2014 Operating Budget
($ Millions)

	Operating Budget 2014
Operating Revenues:	
Customer Revenues	$2,131.2
NYISO Market Revenues	793.8
Total Operating Revenues	2,925.0
Operating Expenses:	
Purchased Power	835.5
Fuel oil and gas	299.9
Wheeling Expenses	614.2
O&M Expenses	388.2
Other Expenses	216.7
Depreciation and Amortization	228.7
Total Operating Expenses	2,583.2
NET OPERATING REVENUES	**341.8**
Other Income:	
Investment Income	26.9
Other Income	75.4
Total Other Income	102.3
Non-Operating Expenses	
Interest & Other Expenses	176.4
Contributions to State	90.0
Total Non-Operating Expenses	266.4
NET INCOME	**$177.7**

2013 - 2014 Plan Variance

($ Millions)

	Original Budget **2013**	Forecast **2013**	Budget **2014**	2013 Forecast vs. 2014 Budget **Variance**
Operating Revenues:				
Customer Revenues	$2,119.6	$2,084.0	$2,131.2	$47.2
NYISO Market Revenues	$678.6	$910.6	$793.8	($116.8)
Total Operating Revenues	**$2,798.1**	**$2,994.7**	**$2,925.0**	**($69.7)**
Operating Expenses:				
Purchased Power	$773.8	$870.7	$835.5	($35.2)
Fuel oil and gas	$322.9	$329.7	$299.9	($29.8)
Wheeling Expenses	$582.9	$594.6	$614.2	$19.7
O&M Expenses	$413.4	$421.2	$388.2	($32.9)
Other Expenses	$201.1	$192.1	$216.7	$24.6
Depreciation and Amortization	$227.8	$228.0	$228.7	$0.6
Total Operating Expenses	**$2,522.0**	**$2,636.2**	**$2,583.2**	**($53.0)**
NET OPERATING REVENUES	**$276.2**	**$358.5**	**$341.8**	**($16.7)**
Other Income:				
Investment Income	$27.7	$14.8	$26.9	$12.1
Other Income	$76.6	$75.9	$75.4	($0.5)
Total Other Income	**$104.2**	**$90.7**	**$102.3**	**$11.5**
Non-Operating Expenses				
Interest & Other Expenses	$185.0	$180.8	$176.4	($4.4)
Contributions to State	$65.0	$65.0	$90.0	$25.0
Total Non-Operating Expense	**$250.0**	**$245.8**	**$266.4**	**$20.6**
NET INCOME	**$130.4**	**$203.4**	**$177.7**	**($25.7)**

2014 Operating Forecast by Project ($ Thousands)

New York Power Authority *2014* *Dollars in thousands*

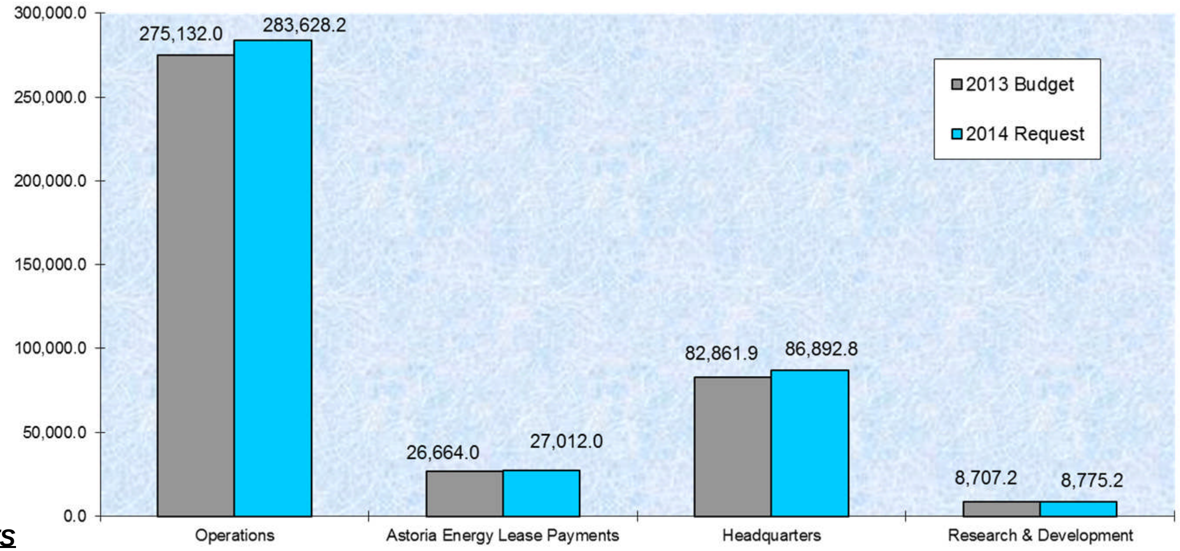
	Niagara	St. Lawrence	Blenheim Gilboa	SENY	SCPP	Mkt Sup Power	Flynn	Trans-mission	Hudson Transm.	Misc.	Year End
Operating Revenues											
Customer Revenue	276,647	137,298	9,430	1,488,359		146,445	95,917	59,091	2,422	(84,437)	2,131,174
ISO Revenues	177,973	54,448	70,150	305,997	99,714	3,894		121,953		(68,325)	765,805
Ancillary Services	15,940	1,527	1,889	8,056	600						28,013
Operating Revenues	**470,561**	**193,273**	**81,470**	**1,802,413**	**100,314**	**150,339**	**95,917**	**181,044**	**2,422**	**(152,762)**	**2,924,992**
Operating Expenses											
Purchase Power	(40,050)	(7,716)	(10,211)	(592,138)	(1,593)	(123,341)			(60,309)	158,523	(676,836)
Ancillary Services	(22,748)	(9,112)	(73)	(33,014)	(133)	(6,217)					(71,298)
Transmission Congestion	(23,389)	(6,959)		(41,612)		(15,402)					(87,361)
Fuel				(203,470)	(25,972)		(70,475)				(299,916)
Wheeling	(8,173)	(1,437)		(601,328)		(2,930)	(360)				(614,228)
O&M	(97,914)	(52,252)	(32,522)	(92,294)	(24,421)	(1,702)	(12,233)	(92,971)			(406,308)
Other	(29,773)	(4,472)	(2,935)	(12,678)	(531)	(94,436)	(1,309)	(9,071)	(12,276)	(49,191)	(216,671)
Depreciation & Amortization	(37,160)	(19,752)	(9,076)	(96,671)	(18,626)	(87)	(5,327)	(41,958)			(228,656)
Allocation to Capital	4,863	2,593	1,829	3,045	331	116	560	4,735			18,072
Operating Expenses	**(254,344)**	**(99,106)**	**(52,988)**	**(1,670,160)**	**(70,945)**	**(243,999)**	**(89,143)**	**(139,265)**	**(72,586)**	**109,332**	**(2,583,203)**
Nonoperating Revenues											
Investment Income										34,670	34,670
Mark-to-Mark Adjustment										(7,757)	(7,757)
Other Income							805			74,551	75,356
Nonoperating Revenues							**805**			**101,464**	**102,268**
Nonoperating Expenses											
Contributions to State										(90,000)	(90,000)
Interest & Other Expenses	(27,160)	(18,048)	371	(110,659)	(6)	(3)	(13)	(5,212)		(15,646)	(176,377)
Nonoperating Expenses	**(27,160)**	**(18,048)**	**371**	**(110,659)**	**(6)**	**(3)**	**(13)**	**(5,212)**		**(105,646)**	**(266,377)**
Net Income	**189,057**	**76,119**	**28,852**	**21,594**	**29,364**	**(93,663)**	**7,566**	**36,567**	**(70,164)**	**(47,612)**	**177,681**

