwriters agree to make a bona fide public offering to the public (excluding bond houses, brokers or similar persons or organizations acting in the capacity of underwriters or wholesalers) of the Bonds at not more than the public offering prices (or yields below the yields) set forth in the Official Statement. The Underwriters have authorized the Representative to take certain actions on their behalf and to execute this Contract of Purchase on their behalf. The Underwriters agree to include a copy or copies of the Official Statement with the confirmation sent to each purchaser of Bonds. The Representative agrees, on behalf of the Underwriters, on or prior to the Closing, to file the Official Statement with a Nationally Recognized Municipal Securities Information Repository.

6. Conditions of the Underwriters' Obligations

The obligations of the Underwriters to purchase the Bonds are subject to the fulfillment of the following conditions at or before the Closing. Should any of the following conditions not be fulfilled, the obligations of all the Underwriters under this Contract of Purchase shall terminate and neither the Authority nor the Underwriters shall have any further obligations hereunder except as provided in Sections 2(b) and 9 hereof.

(a) The Authority's representations contained in Section 4 hereof shall be true, correct and complete as of the Closing and shall be confirmed at the Closing by certificates, signed by authorized officers of the Authority, in form and substance satisfactory to the Underwriters and their counsel.

(b) On or prior to the Closing: (i) the Eighth Supplemental Resolution and the General Resolution shall each be valid, binding and in full force and effect; (ii) the Bonds shall have been duly authorized, issued, executed, attested and authenticated in accordance with the provisions of the Resolution and the Act, and delivered; and (iii) the Authority shall have duly adopted and there shall be in force and effect such resolutions as, in the opinion of Bond Counsel, shall be necessary in connection with the transactions contemplated hereby.

(c) At or prior to the Closing, unless otherwise agreed to by the Representative in writing, the Representative shall receive the following:

(i) The opinion of Hawkins Delafield & Wood LLP, as Bond Counsel, dated the date of the Closing and addressed to the Authority and the Underwriters, substantially in the form of Appendix A to Part 1 of the Official Statement.

(ii) The supplemental opinion of Hawkins Delafield & Wood LLP, as Bond Counsel, dated the date of the Closing and addressed to the Authority and the Underwriters, and in form and substance as attached hereto as Schedule III.

(iii) The opinion of Nixon Peabody LLP, special counsel to the Authority, dated the date of the Closing and addressed to the Authority and the Underwriters, and in form and substance as attached hereto as Schedule IV.

(iv) An opinion of the Executive Vice President, Secretary and General Counsel of the Authority, dated the date of Closing and addressed to the Underwriters, in form and substance as attached hereto as Schedule V.

(v) The opinion of Winston & Strawn LLP, as counsel to the Underwriters, dated the date of Closing and addressed to the Underwriters, and in form and substance attached hereto as Schedule VI.

(vi) A letter from Ernst & Young LLP, dated the date of the Closing and addressed to the Authority and the Representative on behalf of the Underwriters, as of a date not more than five days prior to the date of such letter, the conclusions and findings set forth in the letter delivered pursuant to Section 2 hereof.

(vii) A certificate executed by a duly authorized officer of the Authority, dated the date of the Closing, to the effect that there has been no material adverse change in the affairs or financial condition of the Authority from that described in the Official Statement.

(viii) A certificate, dated the date of the Closing, executed by a duly authorized officer of the Authority, to the effect that it is not expected that the proceeds of the 2007 A Bonds will be used in a manner that would cause the Bonds to be "arbitrage bonds" within the meaning of Section 148 of the Code.

(ix) One copy of the General Resolution and the Eighth Supplemental Resolution, each duly certified by the Executive Vice President, Secretary and General Counsel or the Deputy Secretary of the Authority.

(x) A copy of the Authority's Blanket Letter of Representation.

(xi) The Bonds which are indicated on the inside cover of the Official Statement as being insured by the Bond Insurer shall have received ratings from Moody's Investors Service, Standard & Poor's Ratings Group and Fitch Ratings of "[]", "[]" and "[]", respectively.

(xii) The Bonds (other than those Bonds which are indicated on the inside cover of the Official Statement as being insured by the Bond Insurer) shall have received ratings from Moody's Investors Service, Standard & Poor's Ratings Group and Fitch Ratings of "[]", "[]" and "[]", respectively.

(xiii) At or prior to the Closing, the Authority shall have duly authorized, executed and delivered the Continuing Disclosure Agreement.

(xiv) A copy of the municipal bond insurance policy issued by [TBD], in the form of Appendix E to Part 1 of the Official Statement.

(d) At the Closing, the Representative shall receive such additional certificates, instruments or opinions as Bond Counsel or counsel to the Underwriters may reasonably request to evidence the due authorization, execution, authentication and delivery of the Bonds and the Resolution, the exclusion from gross income for federal income tax purposes of interest on the 2007 A Bonds, and the truth, accuracy and completeness as of the closing of the Authority's representations and warranties contained herein, in the Official Statement and in any of certificates or documents of Authority or officers of the Authority delivered pursuant thereto.

(e) The Official Statement, including the Appendices thereto, shall not have been amended or supplemented without the approval of the Representative, which shall not be unreasonably withheld.

