Chief Financial Officer – Summary Report

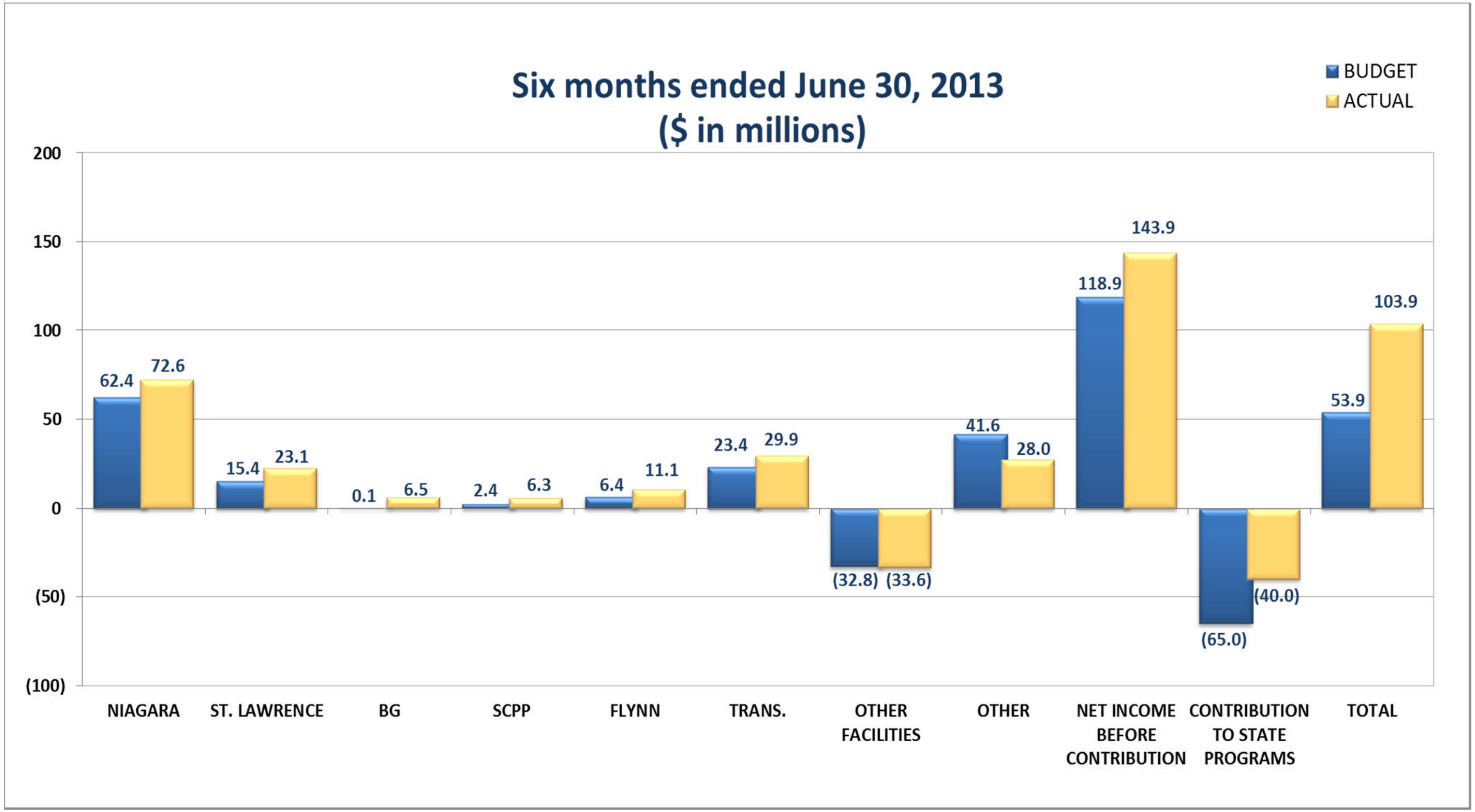
For the six months ended June 30, 2013

New York Power Authority

Executive Summary

- **Net Income**
  - Net income through June, prior to the recognition of the State contribution was $143.9 million, which was $25.0 million higher than the budget due to a higher net margin on sales ($37.1 million) and lower other operating expenses ($6.5 million) partially offset by lower non-operating income ($16 million).
    - As per the request of the NYS Division of Budget, the Authority was asked to defer its decision on the additional $25 million contribution (included in the NYPA budget for June), which will be considered in July 2013.
    - Net income for the six months with the inclusion of the initial $40 million contribution was $103.9 million.
  - Positive variances in net margins at the generating facilities ($31.2 million) were substantially attributable to higher capacity and energy prices on market-based sales.
    - Higher capacity prices have resulted in a positive impact, primarily at Niagara and Blenheim-Gilboa.
    - Energy prices remained high, particularly in the downstate market, resulting in higher margins at Flynn and the SCPP's. Positive results at St. Lawrence were due to higher generation and higher prices.
  - Transmission facility results were also higher than budgeted ($8.7 million).
    - Proportionally higher energy prices in the downstate markets increased congestion costs, which had a positive impact on revenues earned by the Authority's FACTS project.
  - Other operating expenses reflected lower than anticipated costs related to the Industrial Incentive awards and Western New York economic development fund.
  - Non-operating income included a higher than anticipated mark-to-market loss ($16.5 million) on the Authority's investment portfolio due to a sharp increase in market interest rates.
    - Cash losses will not be realized as long as investments are held to maturity, which is generally the case.

Net Income



Six months ended June 30, 2013
($ in millions)
BUDGET
ACTUAL
200
150
100
50
0
(50)
(100)
62.4
72.6
15.4
23.1
0.1
6.5
2.4
6.3
6.4
11.1
23.4
29.9
(32.8)
(33.6)
41.6
28.0
118.9
143.9
(65.0)
(40.0)
53.9
103.9
NIAGARA
ST. LAWRENCE
BG
SCPP
FLYNN
TRANS.
OTHER FACILITIES
OTHER
NET INCOME BEFORE CONTRIBUTION
CONTRIBUTION TO STATE PROGRAMS
TOTAL

Executive Summary

Year-End Projection

- Net Income is expected to remain at levels above budget for the year with firmer capacity and energy prices and higher hydro generation, partially offset by a decline in the mark-to-market value of the Authority's investment portfolio.
  - **Capacity Prices –** With higher than expected capacity prices, Staff took steps to lock in these revenues by selling approximately half of the surplus capacity in the NYISO 6-month summer strip auction, thereby protecting these revenues from any potential downturn in the market
  - **Energy Prices –** Wholesale electricity prices have increased with a rise in natural gas prices. Upstate prices are approximately 11% higher than the budget and New York City prices are up over 18%, having a positive effect on the Authority's net income.
  - **Hydro Flows –** After significant rainfall in June, precipitation over the Great Lakes is running slightly higher than average for the year. The result is the combined net generation for the Niagara and St. Lawrence facilities currently projected to be 19.05 Twh, up from 18.45 Twh in the budget, positively impacting the Authority's net income.
  - **Mark-to-Market Value –** The current environment of rising interest rates is having a negative effect on the mark-to-market value of the Authority's fixed rate investments in its portfolio, decreasing net income on an accrual basis. (Cash losses will not be realized as long as investments are held to maturity, which is generally the case).
- At the projected levels, the business requirements for cash flow and liquidity are expected to be met.

Risk Management Activities

- Following the Board's approval of the updated governance documents – (the **Corporate Policy–Risk Management** and the **Executive Risk Management Committee Charter**) – work continues on a refresh of the risk inventory and the development of forward-looking Key Risk Indicators (KRIs).