O & M 2013-2014 Budget

	2013 Budget	2014 Budget	INCREASE / (DECREASE) $'s	%
EXECUTIVE OFFICE				
Executive	2,440.4	3,774.3	1,333.9	54.7%
Law	7,894.9	8,236.8	341.9	4.3%
Internal Audit	2,041.7	2,233.5	191.8	9.4%
Public, Governmental & Regulatory Affairs	1,614.7	1,548.4	(66.2)	(4.1%)
Corporate Communications	4,133.8	4,148.9	15.1	0.4%
Strategic Planning	5,727.4	6,088.3	360.9	6.3%
Office Total	**23,852.9**	**26,030.2**	**2,177.4**	**9.1%**
BUSINESS SERVICES				
EVP Business Services	582.4	585.6	3.3	0.6%
Controller	5,603.7	5,493.2	(110.5)	(2.0%)
Finance	3,918.1	4,220.2	302.0	7.7%
Treasury	1,301.2	1,313.7	12.5	1.0%
Risk Management	205.8	1,762.1	1,556.3	756.1%
Office Total	**11,611.2**	**13,374.8**	**1,763.6**	**15.2%**
ENTERPRISE SHARED SERVICES				
SVP Enterprise Shared Services	684.0	680.0	(4.1)	(0.6%)
Corporate Support Services	8,956.2	9,190.3	234.1	2.6%
Procurement	3,425.0	3,953.3	528.3	15.4%
Fleet Management	1,366.4	1,448.5	82.1	6.0%
Information Technology	23,386.6	24,302.0	915.4	3.9%
Human Resources	5,846.4	6,594.9	748.5	12.8%
Office Total	**43,664.6**	**46,168.9**	**2,504.3**	**5.7%**
ENERGY MARKETING & BUSINESS DEVELOPMENT				
Energy Services	2,490.7	300.0	(2,190.7)	(88.0%)
Marketing	1,242.5	1,018.7	(223.7)	(18.0%)
Office Total	**3,733.1**	**1,318.7**	**(2,414.4)**	**(64.7%)**

	2013 Budget	2014 Budget	INCREASE / (DECREASE) $'s	%
OPERATIONS				
Operations Headquarters	23,154.7	24,662.0	1,507.4	6.5%
Clark	19,744.7	16,514.0	(3,230.6)	(16.4%)
Blenheim-Gilboa	20,272.7	20,415.8	143.1	0.7%
Poletti/500MW	29,385.0	32,623.8	3,238.8	11.0%
Flynn	8,856.6	8,524.4	(332.1)	(3.8%)
SENY	5,742.3	4,802.2	(940.1)	(16.4%)
SCPP	26,061.9	22,231.5	(3,830.4)	(14.7%)
Niagara	59,308.8	65,723.8	6,415.0	10.8%
St. Lawrence	33,287.5	35,086.5	1,799.0	5.4%
Recharge NY	259.1	228.8	(30.3)	(11.7%)
Small Hydros	7,418.5	6,469.7	(948.8)	(12.8%)
Transmission Lines	40,324.9	45,115.7	4,790.8	11.9%
Astoria Energy II O&M	1,315.5	1,229.9	(85.6)	(6.5%)
Office Total	**275,132.0**	**283,628.2**	**8,496.2**	**3.1%**
Research & Development	***8,707.2***	***8,775.2***	***68.0***	**0.8%**
TOTAL NYPA	**366,701.1**	**379,296.1**	**12,595.1**	**3.4%**
Astoria Energy II Lease	**26,664.0**	**27,012.0**	**348.0**	**1.3%**
Grand Total	**393,365.1**	**406,308.1**	**12,943.1**	**3.3%**

O & M: 2013 – 2014 Summary ($ Thousands)



HIGHLIGHTS

* *The 2014 base request of $379.3 million, which excludes lease payments of $27.0 million for Astoria Energy, is $12.6 million (3.4%) greater than the 2013 approved budget. When including the O&M component of the Astoria Energy facility lease payment which is fully recovered in customer rates, the 2014 request is $406.3 million.*

* *There are no requests for new positions in the 2014 budget. The requested staffing level is for 1,745 positions, up 3 (0.2%) from January 2013. The increase represents five (5) positions added during 2013 and two (2) position eliminations in 2013.*

* *The Fringe Benefits (O&M Component) increase of $3.0 million is mostly driven by a $1.6 million increase in OPEB reflecting new healthcare reform impact, medical cost inflation and revised actuarial cost projections, a $0.5 million increase in pension costs, a $0.5 million increase in FICA and an anticipated rise in the annual wage cap and a $0.2 million increase in Medical Insurance.*

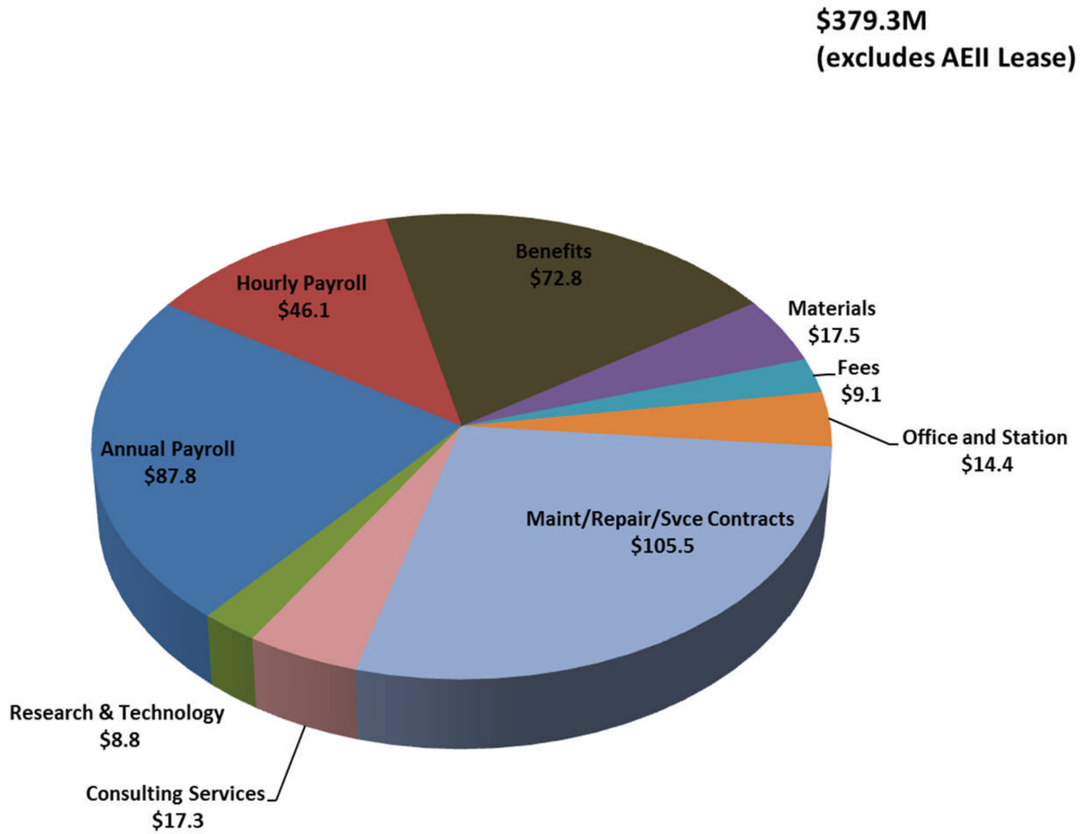
* *Planned outage costs for 2014 total $13.0 million which is $0.1 less than the 2013 outage budget. The following is a breakdown of the outage request by facility:*

-	*500MW*	*$7.7 million*
-	*SCPP's*	*$5.3 million*

* *HQ request is $4.0 million higher than 2013. Major increases are in fringe benefits (OPEB, pension, FICA and medical), payroll, consulting expenses for executive initiatives (includes funding for strategic planning initiatives), on-site Master's Program, hardware and software maintenance support and less WPO rental income.*