7. Events Permitting the Underwriters to Terminate

The Underwriters may terminate their obligation to purchase the Bonds at any time before the Closing if any of the following should occur:

(a) (i) Legislation shall have been enacted by the House of Representatives or the Senate of the Congress of the United States, or recommended to the Congress for passage by the President of the United States or favorably reported for passage to either House of Congress by any committee of such House or by any conference committee of the two Houses of Congress or legislation shall have been proposed, or an authorized release or other written public announcement describing proposed legislation or proposing legislation shall have been issued, by the President of the United States, the Secretary of the Treasury or the Chairman or ranking minority member of the House Ways and Means Committee or the Senate Finance Committee, all subsequent to the date hereof, or (ii) a decision shall have been rendered by the United States Tax Court or by a court established under Article III of the Constitution of the United States or (iii) an order, ruling or regulation shall have been issued or proposed by or on behalf of the Treasury Department of the United States or the Internal Revenue Service or any other agency of the United States, or (iv) an authorized release or official statement shall have been issued by the Treasury Department of the United States or by the Internal Revenue Service, the effect of which in any such case described in clause (i), (ii), (iii) or (iv) would be to impose, directly or indirectly, Federal income taxation upon interest received on obligations of the general character of the 2007 A Bonds or upon income received by entities of the general character of the Authority in such a manner as in the sole reasonable judgment of the Representative would materially impair the marketability or materially reduce the market price of the Bonds.

(b) Any action shall have been taken by the Securities and Exchange Commission or by a court or legislation shall have been enacted by the House of Representatives or the Senate of the Congress of the United States, or recommended to the Congress for passage by the President of the United States or favorably reported, subsequent to the date hereof, for passage to either House of the Congress by any Committee of such House, which would require registration of any security under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, or qualification of any indenture under the Trust Indenture Act of 1939, as amended, in connection with the public offering of the Bonds or any action shall have been taken by any court or by any governmental authority suspending the use of the Official Statement, or any amendment or supplement thereto, or any proceeding for that purpose shall have been initiated or threatened in any such court or by any such authority.

(c) (i) There shall exist any event described in Section 10 hereof which in the opinion of the Representative requires a supplement or amendment to the Official Statement; provided, however, that the Underwriters shall, if requested by the Authority, circulate to purchasers a supplement or amendment to the Official Statement reflecting such event, and if such supplement or amendment is so circulated the Underwriters shall only be entitled to terminate this Contract of Purchase pursuant to this clause, if, as a result of such circulation, the marketability of the Bonds or the market price thereof, in the opinion of the Representative, has been materially adversely affected; or (ii) the ratings for the Bonds shall have been lowered below the ratings specified in Sections 6(c)(xi) and (xii) hereof, or withdrawn, by Moody's Investors Services, Standard & Poor's Ratings Group or Fitch Ratings and in the opinion of the Representative, the marketability of the Bonds or the market price thereof has been materially adversely affected thereby.

(d) The marketability of the Bonds or the market price thereof, in the opinion of the Representative, has been materially adversely affected by an amendment to the Constitution of the United States or of the State or by Federal or State legislation.

(e) (i) A general suspension of trading in securities shall have occurred on the New York Stock Exchange, or (ii) there shall have occurred any outbreak or escalation of hostilities or any calamity or crisis, or (iii) a material disruption in securities settlement, payment or clearance services in the United States shall have occurred that, in the judgment of the Representative, is material and adverse and, in the case of any of the events specified in clauses (i)-(iii), such event singly or together with any other such events makes it, in the judgment of the Representative, so material and adverse as to make it impracticable to proceed with the public offering or the delivery of the Bonds on the terms and in the manner contemplated in this Contract of Purchase and the Official Statement.

(f) A general banking moratorium shall have been declared by authorities of the United States or the State of New York.

8. Notices and Other Actions

All notices, demands and formal actions hereunder will be in writing, mailed, telegraphed or delivered to:

The Authority: Power Authority of the State of New York
123 Main Street
White Plains, New York 10601
Attention: Brian McElroy, Treasurer

The Representative: Citigroup Global Markets Inc.
390 Greenwich Street, 2nd Floor
New York, New York 10013
Attention: Kristen L. Johanson, Managing Director

9. Expenses

All costs and expenses of the Authority in connection with the authorization, issuance, sale and delivery of the Bonds and other items herein specified to be delivered to the Underwriters shall be paid for, or provision for payment made by the Authority. Such provision for payment may include payment from the proceeds of the Bonds. Said costs and expenses shall include: the costs of printing the Bonds, the Resolution, the Preliminary Official Statement, the Official Statement and this Contract of Purchase, and all other underwriting documents required in connection with the distribution of the Preliminary Official Statement, in all cases in reasonable quantities; the fees and charges of any consultants, financial advisors, fiscal advisors, accountants, auditors and the rating agencies employed by the Authority in connection with the issuance and sale of the Bonds; any expenses incurred in connection with qualification of the Bonds for sale and determination of their eligibility for investment under the laws of such jurisdictions as the Underwriters may designate (including reasonable fees and disbursements of counsel to the Underwriters relating thereto) and the preparation and printing of surveys in connection therewith; and the fees and expenses of Bond Counsel in connection with the transactions herein contemplated. Except as indicated above, all expenses of the Underwriters, including specifically the fees and expenses of counsel to the Underwriters not described in the preceding sentence, shall be paid by the Underwriters.

10. Official Statement Amendments

If, during the period from the date hereof to and including the date which is twenty-five (25) days from the end of the underwriting period, there shall exist any event which, in the opinion of the Representative and counsel to the Underwriters and in the opinion of the Authority, requires a supplement or amendment to the Official Statement so that it will not contain an untrue statement of a material fact or omit to state a material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading, when it is delivered to a potential investor, the Authority will supplement or amend the Official Statement in a form and in a manner approved by the Representative and the Authority.

Unless otherwise notified in writing by the Representative on or prior to the date of Closing, the Authority may assume that the "end of the underwriting period" for the Bonds for all purposes of Rule 15c2-12 is the date of the Closing. In the event such notice is given in writing by the Representative, the Representative shall notify the Authority in writing following the occurrence of the "end of the underwriting period" for the Bonds as defined in Rule 15c2-12. Except as otherwise specifically provided herein, the "end of the underwriting period" for the Bonds as used in this Contract of Purchase shall mean the date of the Closing or such later date as to which notice is given by the Representative in accordance with the preceding sentence.