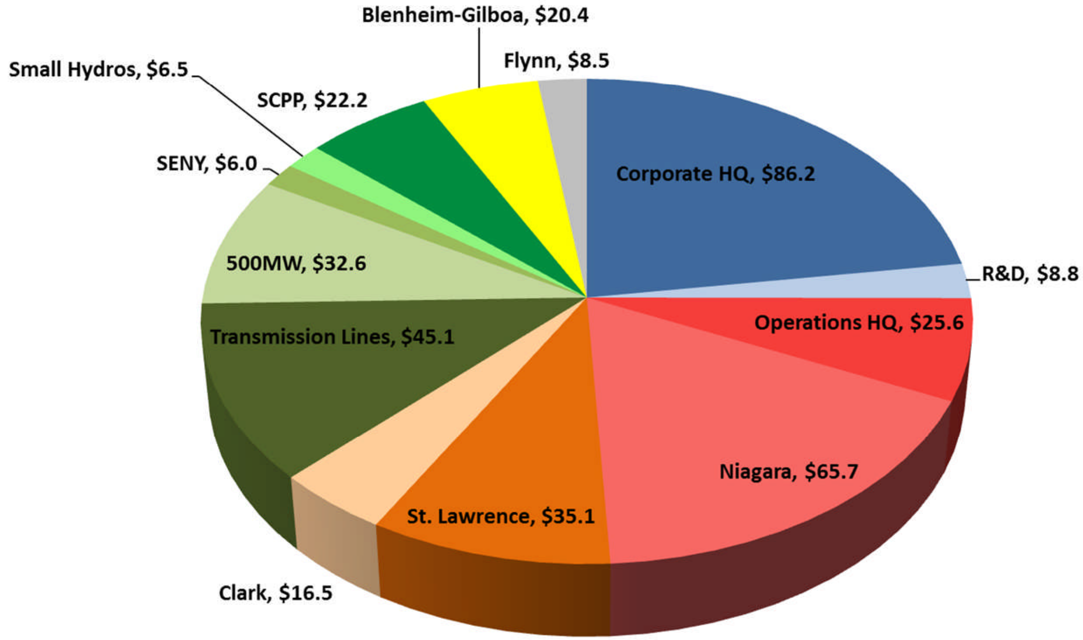
* *The increase in Operations mainly reflects an increase of $5.7 million in non-recurring work and an increase in fringe benefits and payroll.*

O & M: 2014 Budget by Cost Element ($ Millions)



O & M: 2014 Budget by Facility ($ Millions)

$379.3M
(excludes AEII Lease)



* Astoria does not reflect annual Lease payments

O & M: Headcount 2013 – 2014

Headcount 2013-2014

A net increase of 3 positions reflects:
* No new positions included in the 2014 Budget
* 5 positions added in 2013
* Elimination of 2 positions in 2013.

	01/01/13	10/31/13	2014 Request	1/1/13-2014 Inc/(Dec)
Headquarters				
Executive Offices	150	151	151	1
Business Services	104	103	103	(1)
Corporate Support Services	246	250	249	3
Marketing & Economic Development	142	143	143	1
Headquarters Total	**642**	**647**	**646**	**4**
Operations				
Operations HQ	329	326	328	(1)
Transmission/Clark	131	135	131	0
Blenheim-Gilboa	108	107	110	2
Poletti/500MW	67	66	66	(1)
R.M. Flynn	22	22	22	0
Niagara	260	260	256	(4)
St. Lawrence	183	182	186	3
Operations Total	**1,100**	**1,098**	**1,099**	**(1)**
NYPA Total	**1,742**	**1,745**	**1,745**	**3**

Capital & Energy Services Budget Variance from 2013-2014

$ Thousands

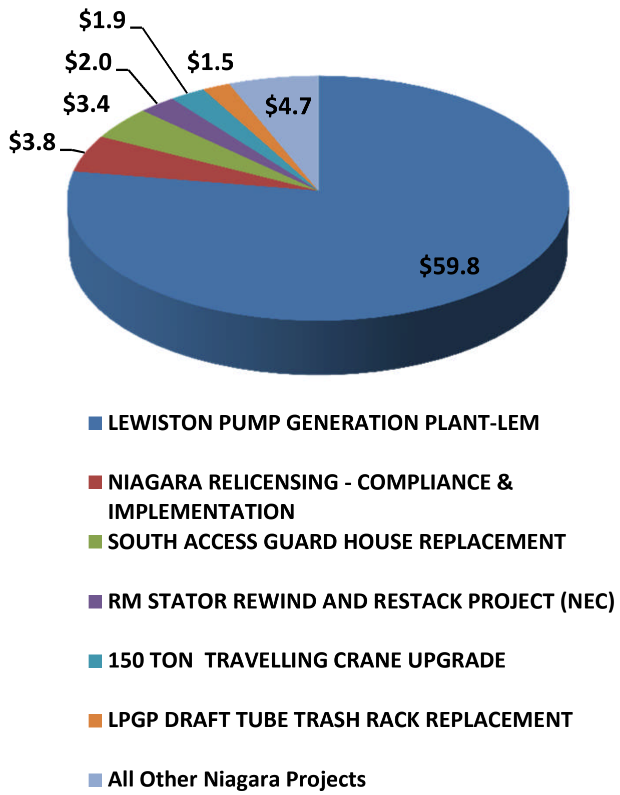
	2013 CAPITAL BUDGET	2014 CAPITAL REQUEST	*INCREASE / (DECREASE)*	*% CHANGE*
OPERATIONS				
TRANSMISSION	$53,923	$88,981	*$35,058*	*65.02%*
*NIAGARA**	$74,405	$77,108	*$2,703*	*3.63%*
*ST. LAWRENCE**	$15,765	$21,385	*$5,620*	*35.65%*
*BLENHEIM- GILBOA**	$5,013	$19,525	*$14,512*	*289.49%*
500 MW	$9,817	$5,126	*-$4,691*	*-47.79%*
SCPP	$3,436	$11,051	*$7,615*	*221.62%*
FLYNN	$661	$3,182	*$2,521*	*381.34%*
SMALL HYDRO PLANTS	$5,165	$15,991	*$10,826*	*209.61%*
SUB-TOTAL	$168,186	$242,350	*$74,165*	*44.10%*
HEADQUARTERS	$24,165	$36,932	*$12,767*	*52.83%*
TOTAL CAPITAL	**$192,351**	**$279,282**	***$86,931***	***45.19%***
ENERGY SERVICES	**$200,793**	**$222,323**	***$21,530***	***10.72%***
TOTAL CAPITAL & ENERGY SERVICES	**$393,144**	**$501,606**	***$108,462***	***27.59%***

** Includes Relicensing and Compliance Implementation Expense*

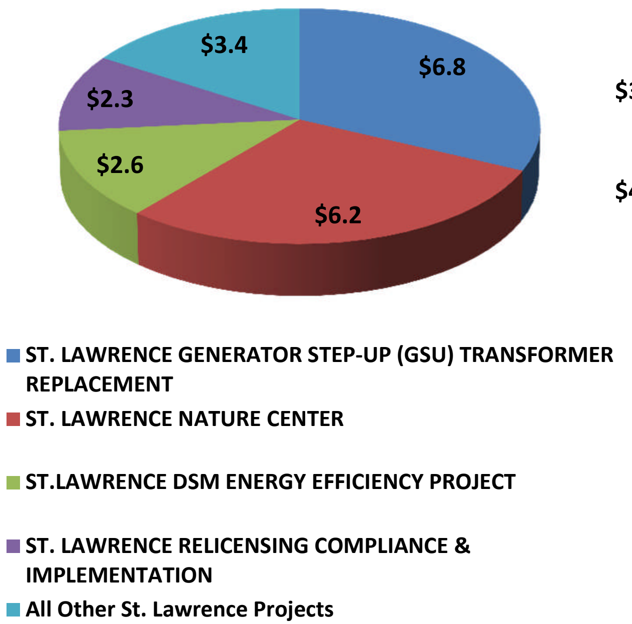
Capital Plan: 2014 Major Initiatives

Approximately 65% of capital expenditures for 2014 are principally in the Upstate NY region supporting the Niagara and St. Lawrence Projects and the Authority’s Bulk Transmission System

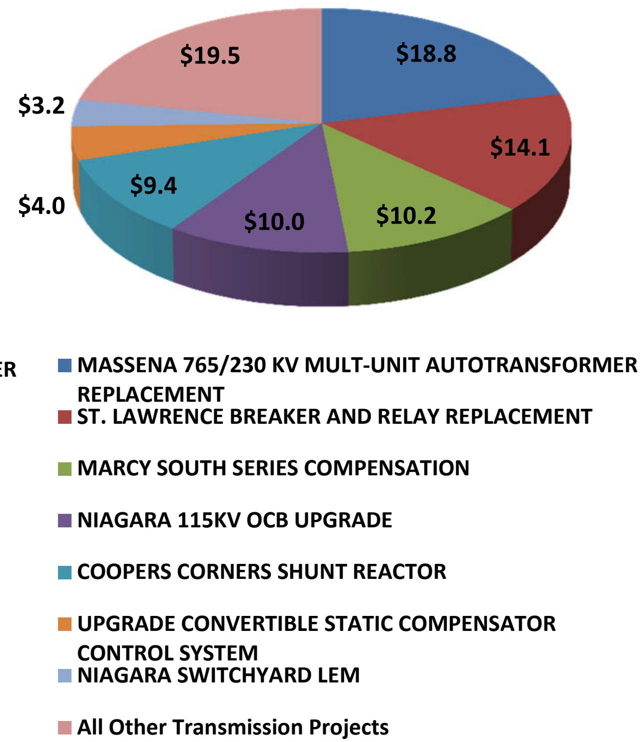
Niagara 2014
($ millions)
Total: $77.1 million



St. Lawrence 2014
($ millions)
Total: $21.4 million



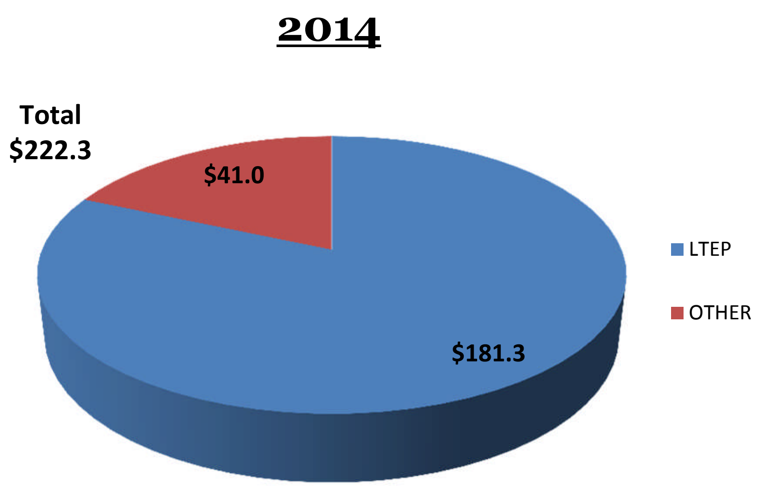
Transmission 2014
($ millions)
Total: $89.0 million



ENERGY SERVICES
2014 BUDGET ($ Thousands)

	2013 Budget	2014 Budget	Increase/(Decrease) $'s	%
Long Term SENY Governmental Customers Program	153,540	181,309	27,769	18.09%
Other NYPA Funded Programs	43,331	40,630	(2,701)	-6.23%
POCR Funded Programs	2,422	382	(2,040)	-84.24%
Lower Manhattan Energy Initiative	1,500	3	(1,497)	-99.80%
TOTAL	200,793	222,323	21,530	10.72%

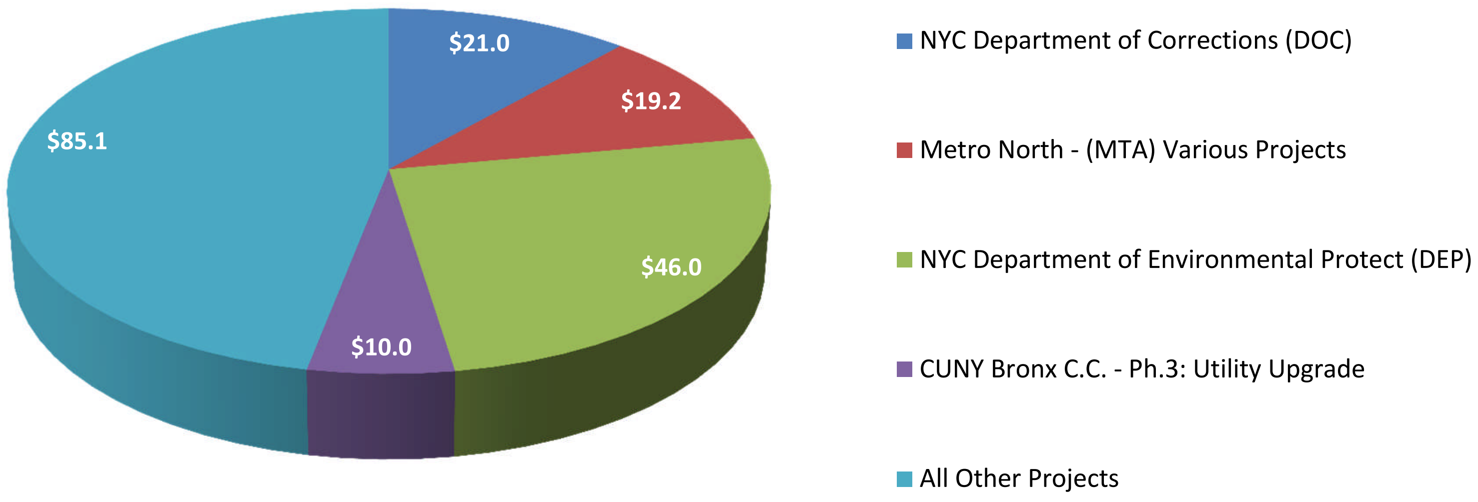
2014 Energy Services Capital Plan Request ($ Millions)



There are currently two major energy services programs authorized by the Trustees. The Long Term Agreement Program (LTEP) is associated with energy services work for our SENY customers and the Other Energy Services Program mostly supports energy service projects for NYS and other government entities. Both of these programs incorporate components of the Governor’s Build Smart NY program. The Build Smart NY program (Executive Order 88) requires New York State agencies to increase their energy efficiency by 20% by 2020. As the graph indicates most of NYPA’s planned energy services work in 2014 will support NYC and Build Smart energy efficiency initiatives.

Energy Services
2014 Long Term Agreement Program ($ Millions)

$181.3 million



Energy Services
2014 Other Energy Services Programs ($ Millions)