11. Miscellaneous

No recourse shall be had for the payment of the principal of or interest on the Bonds or for any claim based thereon, on the Resolution, or on this Contract of Purchase against any member, officer or employee of the Authority or any person executing the Bonds or this Contract of Purchase.

[REMAINDER OF THIS PAGE INTENTIONALLY LEFT BLANK]

This Contract of Purchase may be executed by any one or more of the parties hereto in any number of counterparts, each of which shall be deemed to be an original, but all of such counterparts shall together constitute one and the same instrument. This Contract of Purchase will inure to the benefit of and be binding upon the parties and their successors, and will not confer any rights upon any other person. This Contract of Purchase shall not be binding until executed by the parties hereto. All representations and agreements by the Authority and the Underwriters in this Contract of Purchase shall remain operative and in full force and effect regardless of any investigation made by or on behalf of any of the Underwriters and shall survive the delivery of any payment for the Bonds. This Contract of Purchase shall be governed by, and construed in accordance with, the laws of the State of New York. Section headings have been inserted in this Contract of Purchase as a matter of convenience of reference only, and it is agreed that such section headings are not part of this Contract of Purchase and will not be used in the interpretation of any provisions of this Contract of Purchase.

By: CITIGROUP GLOBAL MARKETS INC.,
as Representative

Accepted as of the date first set
forth above

POWER AUTHORITY OF THE
STATE OF NEW YORK

By: _____
Brian McElroy
Treasurer

\$340,000,000

Power Authority of the State of New York

Revenue Bonds

\$100,000,000 Series 2007 A
\$240,000,000 Series 2007 B (Federally Taxable)

LIST OF UNDERWRITERS

CITIGROUP GLOBAL MARKETS INC.

J.P. MORGAN SECURITIES INC.

GOLDMAN, SACHS & CO.

MERRILL LYNCH & CO.

Schedule II

FORM OF RULE 15c2-12 CERTIFICATE

I, Brian McElroy, Treasurer of the Power Authority of the State of New York (the "Authority"), hereby certify that the Authority's Preliminary Official Statement, dated October [], 2007 (the "Preliminary Official Statement"), with respect to the Authority's Series 2007 A Revenue Bonds (the "Series 2007 A Bonds") and the 2007 B Revenue Bonds (Federally Taxable) (the "Series B Bonds"; and together with the Series A Bonds, the "Bonds"), is deemed final as of its date for purposes of paragraph (b) (1) of Rule 15c2-12 under the Securities Exchange Act of 1934, as amended (the "Rule"), except for the information not required under said paragraph of the Rule to be included therein.

As you are aware, the Preliminary Official Statement is "deemed final" (to the extent described above) for purposes of the Rule, but is subject to revisions, amendment and completion in a final Official Statement of the Authority to be issued in conjunction with the sale of the Series 2007 A Bonds.

Dated: October [], 2007

POWER AUTHORITY OF THE
STATE OF NEW YORK

By: _____
Brian McElroy
Treasurer

Schedule II

[FORM OF SUPPLEMENTAL OPINION OF BOND COUNSEL]

Citigroup Global Markets Inc.,
as representative for the Underwriters of the
\$346,000,000 Series 2007 Revenue Bonds
of the Power Authority of the State of New York

October ____, 2007

Ladies and Gentlemen:

In connection with the issuance by the Power Authority of the State of New York (the "Authority") of \$100,000,000 principal amount of its Series 2007 A Bonds (the "A Bonds") and of \$240,000,000 principal amount of its Series 2007 B Bonds (Federally Taxable) (the "B Bonds"; and together with the A Bonds, the "Bonds"), which are being delivered today pursuant to a Contract of Purchase (the "Purchase Contract"), dated October [__], 2007, between the Authority and yourselves (collectively referred to herein as the "Underwriters"), we have examined:

(a) Certified copies of the resolutions of the Authority entitled General Resolution Authorizing Revenue Obligations, adopted on February 24, 1998, as amended and supplemented, and as further supplemented by the Eighth Supplemental Resolution adopted on September 25, 2007 (collectively, the "Resolution");

(b) An executed copy of the Official Statement of the Authority, dated October [__], 2007 (the "Official Statement");

(c) A certified copy of a record of proceedings relating to the issuance and delivery of the Bonds; and such other documents, certificates and matters of law, as we have considered necessary to enable us to render this opinion; and

(d) An executed copy of the continuing disclosure agreement dated October [__], 2007 (the "Continuing Disclosure Agreement").

We have assumed but have not independently verified that the signatures on all documents and certificates that we have examined were genuine. We have further assumed for the purpose of the opinion expressed below that the Purchase Contract and the Continuing Disclosure Agreement have been duly authorized, executed and delivered by each party thereto, other than the Authority.

Although in our capacity as Bond Counsel we rendered legal advice and assistance to the Authority in the course of its preparation of its Official Statement, the Official Statement is the Authority's document and as such the Authority is responsible for its content. Rendering such assistance involved, among other things, discussions and inquiries concerning various legal and related subjects, and reviews of and reports on certain documents and proceedings. We also participated in conferences with officers of the Authority, representatives of the Underwriters, their counsel, Winston & Strawn LLP, and the Authority's special counsel, Nixon Peabody LLP, during which the contents of the Official Statement and related matters were discussed and reviewed.

Although we have reviewed the documents and attended the conferences described above, the limitations inherent in the independent verification of factual matters are such that we are not passing

upon and do not assume any responsibility for the accuracy, completeness or fairness of any of the statements contained in the Official Statement.