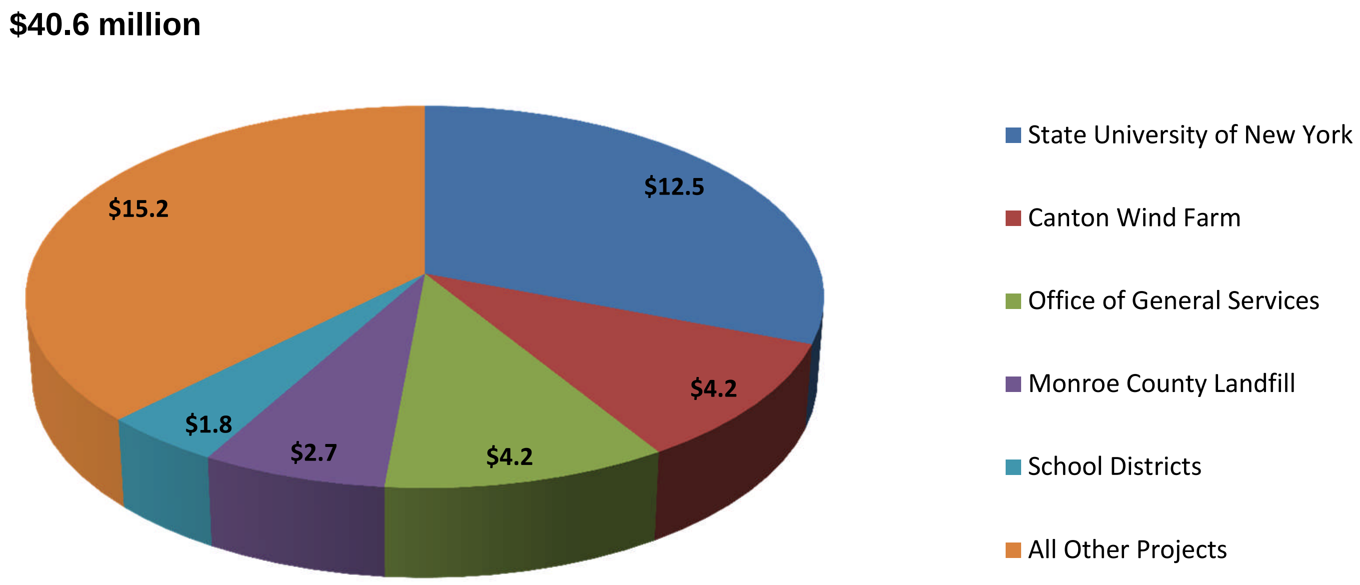


Exhibit "E"
December 17, 2013

New York Power Authority

2014-2017 Approved Budget and Financial Plan

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In compliance with 2 NYCRR Part 203

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

The mission of the Power Authority of the State of New York ("NYPA" or "Authority") is to provide clean, low-cost and reliable energy consistent with its commitment to the environment and safety, while promoting economic development and job development, energy efficiency, renewables 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.

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

To provide electric service, the Authority owns and operates five major generating facilities, eleven small gas-fired electric generating facilities, and four small hydroelectric facilities in addition to a number of transmission lines, including major 765-kV and 345-kV transmission facilities. The Authority's five major generating facilities consist of two large hydroelectric facilities ("Niagara" and "St. Lawrence-FDR"), a large pumped-storage hydroelectric facility ("Blenheim-Gilboa"), the combined cycle electric generating plant located in Queens, New York (the "500-MW plant") and the Richard M. Flynn combined cycle plant located on Long Island ("Flynn").

To provide additional electric generation capacity to the Authority's NYC Governmental Customers, NYPA entered into a long-term electricity supply agreement with Astoria Energy II LLC in 2008 for the purchase of the output of an Astoria, Queens based natural-gas fueled 550-MW generating plant, which entered service in the summer of 2011.

To achieve its goal of promoting energy efficiency, NYPA implements its energy services programs primarily for the benefit of its SENY governmental customers and 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 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.

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

The Power Authority of the State of New York (the "Authority" or "NYPA") is a corporate municipal instrumentality and political subdivision of the State of New York (the "State") created in 1931 by Title 1 of Article 5 of the Public Authorities Law, Chapter 43-A of the Consolidated Laws of the State, as amended from time to time (the "Act"), to help provide a continuous and adequate supply of dependable electric power and energy to the people of the State.

The Authority's operations are overseen by a Board of 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 a combination of internally generated funds and the sale 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.

(b) Budget Process

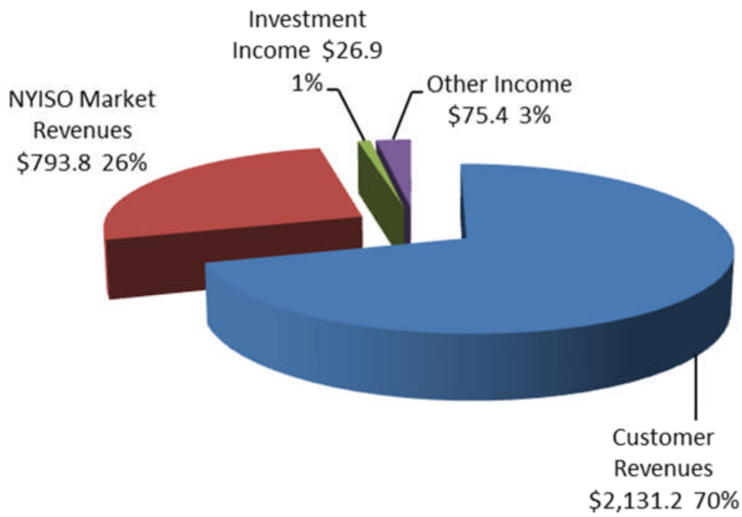
As an electric utility, NYPA operates in a capital intensive industry where operating revenues and expenses are significant and highly variable due to the volatility of electricity prices and fuel costs. NYPA's operations are not only subject to electric and fuel cost volatility, but changing water flows have a direct effect on hydroelectric generation levels. This Approved budget and financial plan relies on data and projections developed through the October 2013 timeframe.

NYPA's Four-Year Projected Income Statements

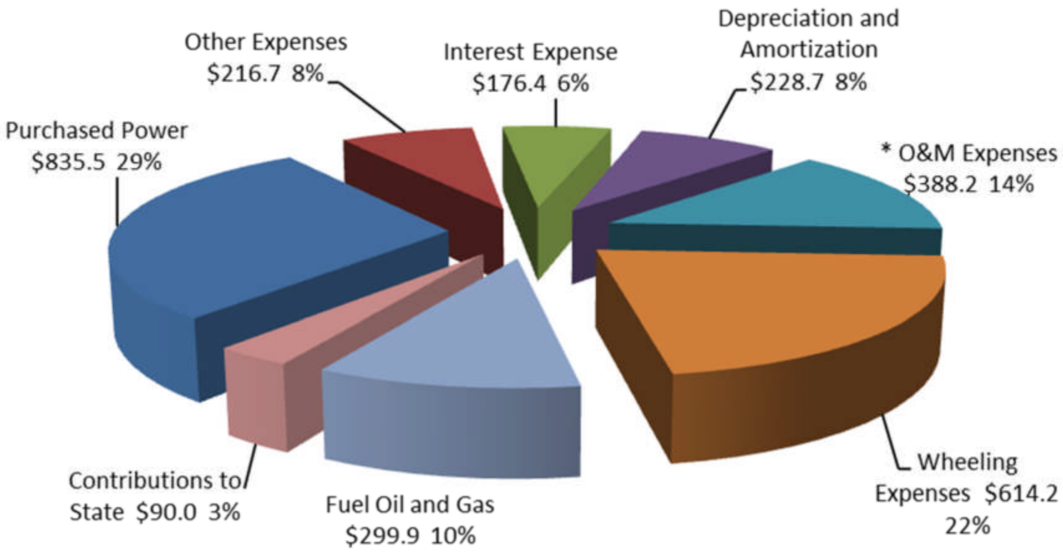
(in Millions)

	2014	2015	2016	2017
Operating Income:				
Customer Revenues	$2,131.2	$2,119.6	$2,190.6	$2,247.7
NYISO Market Revenues	$793.8	$770.8	$819.1	$830.2
Total Operating Income	$2,925.0	$2,890.4	$3,009.6	$3,077.8
Operating Expenses:				
Purchased Power	$835.5	$786.3	$836.3	$886.5
Fuel oil and gas	$299.9	$286.5	$320.0	$338.3
Wheeling Expenses	$614.2	$629.3	$641.5	$656.5
O&M Expenses	$406.3	$429.2	$429.2	$450.4
Other Expenses	$216.7	$177.8	$156.2	$135.6
Depreciation and Amortization	$228.7	$229.1	$219.7	$211.0
Allocation to Capital	($18.1)	($18.7)	($14.7)	($15.0)
Total Operating Expenses	$2,583.2	$2,519.5	$2,588.2	$2,663.2
NET OPERATING INCOME	**$341.8**	**$370.9**	**$421.4**	**$414.6**
Other Income:				
Investment Income	$26.9	$29.3	$38.8	$51.3
Other Income	$75.4	$4.5	$5.8	$5.8
Total Other Income	$102.3	$33.8	$44.6	$57.1
Non-Operating Expenses:				
Interest Expense	$176.4	$167.7	$162.5	$155.5
Contributions to State	$90.0	$65.0	$65.0	$65.0
Total Non-Operating Expenses	$266.4	$232.7	$227.5	$220.5
NET INCOME	**$177.7**	**$172.0**	**$238.6**	**$251.2**

2014 Budget – Sources
(in Millions)



2014 Budget – Uses
(in Millions)



* Reflects NYPA's Base O&M Expenses plus Administrative Expenses less the Allocation to Capital.

NYPA's Statement of Cash Flows

2801 Report Format

(in Millions)

	2012	2013	2014	2015	2016	2017
Revenue Receipts :						
Sale of Power, Use of Transmission Lines Wheeling Charges and other receipts	$2,576.8	$2,935.1	$2,868.3	$2,836.6	$2,959.1	$3,030.7
Earnings on Investments and Time Deposits	$26.8	$26.2	$25.2	$27.3	$35.5	$51.2
Total Revenues	**$2,603.6**	**$2,961.3**	**$2,893.5**	**$2,863.9**	**$2,994.6**	**$3,081.9**
Expenses:						
Operation and Maintenance, including Transmission of Electricity by others, Purchased Power and Fuel Purchases	**($2,299.0)**	**($2,567.5)**	**($2,542.6)**	**($2,444.2)**	**($2,520.9)**	**($2,607.9)**
Debt Service :						
Interest on Bonds and Notes	($71.0)	($66.3)	($63.9)	($62.2)	($63.3)	($66.2)
Bonds and Notes Retired	($51.4)	($98.8)	($88.6)	($76.3)	($82.3)	($90.4)
Total Debt Service	**($122.4)**	**($165.1)**	**($152.5)**	**($138.5)**	**($145.6)**	**($156.6)**
Total Requirements	**($2,421.4)**	**($2,732.6)**	**($2,695.1)**	**($2,582.7)**	**($2,666.5)**	**($2,764.5)**
Net Operations	**$182.2**	**$228.7**	**$198.4**	**$281.2**	**$328.1**	**$317.4**
Capital Receipts :						
Sale of Bonds, Promissory Notes & Commercial Paper	$243.4	$197.9	$169.2	$203.0	$174.0	$425.7
Less : Repayments	($232.2)	($128.1)	($110.7)	($89.8)	($91.1)	($330.8)
Earnings on Construction Funds	$1.6	$0.8	$0.3	$0.3	$0.3	$0.3
DSM Recovery Receipts	$178.6	$194.3	$222.1	$180.1	$182.6	$181.6
Temporary Asset Transfer Return from NYS	$0.0	$0.0	$34.3	$34.3	$34.3	$43.0
Other	$102.0	$102.0	$92.0	$94.5	$5.0	$5.0
Total Capital Receipts	**$293.4**	**$366.9**	**$407.2**	**$422.4**	**$305.1**	**$324.8**
Capital Additions & Refunds :						
Additions to Electric Plant in Service and Construction Work in Progress, and Other costs	($383.6)	($582.4)	($631.7)	($573.1)	($452.8)	($464.2)
Construction Funds - Net Transfer	$0.0	($0.8)	($0.3)	($0.3)	($0.3)	($0.3)
Total Capital Additions & Refunds	**($383.6)**	**($583.2)**	**($632.0)**	**($573.4)**	**($453.1)**	**($464.5)**
Net Capital	**($90.2)**	**($216.3)**	**($224.8)**	**($151.0)**	**($148.0)**	**($139.7)**
Net Increase/(Decrease)	**$92.0**	**$12.4**	**($26.4)**	**$130.2**	**$180.1**	**$177.7**

(c) Budget Assumptions

NYISO Revenue and Expenses

Based upon scheduled customer power needs and available electricity generated by NYPA's operating assets, the Authority buys and sells energy in an electricity market operated by the NYISO. 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 for which the energy revenues are projected based on available forward price curves while the capacity revenues are estimated using the NYISO demand curve formula.

Customer and Project Revenue

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

St. Lawrence-FDR and Niagara Customers. Power and energy from the St. Lawrence-FDR and Niagara hydroelectric facilities are sold to municipal electric systems, rural electric cooperatives, industrial and other business customers, certain public bodies, investor-owned utilities, and out-of-state customers.

The charges for firm and/or firm peaking power and associated energy sold by the Authority, as applicable, to the fifty-one municipal electric systems and rural electric cooperatives in New York State, two public transportation agencies, three investor-owned utilities for the benefit of rural and domestic customers, and seven out-of-state public customers have been established on the basis of the cost to serve these loads. The 2014-2017 financial plan models Trustee-approved rate increases for customers as well as prospective rate increases.

Niagara's expansion and replacement power industrial customers and St. Lawrence-FDR's industrial customers are allocated over 40% of the firm contract demand of the plants. Sale of expansion and replacement power historically had been handled on a sale-for-resale business through National Grid and New York State Electric and Gas. Beginning July 1, 2013, NYPA's Trustees have approved the direct sale to these customers of low cost hydro power.

A March 30, 2012 Western New York Power Proceeds Act authorizes the Authority to deposit net earnings from the sale of unallocated Expansion Power and Replacement Power from the Authority's Niagara project into the Western New York Economic Development Fund (Fund) as deemed feasible and advisable by the Authority's Trustees. "Net earnings" are defined as any excess revenues earned from such power sold into the wholesale market over the revenues that would have been received had the power been sold at the Expansion Power and Replacement Power rates. Proceeds from the Fund may be used to support eligible projects undertaken within a 30-mile radius of the Niagara project that qualify under applicable criteria. The legislation establishes a five member allocation board to be appointed by the Governor. Payments from the Power Authority to the fund have been incorporated into this four-year plan.

Legislation enacted into law in March 2011 created a new economic development power program which commenced July 1, 2012, the Recharge New York Power Program ("RNYPP"), to replace and expand upon a previous array of economic development programs, most prominently, the Power for Jobs ("PFJ") and Energy Cost Savings Benefits ("ECSB") programs. RNYPP is a new, permanent power program administered by the Authority and the Economic Development Power Allocation Board ("EDPAB"). The RNYPP utilizes 455 MW of hydropower from the Authority's Niagara and St. Lawrence-FDR projects combined with up to 455 MW of market-based power purchases. The 455 MW of hydropower was, until August 1, 2011, provided to residential and domestic customers of three upstate utilities. The 910 MW of power is available for allocations to eligible new and existing businesses and not-for-profit corporations under contracts of up to seven years. PFJ and ECSB Program customers that applied for, but were not awarded RNYPP allocations were eligible for certain "transitional electricity discounts". These transitional discounts, payable if deemed feasible and advisable by the Authority's Trustees, will gradually decline to zero by June 30, 2016. The RNYPP legislation also authorizes the Authority, as deemed feasible and advisable by its Trustees, to provide annual funding of $100 million for the first three years following withdrawal of the hydropower from the residential and farm customers, $70 million for the fourth year, $50 million for the fifth year, and $30 million each year thereafter, for the purpose of funding a residential consumer discount program for those customers that had received the hydropower that is utilized in the RNYPP. Revenues earned from the sale of unused RNYPP power into the wholesale market may be used to offset the cost of these residential discounts.

SENY Governmental Customers. Capacity from the Authority's 500 MW plant and the four small hydroelectric plants, the contracted capacity from the Astoria Energy II plant, together with capacity and energy purchased by the Authority in the NYISO markets, are sold to various municipalities, school districts and public agencies in New York City and

Westchester County. Sales into the NYISO of energy generated by Authority resources at the 500-MW plant, the small hydro projects, and the contracted capacity from the Astoria Energy II plant offset the cost of the energy purchased. A set amount of capacity from the Blenheim-Gilboa project is also dedicated to serving a segment of this customer class.

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

Under the 2005 LTA, the Authority modifies rates annually through a formal rate proceeding 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, are captured through annual contractual pricing adjustment mechanisms.