On the basis of the information which was developed in the course of the performance of the services referred to above, considered in the light of our understanding of the applicable law and the experience we have gained through our practice thereunder, subject to the limitations expressed in the preceding paragraph, nothing has come to our attention to cause us to believe that the Official Statement, as of the date of the Official Statement and as of the date of the Closing (except for the information contained in Part 1 of the Official Statement under the caption "BOND INSURANCE", the information contained in Appendices B and E to Part 1 of the Official Statement, and other financial, statistical or economic data or forecasts, numbers, estimates, projections, assumptions or expressions of opinion, included in the Official Statement, and the description of the Authority's facilities included therein, which we do not address in this letter) contains any untrue statement of a material fact or omits to state a material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading.

In addition, we are of the opinion that, on the basis of the information which was developed in the course of the performance of the services referred to above:

1. The Purchase Contract and the Continuing Disclosure Agreement have each been duly authorized, executed and delivered by the Authority and assuming the due authorization, execution and delivery by the other parties thereto, each constitutes a legal, valid and binding agreement of the Authority enforceable in accordance with its terms.

2. The adoption by the Authority of the Resolution and the execution and delivery by the Authority of the Purchase Contract and the Continuing Disclosure Agreement did not, and the performance by the Authority of its obligations thereunder will not, violate or conflict with any constitutional provisions or law of the State of New York or administrative regulation or the provisions of any judgment, loan agreement, note, resolution or agreement of which we have knowledge, to which the Authority is a party or otherwise subject.

3. Except for the authorization by the Authority to adopt the Resolution, no other authorization for, or filing or recording of, the Resolution is required.

4. The Bonds are exempted securities within the meaning of Section 3(a)(2) of the Securities Act of 1933, as amended, and it is not necessary, in connection with the public offering and sale of the Bonds, to register the Bonds under the Securities Act of 1933, as amended; and it is not necessary to qualify the Resolution under the Trust Indenture Act of 1939, as amended.

Very truly yours,

[LETTERHEAD OF SPECIAL COUNSEL]

October ____, 2007

POWER AUTHORITY OF THE STATE
OF NEW YORK

Citigroup Global Markets Inc.,
as representative for the Underwriters
named in the Contract of Purchase,
dated October [__], 2007, with the
Power Authority of the State of New York

Ladies and Gentlemen:

In connection with the issuance by the Power Authority of the State of New York (the "Authority") of \$100,000,000 aggregate principal amount of the Authority's Series 2007 A Revenue Bonds (the "A Bonds") and of \$240,000,000 principal amount of its Series 2007 B Bonds (Federally Taxable) (the "B Bonds"; and together with the A Bonds, the "Bonds"), which are being delivered today pursuant to the Contract of Purchase dated October [__], 2007 (the "Purchase Agreement"), between the Authority and Citigroup Global Markets Inc., as representative of the Underwriters named therein (collectively the "Underwriters"), we have examined and relied upon the following:

(a) A copy, certified or otherwise identified to our satisfaction, of the General Resolution Authorizing Revenue Obligations, adopted on February 24, 1998, as amended and supplemented, and as further supplemented by the Eighth Supplemental Resolution adopted on September 25, 2007 (collectively, the "Resolution");

(b) An executed copy of the Official Statement of the Authority, dated October [__], 2007 (the "Official Statement"), relating to the Bonds;

(c) Executed copies of the opinions of Hawkins Delafield & Wood LLP, Bond Counsel, delivered to the Underwriters pursuant to Sections 6(c)(i) and (ii) of the Purchase Agreement,

(d) Executed copies of the opinion of the Executive Vice President, Secretary and General Counsel of the Authority, delivered to the Underwriters pursuant to Section 6(c)(iv) of the Purchase Agreement;

(e) An executed copy of the Purchase Agreement;

(f) An executed copy of the Continuing Disclosure Agreement, dated October [__], 2007 (the "Continuing Disclosure Agreement"); and

(g) The Act, as defined in the Official Statement, and such records of the corporate proceedings of the Authority as we deemed relevant to the opinions set forth below including the Resolution.

In addition, we have examined and relied on originals or copies (certified or otherwise identified to our satisfaction) of such other documents, instruments or corporate records, and have made such investigations of law, as we have considered necessary or appropriate for the purposes of this opinion.

In accordance with our understanding with the Authority and as its Special Counsel, we rendered legal advice and assistance to the Authority in connection with the preparation of the Official Statement. Rendering such advice and assistance involved, among other things, discussions and inquiries concerning various legal and related subjects, and reviews of and reports on certain documents and proceedings. We also participated in conferences with representatives of the Authority and the Underwriters, their respective counsel, Bond Counsel, and other consultants to the Authority during which the contents of the Official Statement and related matters were discussed and reviewed. Based upon such participation and our review of the documents described above, and information developed in the course of the performance of the services referred to above, we are of the opinion that the statements in Part 1 of the Official Statement under the headings "SUMMARY," "INTRODUCTION," "SECURITY FOR THE 2007 BONDS," "THE 2007 BONDS," and "LITIGATION", including the information contained in Appendices C and D and the statements contained in Part 2 of the Official Statement under the headings "THE AUTHORITY", "CERTAIN FINANCIAL AND OPERATING MATTERS", "NEW YORK INDEPENDENT SYSTEM OPERATOR", "POWER SALES", "TRANSMISSION SERVICE", "ENERGY SERVICES", "THE AUTHORITY'S FACILITIES", "LEGISLATION AFFECTING THE AUTHORITY", "PUBLIC AUTHORITIES ACCOUNTABILITY ACT OF 2005", "NEW YORK STATE COMMISSION ON PUBLIC AUTHORITY REFORM", "TEMPORARY COMMISSION ON THE FUTURE OF NEW YORK STATE POWER PROGRAMS FOR ECONOMIC DEVELOPMENT", "EXECUTIVE ORDER NO. 111", "CERTAIN FACTORS AFFECTING THE ELECTRIC UTILITY INDUSTRY" and "REGULATION", including the information contained in Appendices 1 and 2, as of the date of the Official Statement and as of the date hereof, insofar as they purport to summarize the Constitution or laws of the State of New York (the "State"), the laws of any political subdivision of the State, or any legal documents pertaining to the security for the Bonds, are correct in all material respects and constitute fair and accurate summaries thereof in all material respects.