In 2007, the Authority entered into new supplemental electricity supply agreements with over one-hundred governmental customers in Westchester County resulting in the Westchester governmental customers remaining full requirements customers of NYPA. The Westchester County customers can terminate the contract upon one year's notice effective no sooner than January 1 following such notice. 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. For purposes of the four-year financial plan, it is assumed that the New York City and Westchester governmental customers will continue to be served and rates will be set on the basis of the cost to serve these loads.

Blenheim-Gilboa Customers. The Authority has a contract for the sale of 50 MW of firm capacity from the Blenheim-Gilboa plant to the Long Island Power Authority ("LIPA") which expires in April of 2015, and provides another 250 MW to the Authority's New York City governmental customers, the rates for which are reset periodically on the basis of cost, with the remainder of the plant's capacity used to meet the requirements of some of the Authority's other business and governmental customers and to provide services in the NYISO market at the projected NYISO capacity rate.

Small Clean Power Plants ("SCPPs"). To meet capacity deficiencies and ongoing local requirements in the New York City metropolitan area, which could have also adversely affected 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. The plant at the Vernon location may be retired during the forecast period pursuant to the terms of an agreement entered into at the time of construction.

For the 2014-2017 financial plan, it is assumed the installed capacity of the SCPPs is used by the Authority to meet its customers' 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 Flynn Project to LIPA pursuant to a capacity supply agreement between the Authority and LIPA, which commenced in 1994 and had an initial term of 20 years. In April 2012, LIPA executed the termination provision contained in Amendment 9 of its contract with NYPA, which becomes effective at the end of 2014. For purposes of the 2014-2017 Financial Plan, it has been assumed that the full output of the Flynn Project will be supplied through 2017 to LIPA.

Transmission Projects. The Authority owns approximately 1,400 circuit miles of high voltage transmission lines, 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 a $165.4 million transmission system revenue requirement in developing the rates for use of NYPA's transmission facilities 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 established to effect 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 annual revenue requirement via the NTAC, TSC and through existing customer contracts.

In July 2012, the Authority filed for its first requested increase in the revenue requirement with FERC since the implementation of the NYISO. As a result of the Authority's filing, FERC ordered a settlement process that resulted in an uncontested settlement providing for a new $175.5 million revenue requirement, which was approved by FERC. The increased revenue requirement is necessary to cover increased operating and maintenance expenses of NYPA's bulk transmission system, as well as to make necessary capital improvements, and is retroactive to August 1, 2012.

Hudson Transmission Project. Following a request for proposals issued by the Authority in March 2005, the Authority executed a firm transmission capacity purchase agreement with Hudson Transmission Partners, LLC ("HTP") in April 2011. HTP constructed a 345 kV underground/submarine transmission line extending from Bergen County, New Jersey to Con Edison's West 49th Street substation in midtown Manhattan. The transmission line commenced operation in June 2013, and is operating as a merchant facility.

Purchased Power Expenses

Capacity, energy and NYISO ancillary service purchases made on behalf of customers (except for those made through previously approved purchased power agreements) are assumed to be transacted at the market clearing price in the wholesale market. For purposes of developing the financial plan, projected energy rates are based on available forward price curves while the capacity rates are estimated using the NYISO demand curve formulas.

Fuel Expenses

Fossil-fuel purchases in the plan are based on expected net generation levels determined through the use of an economic dispatch model for the Authority's plants and on available forward price curves for the fuel. Fuel expenses also include the costs associated with emission credit requirements under the Regional Greenhouse Gas Initiative ('"RGGI"). The RGGI requires the Authority to buy emission credits for its fossil-fuel plants, and the Authority also purchases such credits for the contracted Astoria Generating II plant. The projections for RGGI costs are based on historical emission rates and forecasted consumption of natural gas and oil with such costs recovered either through specific customer contract pass-through provisions or from the wholesale market.

Wheeling Expenses

Wheeling (i.e., the transmission and/or delivery of power and energy to customers over the lines of a third party) expenses are based on contractual and/or tariff rates of the service provider and are recovered through pass-through provisions in customer contracts.

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 and Federal Home Loan Bank, Federal Farm Credit Bank and Federal Home Loan Mortgage Corp. were rated Aaa by Moody's Investors Services, AAA by Fitch Ratings, and AA+ by Standard & Poor's. 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, the Indian Point 3 ("IP3") and James A. FitzPatrick ("JAF") 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 and other income of $2.6 million in 2014 and $1.2 million in 2015. On a cash basis the

Authority projects to receive $20 million annually during the period 2014-2015. In addition, the Authority entered into two "value sharing agreements" ("VSAs") with the Entergy subsidiaries whereby the Authority is entitled to receive annual payments up to a maximum of $72 million. Also, if the licenses of JAF and/or IP3 are extended, the Decommissioning Agreements provide for annual payments of $2.5 million per plant each year beyond the expiration dates. JAF's license has been extended past the original date of October 17, 2014 by twenty years, and beginning in 2015 the forecast includes the receipt of $2.5 million in additional revenue. For purposes of the 2014-2017 Financial Plan, it has been assumed that the maximum payment of $72 million will be received for the VSA through 2014, and an additional $2.5 million will be received in 2015 for the JAF license extension, increasing to $5 million starting in 2016 and every year thereafter.

Operations and Maintenance Expenses

NYPA's preliminary O&M plan by cost element for 2014-2017 is as follows:

Operations and Maintenance Forecast by Cost Element

(in Millions)

	2014	2015	2016	2017
Payroll				
Regular Pay	$ 150.2	$ 154.9	$ 159.8	$ 164.8
Overtime	$ 8.9	$ 9.2	$ 9.5	$ 9.8
Other Payroll	$ 2.8	$ 2.9	$ 3.0	$ 3.1
Total Payroll	**$ 161.9**	**$ 167.0**	**$ 172.3**	**$ 177.8**
Benefits				
Employee Benefits	$ 33.3	$ 34.5	$ 35.7	$ 37.0
Pension	$ 32.2	$ 33.0	$ 34.0	$ 35.0
OPEB	$ 11.0	$ 11.9	$ 12.8	$ 13.7
FICA	$ 12.0	$ 12.4	$ 12.9	$ 13.3
Total Benefits	**$ 88.5**	**$ 91.8**	**$ 95.4**	**$ 99.0**
Materials/Supplies	**$ 17.5**	**$ 18.2**	**$ 18.8**	**$ 19.5**
Fees	**$ 9.2**	**$ 9.5**	**$ 9.9**	**$ 10.2**
Office & Station	**$ 15.1**	**$ 15.6**	**$ 16.1**	**$ 16.7**
Maintenance Repair & Service Contracts	**$ 112.5**	**$ 126.6**	**$ 116.7**	**$ 127.6**
Consultants	**$ 17.3**	**$ 17.9**	**$ 18.5**	**$ 19.2**
Charges to:				
Outside Agencies	$ (6.8)	$ (6.9)	$ (7.0)	$ (7.2)
Capital Programs	$ (44.7)	$ (47.1)	$ (48.8)	$ (50.5)
Total Charges	**$ (51.4)**	**$ (54.0)**	**$ (55.8)**	**$ (57.7)**
Research & Development	**$ 8.8**	**$ 9.1**	**$ 9.4**	**$ 9.7**
Subtotal	**$ 379.3**	**$ 401.7**	**$ 401.2**	**$ 421.9**
Astoria Energy II	**$ 27.0**	**$ 27.5**	**$ 28.0**	**$ 28.5**
TOTAL NYPA O&M	**$ 406.3**	**$ 429.2**	**$ 429.2**	**$ 450.4**

Depreciation and Amortization Expenses

Depreciation of capital assets is generally provided on a straight-line basis over the estimated lives of the various classes of capital assets. The related depreciation provisions at December 31, 2012 expressed as a percentage of average depreciable capital assets was 2.8%.

Other Expenses

The Other Expenses category largely reflects various accruals (e.g., Other Post-Employment Benefit prior service obligations) and other miscellaneous expenses for which Trustee authorization is sought on a case-by-case basis.