On the basis of the information that was developed in the course of our examination referred to above and our participation in the preparation of the Official Statement, and, without having undertaken to determine independently the accuracy or completeness of the statements contained in the Official Statement, nothing has come to our attention which would lead us to believe that, as of the date of the Official Statement and as of the date hereof, the Official Statement (except for the information contained in Part 1 of the Official Statement under the caption "BOND INSURANCE", the information contained in Appendices A, B and E to Part 1 of the Official Statement, and other financial, statistical and engineering data included in the Official Statement, as to which no opinion or view is expressed) contains an untrue statement of a material fact or omits to state a material fact necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading.

This letter is furnished by us solely for your benefit in connection with the provisions of the Purchase Agreement and may not be relied upon by any other person, without our express written consent.

Very truly yours,

[LETTERHEAD OF AUTHORITY EXECUTIVE VICE PRESIDENT, SECRETARY
AND GENERAL COUNSEL]

October ____, 2007

The Bank of New York, as Trustee
101 Barclay Street, 7W
New York, New York 10256

Citigroup Global Markets Inc.,
as representative for the Underwriters
named in the Contract of Purchase,
dated October [__], 2007, with the
Power Authority of the State of New York

Ladies and Gentlemen:

Reference is made to Section 6(c)(iv) of the Contract of Purchase, dated October [__], 2007 (the "Purchase Agreement"), for the Series 2007 A Bonds (the "A Bonds") and the Series 2007 B Bonds (Federally Taxable) (the "B Bonds"; and together with the A Bonds, the "Bonds"), by and between the Power Authority of the State of New York (the "Authority") and the Underwriters referred to in the Purchase Agreement, and the General Resolution Authorizing Revenue Obligations, adopted on February 24, 1998, as amended and supplemented, and as further supplemented by the Eighth Supplemental Resolution adopted on September 25, 2007 (collectively, the "Resolution").

As Executive Vice President, Secretary and General Counsel of the Authority, I have examined and relied on originals or copies certified or otherwise identified to my satisfaction of such documents, instruments or corporate records, and have made such investigations of law, as I have considered necessary or appropriate for the purposes of this opinion.

Except as otherwise defined herein, all terms used herein shall have the meanings assigned to such terms in the Resolution or the Official Statement (as hereinafter defined).

Members of the legal department of the Authority have participated in the preparation of the Official Statement of the Authority dated October [__], 2007, relating to the Bonds (the "Official Statement"), including participation in conferences as to the matters to be included therein and related matters, with representatives of the Authority, bond counsel and special counsel to the Authority, and the Underwriters and their counsel. Based upon my review of such documents and proceedings as I have deemed necessary, nothing has come to my attention to cause me to believe that the information as to legal matters contained in the Official Statement (except for the information contained in Part 1 of the Official Statement under the caption "BOND INSURANCE", the financial, statistical and engineering data contained in the Official Statement and the information contained in Appendices A, B, C and E to Part 1 thereto, as to which no opinion or view is expressed), as of its date contained, and as of the date hereof contains, an untrue statement of a material fact or as of its date omitted, or as of the date hereof omits, to state any material fact necessary in order to make any statements made therein, in light of the circumstances under which they were made, not misleading.

Without having undertaken to determine independently the accuracy, completeness or fairness of the statements contained in the Official Statement, nothing has come to my attention to cause me to believe that the Official Statement (except for the information contained in Part 1 of the Official Statement under the caption "BOND INSURANCE", the financial, statistical and engineering data included in the Official Statement and the information contained in Appendices A, B, C and E to Part 1 thereto, as to which no opinion or view is expressed), as of its date contained, and as of the date hereof contains, an untrue statement of a material fact or as of its date omitted, or as of the date hereof omits, to state any material fact necessary in order to make the statements made therein, in light of the circumstances under which they were made, not misleading.

I am of the opinion that:

1. The Authority is a body corporate and politic constituting a corporate municipal instrumentality of the State of New York (the "State") duly created by and validly existing under the Act, with the right, power and authority to execute, deliver and perform its obligations under the Purchase Agreement and the Continuing Disclosure Agreement, to adopt the Resolution and to issue the Bonds thereunder (collectively, the "Authorized Documents").

2. The execution and delivery of, and the performance by the Authority of its obligations under, the Purchase Agreement and the Continuing Disclosure Agreement and the performance by the Authority of its obligations under the Bonds have been duly authorized by proper corporate proceedings of the Authority. The Resolution has been duly and lawfully adopted by the Authority and is in full force and effect and is valid and binding upon the Authority and enforceable in accordance with its terms.

3. Except as permitted by the Resolution, the items pledged by the Resolution are, and under the Resolution and existing law will be, free and clear of any pledge, lien, charge or encumbrance thereon or with respect thereto prior to, or of equal rank with, the pledge created by the Resolution and all corporate actions on the part of the Authority to that end have been duly and validly taken.

4. The Authority has good right and lawful authority to undertake the activities with respect to which the Bonds are being issued.

5. The Official Statement has been duly authorized, executed and delivered by the Authority.

6. Except as described in the Official Statement, the Authority is not in any material respect in violation of, breach of or default under the Act, or any order, rule or regulation of any court or governmental agency or body having jurisdiction over the Authority or any of its activities, or any indenture, mortgage, deed of trust, resolution, note agreement or other agreement or instrument to which the Authority is a party or by which the Authority or any of its property or assets is bound, and no event has occurred and is continuing which with the passage of time or the giving of notice, or both, would constitute such a default or event of default under any such instruments; and the execution and delivery of the Authorized Documents, and compliance with the provisions on the Authority's part contained therein, do not and will not conflict with, or constitute on the part of the Authority a violation of, breach of or default under any order, rule or regulation of any court or governmental agency or body having jurisdiction over the Authority or any of its activities, properties or assets, or any indenture, mortgage, deed of trust, resolution, note agreement or other agreement or instrument to which the Authority is a party or by which the Authority or any of its property or assets is bound, nor will any such execution, delivery or compliance result in the creation or imposition of any lien, charge or other security interest or encumbrance of any nature whatsoever upon any of the property or assets of the Authority or under the

terms of any such law, regulation or instrument, except as provided by the Bonds or the Authorized Documents.

7. Except as described in the Official Statement, there is no litigation or other proceeding pending or, to the best of my knowledge, threatened in any court, agency or other administrative body (either State or Federal) restraining or enjoining the issuance, sale or delivery of the Bonds, or in any way questioning or affecting (i) the issuance, sale and delivery of the Bonds, (ii) the proceedings under which the Bonds are to be issued, (iii) the validity of any provision of the Bonds, the Resolution, the Continuing Disclosure Agreement or the Purchase Agreement, (iv) the pledge by the Authority effected under the Resolution, or (v) the legal existence of the Authority. Except as described in the Official Statement, there is no litigation or other proceeding pending to which the Authority is a party or, to the best of my knowledge, threatened against it, and, to the best of my knowledge, there is no other litigation or proceeding pending or threatened in any court, agency or other administrative body (either State or Federal) which could have a material adverse effect on the transactions contemplated by the Resolution and the items pledged under the Resolution.

8. The Authority is not in default in any material respect under the terms of the Resolution.

9. All authorizations, consents, approvals and reviews of governmental bodies or regulatory authorities required for, or the absence of which would materially adversely affect, (i) the execution, issuance and performance by the Authority of the Bonds and (ii) the execution, delivery and performance by the Authority of the Continuing Disclosure Agreement and the performance by the Authority of the Resolution, have been obtained or effected.

The obligations of the Authority under the Bonds and the Authorized Documents and the enforceability thereof are limited by bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights. The enforceability of such obligations is subject to applicable general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law).

I have rendered the opinions expressed herein based on facts and circumstances existing, and applicable laws, rules, regulations, court decisions, and governmental and regulatory authority determinations in effect, on the date hereof. I assume no obligation to update or supplement this letter to reflect any change to, or the occurrence, issuance or adoption of, any fact, circumstances, laws, rules, or regulations, or any decision of any court or other body or governmental or regulatory authority. This opinion is limited to the matters stated herein and no opinion is implied or may be inferred beyond the matters expressly stated herein.

This opinion is solely for your information and assistance and is not to be used, circulated, quoted or otherwise referred to, except that reference to this opinion may be made in the Official Statement and in any list of closing documents pertaining to the issuance of the Bonds or in such closing documents.

Very truly yours,

Name:
Title:

[LETTERHEAD OF COUNSEL TO THE UNDERWRITERS]

October ____, 2007

Citigroup Global Markets Inc.,
as representative for the Underwriters
named in the Contract of Purchase,
dated October [__], 2007, with
respect to the captioned Bonds

Re: \$100,000,000 aggregate principal amount of the Authority's Series 2007 A Bonds and the
\$240,000,000 aggregate principal amount of the Authority's Series 2007 B Bonds
(Federally Taxable) (collectively, the "Bonds")

Ladies and Gentlemen:

We have acted as counsel to each of you (collectively the "Underwriters") in connection with the purchase by the Underwriters from the Power Authority of the State of New York (the "Authority"), a body corporate and politic constituting a public benefit corporation of the State of New York, of the above-referenced Bonds pursuant to the terms of the Contract of Purchase dated October [__], 2007 (the "Purchase Agreement"), between the Underwriters and the Authority.

We have, as such counsel, examined the following documents:

(a) the General Resolution Authorizing Revenue Obligations, adopted on February 24, 1998, as amended and supplemented and as further supplemented by the Eighth Supplemental Resolution adopted on September 25, 2007 (collectively, "Resolution");

(b) the legal opinion of Hawkins Delafield & Wood LLP, Bond Counsel to the Authority ("Bond Counsel"), dated the date hereof;

(c) the Preliminary Official Statement of the Authority with respect to the Bonds, dated October [__], 2007 (the "Preliminary Official Statement");

(d) the Purchase Agreement;

(e) the Official Statement of the Authority with respect to the Bonds, dated October [__], 2007 (the "Official Statement");

(f) the Continuing Disclosure Agreement, dated October [__], 2007 (the "Continuing Disclosure Agreement") by and between the Authority and The Bank of New York, as trustee; and

(g) such other documents and showings as we have deemed necessary in order to render this opinion.

On the basis of the foregoing, and having regard to legal questions that we deem relevant, we are of the opinion that:

(1) The Bonds are not subject to the registration requirements of the Securities Act of 1933, as amended, and the Resolution is exempt from qualification pursuant to the Trust Indenture Act of 1939, as amended.

(2) Based on our participation in the preparation of the Official Statement as counsel for the Underwriters, without having undertaken to independently verify the accuracy, completeness or fairness of the statements contained in the Official Statement, nothing has come to our attention that would lead us to believe that the Official Statement, as of its date, contained an untrue statement of a material fact or omitted to state a material fact necessary to make the statements therein in light of the circumstances under which they were made, not misleading (except for the information contained in Part 1 of the Official Statement under the caption "BOND INSURANCE", the financial statements and other financial and statistical data included in the Official Statement, the descriptions of the Authority's facilities included in the Official Statement and in Appendices A, B, D and E of Part 1 of the Official Statement and Appendix 2 of Part 2 of the Official Statement, as to which no view is expressed) or that the Official Statement contains as of the date hereof an untrue statement of a material fact or omits to state a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading (except as aforesaid).

(3) The Continuing Disclosure Agreement satisfies the requirements of Section (b)(5)(i) of Rule 15c2-12 under the Securities Exchange Act of 1934, as amended (the "Rule"), which provide for an undertaking for the benefit of the holders, including beneficial owners, of the Bonds to provide certain annual financial information and event notices to various information repositories at the times and in the manner required by the Rule.

(4) The Authority is "an issuer of municipal securities" within the meaning of the Rule.

(5) With respect to the Bonds, other than the Authority, there is no "obligated person" within the meaning of the Rule which would be required to provide certain annual financial information and event notices to various information repositories as required by the Rule.

In rendering the opinions contained in paragraphs 3, 4 and 5, we have assumed the due authorization, execution and delivery of the Continuing Disclosure Agreement by the Authority, and that such agreement is a valid and binding obligation of the Authority enforceable in accordance with its terms.

As counsel for the Underwriters, we are furnishing this letter to you, solely for your benefit as Underwriters pursuant to Section 6(c)(v) of the Purchase Agreement. This letter shall not be used, circulated, quoted, referred to or relied upon, by any other person, firm, corporation or other entity without our prior written consent. This letter is as of the date hereof and we undertake no, and disclaim any, obligation to advise you of any changes in any matter set forth herein.

Very truly yours,

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

“Mr. Chairman, I move that the Authority conduct an Executive Session pursuant to Section 105(1)(d) of the Public Officers Law to discuss issues associated with pending litigation with: (i) General Electric et al. and (ii) Entergy Nuclear Fitzpatrick, LLC and Entergy Nuclear Indian Point 3, LLC.” On motion duly made 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.” On motion duly made and seconded, the meeting resumed in Open Session.

18. Entergy James A. FitzPatrick and Entergy Indian Point 3 Value-Sharing Agreements - Amendments

The President and Chief Executive Officer submitted the following report:

SUMMARY

“The Trustees are requested to approve amendments to the Value-Sharing Agreements (‘VSAs’) entered into between the Authority and Entergy Nuclear Indian Point 3, LLC (‘Entergy IP3’) and Entergy Nuclear Fitzpatrick, LLC (‘Entergy JAF’) in connection with the sale in 2000 by the Authority of the Indian Point 3 (‘IP3’) and James A. FitzPatrick (‘JAF’) nuclear units to Entergy IP3 and Entergy JAF (collectively, ‘Entergy’). The amendments are intended to resolve disagreements between the Authority and Entergy about the administration of the VSAs.

BACKGROUND

“On March 28, 2000, the Authority entered into a contract to sell IP3 and JAF to Entergy IP3 and Entergy JAF, respectively. The sale closed on November 21, 2000. The sale was conducted through an auction process followed by negotiations in which Entergy, and at least one other large nuclear operator, presented comprehensive offers for IP3 and JAF. The Authority accepted Entergy IP3’s and Entergy JAF’s bid, which included \$966.84 million in cash payments to be received over a number of years, plus multiyear power purchase agreements (‘PPAs’) extending through December 2004, through which Entergy IP3 and Entergy JAF agreed to sell the energy output of IP3 and JAF to the Authority at negotiated prices. In addition to the sale contract, the PPAs and certain other agreements, the transaction included two substantially identical contingent payment contracts, one with Entergy IP3 and one with Entergy JAF.

“These two contracts (the VSAs) are dated as of November 21, 2000 and are entitled ‘Value-Sharing Agreement (Indian Point 3)’ and ‘Value-Sharing Agreement (Fitzpatrick).’

“The purpose of the VSAs was to provide additional compensation to the Authority for the plants if the market price of electricity shifted in future years above the levels assumed by the Authority and Entergy and reflected in the determination of the purchase price. To achieve that goal, the VSAs provided that, for each calendar year from 2005 through 2014, Entergy and the Authority would share equally if market prices based on actual sales from IP3 or JAF exceeded an agreed-upon set price for each plant.

“In 2005, the first year for which Entergy was required to calculate whether a payment was due to the Authority under the VSAs, a dispute arose as to the treatment of cash settlement prices for financial swap transactions entered into by Entergy. Entergy took the position that the price received from its swap partner (not the price actually received by Entergy from its sale of that power into the market) should be used to calculate the VSA amount; the Authority took the contrary view. The same thing happened with respect to the 2006 calculation. Additional disagreement emerged over the use in the calculations under the VSAs of Entergy’s internal transfer prices for sales to a captive affiliate, Entergy Nuclear Power Marketing (‘ENPM’) and the Authority’s entitlement to VSA payments with respect to energy produced by plant up-rates performed after Entergy acquired the units. The amounts in dispute for years 2005 and 2006 totaled about \$144 million.

“Beginning in 2006 and continuing through March 2007, the parties exchanged information and attempted to resolve the matters in dispute. On or about May 10, 2006, the Authority filed a Notice of Dispute demanding arbitration with respect to amounts in dispute for 2005, and on or about March 23, 2007, the Authority advised Entergy IP3 and Entergy JAF that it disagreed with Entergy’s calculations of the 2006 VSA amount and provided formal Notice of Dispute with respect to that period.

“Arbitration proceedings before the American Arbitration Association commenced and after three days of hearings before an arbitrator, final briefs were filed on August 10, 2007. In the meantime, the parties continued discussing resolution of the disputed issues. In late August, the parties appeared to be close to reaching agreement on the terms of a settlement and advised the arbitrator not to issue his decision.

DISCUSSION

“Following the arbitration and before any decision was issued by the arbitrator, the parties reached an agreement in principle to resolve the current controversy and amend the VSAs in an effort to avoid future disputes during the remaining eight-year term of the VSAs.

“This agreement changes in two fundamental respects the calculation of the annual amounts owed to the Authority under the original VSAs. First, the agreement replaces the uncertainty and complexity of computing the megawatt hour (‘MWH’) price used to calculate the VSA amount with an agreed price per MWH for each plant. Second, it provides a cap for the total annual VSA amounts owed the Authority in any year for each plant where the original VSAs contained no annual maximum.

“Currently, to arrive at the price of energy for the purpose of calculating the VSA amount, the parties make distinctions between how the energy was sold for purposes of valuing a MWH, *i.e.*, via physical power sales, financial swaps or sales into the New York Independent System Operator. Under the amended agreement, the parties have agreed on a specific dollar amount (different for each plant) that will be multiplied by all metered MWHs from each plant (up to a maximum annual amount for each plant) to arrive at the VSA amount due each year. Specifically, the amount owed the Authority under the VSAs will be based on \$6.59 per MWH for IP3 and \$3.91 per MWH for JAF. The maximum annual payment for IP3 is \$48 million and for JAF is \$24 million. These amounts, it should be noted, are about equal to the annual amounts due the Authority for each of the first two years under the Authority's interpretation of the original VSAs. The first payment will be due on January 15, 2008 and thereafter on January 15 of each succeeding year through January 15, 2015.

“In all other material respects, the amended VSAs afford the Authority the same, or greater, rights than the original VSAs. Under the amended VSAs, the annual maximum amounts are based on the assumption that each plant generates at least 85% of its stated capacity, the same 85% cap found in the original VSAs. Under both the amended and original VSAs, decreased production at either plant for whatever reasons may reduce the VSA amount. In addition, sale of the plants to entities that are not affiliates of Entergy will, under both the amended and original VSAs, effectively terminate Entergy's obligations.

“It is in this nonaffiliated-sale scenario that the amended VSAs will provide the Authority more benefits than the original VSAs. The amended VSAs provide that in the event of such a sale, the Authority retains the right to obtain whatever VSA amount is due at the time of the sale. That payment obligation did not exist under the original VSA. Even more significant, under the amended VSAs, the Authority is guaranteed the full value of whatever VSA amount it is due for calendar years 2007 and 2008 regardless of Entergy's sale of the plants to a nonaffiliate in those years.

“In sum, Authority staff recommends that the Trustees approve the above-described amended VSAs, which will effectuate a resolution of the pending controversy and chart a course for the Authority to receive the value of those VSAs for the next eight years. This recommendation is also supported by the Authority's outside counsel. As noted, this agreement with Entergy ends the pending VSA dispute without incurring the risks of an adverse arbitration decision and additional legal costs. It also provides a workable roadmap for calculating future VSA payments and allows Entergy and the Authority to continue what has to date been a productive business relationship.

“The final version of these amended VSAs will not likely change any of the material terms outlined above. If, in the opinion of the Executive Vice President, General Counsel and Chief of Staff, these terms are changed in significant respects, the amended VSAs will not be signed until the Trustees have an opportunity to review and approve the final versions of the amended VSAs.

FISCAL INFORMATION

“The amended VSAs would provide a maximum of \$72 million per year in revenues to the Authority during their term. Such revenues, as described above, are contingent on certain production levels at each plant.

RECOMMENDATION

“The Executive Vice President, General Counsel and Chief of Staff and the Executive Vice President and Chief Financial Officer recommend that the Trustees approve amendments to the Value-Sharing Agreements entered into between the Authority and Entergy Nuclear Indian Point 3, LLC and Entergy Nuclear Fitzpatrick, LLC, which amendments are, in the opinion of the Executive Vice President, General Counsel and Chief of Staff, consistent with the terms set forth above and I concur with the recommendation.”

Mr. Kelly presented the highlights of staff's recommendations to the Trustees. Mr. Del Sindaco acknowledged the efforts of Mr. Arnold Bellis, Mr. Donald Russak, Mr. Edward DeGennaro, Mr. Arthur Cambouris, Ms. Denise D'Ambrosio and Mr. Joseph Carline for the tremendous amount of time and effort they and others had put into negotiating these amendments, with which Mr. Kelly concurred. Chairman McCullough said that he knew that this was the culmination of many months of effort, day in and day out, and that the negotiations had been difficult. He thanked staff, including Mr. Joseph Del Sindaco and Mr. Kelly, for a job well done.

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

RESOLVED, That the Trustees approve amended Value-Sharing Agreements with Entergy Nuclear Indian Point 3, LLC and Entergy Nuclear Fitzpatrick, LLC, which, in the opinion of the Executive Vice President, General Counsel and Chief of Staff, are consistent with 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 certificates, agreements and other documents to effectuate the foregoing resolution, subject to the approval of the form thereof by the Executive Vice President, General Counsel and Chief of Staff.

19. **Next Meeting**

The next Regular Meeting of the Trustees will be held on **Tuesday, October 30, 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 1:03pm.



Anne B. Cahill
Corporate Secretary