(d) Self – Assessment of Budgetary Risks

Regulatory Risks

In 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. In 2010, the FWS was again petitioned to list the American eel and in September 2011 the FWS decided to undertake a status review to determine whether such a listing is warranted. 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 by 10% by 2018. Central to this initiative is the implementation of a multi-state cap-and-trade program with a market-based emissions trading system. The program requires electricity generators to hold carbon dioxide allowances in a compliance account in a quantity that matches their total emissions of carbon dioxide for the compliance period. The Authority's Flynn plant, SCPPs, 500-MW Plant, and the contracted Astoria Energy II plant are subject to the RGGI requirements. NYPA has participated in program auctions commencing in September 2008 and expects to recover its RGGI costs through its power sales revenues. NYPA is monitoring potential federal programs that are under discussion and debate for their potential impact on RGGI in the future.

There is concern by individuals, the scientific community and Congress regarding possible environmental damage resulting from the use of fossil fuels. The Authority's 500-MW Plant, Flynn plant and its SCPPs use fossil fuels as does the Astoria Energy II plant. Congressional and regulatory action for the increased regulation of air, water and contaminants is periodically considered, and there are a number of pending legislative and regulatory proposals which may affect the electric utility industry including the Authority. The impact on the Authority's operations of any such proposals is not presently predictable or quantifiable.

During 2011, the Environmental Protection Agency ("EPA") issued a series of rulings to establish the Cross-State Air Pollution Rule ("CSAPR"). The CSAPR establishes emission allowance budgets for sulfur dioxide and nitrogen oxides for eastern states, including New York, and requires power plants in those states to hold allowances to cover their emissions. In December 2011, the U.S. Court of Appeals (D.C. Circuit) granted a stay of the CSAPR pending the court's resolution of numerous petitions for review and in the interim, the court indicated that the EPA should continue to enforce its Clean Air Interstate Rule ("CAIR") which the CSAPR was designed to replace. By decision issued August 21, 2012, the court vacated the CSAPR; directed the EPA to develop a replacement rule; and directed that the CAIR continue to be enforced pending the development of the replacement rule. On October 5, 2012, the EPA filed a petition with the D.C. Circuit seeking rehearing of the court's decision regarding the CSAPR. On June 24, 2013, the U.S. Supreme Court granted the EPA's request to review the D.C. Circuit's decision to invalidate EPA's CSAPR. The U.S. Supreme Court has scheduled oral arguments in this matter for December 10, 2013. CAIR remains in effect. On September 20, 2013, the EPA proposed stringent new carbon pollution standards, affecting new large and small gas fired and coal fired generating facilities. No proposals were put forth with respect to existing facilities. The Authority has been able to operate its fossil plants and the Astoria Energy II plant within the allocated allowances under the CAIR and in the event the CSAPR as promulgated by the EPA ultimately is implemented, the Authority anticipates that operation of its fossil plants and the Astoria Energy II plant would not be impacted.

The Power Authority's Board of Trustees has general broad rate setting authority for its power sales agreements with customers. With respect recovery of its transmission system costs, NYPA agreed to recovery via the terms and provisions of the NYISO Open Access Transmission Tariff. These terms and provisions call for the Authority to file its transmission revenue requirements with the Federal Energy Regulatory Commission ("FERC") for review and approval. In an Order issued January 27, 1999, FERC approved the use of the Authority's initial transmission system revenue requirement. In July 2012, the Authority filed for its first requested increase in the revenue requirement with

FERC since the implementation of the NYISO. This request, which resulted in the filing of an uncontested settlement agreement for an increased revenue requirement, was approved by FERC.

Currently, there are three capacity zones in New York State: New York City, Long Island, and Rest-of-State. Based upon a June 2009 NYISO order, FERC accepted the NYISO's proposal to work with stakeholders to address upstate to downstate congestion issues affecting the New York capacity market which might warrant the creation of additional capacity zone(s). The result of those efforts is a new Lower Hudson Valley Capacity Zone, which has been mandated by FERC to be implemented by May 2014. The Approved Budget and Financial Plan reflects an estimate of the impact of the Lower Hudson Valley capacity zone.

Legislative and Political Risks

A series of legislative enactments have called for the Authority 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 subsequent years, has authorized the Authority, "as deemed feasible and advisable by the trustees", to make a series of "voluntary contributions" into the State treasury in connection with the Power for Jobs Program and for other purposes as well. Beginning December 2002 through October 2013, the Authority has made voluntary contributions to the State of $475 million in connection with the Power for Jobs Program and an additional $492 million unrelated to the Power for Jobs Program. The Power for Jobs Program was replaced by the RNYPP beginning July 1, 2012 with the enacting legislation authorizing transitional electricity discounts through June 30, 2016, for those Power for Jobs and ECSB customers applying for but not receiving RNYPP allocations. For the forecast period, the Authority estimates these transitional payments at $13.5 million.

For planning purposes, the 2014-2017 financial plan assumes that the Authority makes a voluntary contribution to the State of $90 million in 2014, and $65 million in each year thereafter. Approval of any such payments to the State's general fund and/or to subsidize customers requires legislation authorizing such payments and is conditional upon the Trustees' determination that such payments are "feasible and advisable". 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 Authority's Bond Resolution, other legal requirements, and all the facts and circumstances known to them at the time of the decision. On May 24, 2011, the Authority's Trustees adopted a policy statement which relates to, among other things, voluntary contributions, transfers, or other payments to the State by the Authority after that date. The policy statement provides that in deciding whether to make contributions, transfers, or payments, the Authority shall use as a reference the maintenance of a debt service coverage ratio of at least 2.0, in addition to making other determinations required by the General Resolution.

In addition to the authorization for the voluntary contributions, the Authority was authorized by February 2009 budget legislation to make certain temporary asset transfers to the State of funds in reserves. Pursuant to the terms of a Memorandum of Understanding dated February 2009 ("MOU") between the State, acting by and through the Director of the Budget of the State, and the Authority, the Authority agreed to transfer $215 million associated with its Spent Nuclear Fuel Reserves by the end of State Fiscal Year 2008-2009. The Spent Nuclear Fuel Reserves are funds that have been set aside for payment to the federal government sometime in the future when the federal government accepts the spent nuclear fuel for permanent storage. The MOU provides for the return of these funds to the Authority, subject to appropriation by the State Legislature and other conditions, at the earlier of the Authority's payment obligation related to the transfer and disposal of the spent nuclear fuel or September 30, 2017. Further, the MOU provided for the Authority to transfer during State Fiscal Year 2009-2010 approximately $103 million of funds set aside for future construction projects, which amounts would be returned to the Authority, subject to appropriation by the State Legislature and other conditions, at the earlier of when required for operating, capital or debt service obligations of the Authority or September 30, 2014. Both temporary transfers were authorized by the Authority's Trustees and made in 2009. The financial plan reflects the return of this $103 million in the 2014-2016 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 receive greater voluntary contributions and which attempt to constrain the discretion of or bypass the Authority's Trustees could negatively affect net income and possibly harm the Authority's bond rating.

Hydroelectric Generation Risk

For the 2014-2017 financial planning timeframe, the Authority's net income is 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 Project). Long-term generation levels at the two hydroelectric projects are about 20.2 terawatt-hours ("TWH") annually. The Authority's hydroelectric generation forecast is 20.0 TWH in 2014, 20.2 TWH in 2015, 20.3 TWH in 2016 and, 19.9 TWH in 2017. However, these generation amounts are forecasted values, and hydrological conditions can vary considerably from year to year.

The Authority conducted high and low hydroelectric generation sensitivities for 2014-2017 that estimated the potential net income that could result over a reasonable range of hydroelectric generation occurrences. The effects on estimated net income, assuming all other factors remain unchanged, were as follows:

	Low Generation		High Generation	
	Net Hydroelectric Generation	NYPA Net Income Change *(in Millions)*	Net Hydroelectric Generation	NYPA Net Income Change *(in Millions)*
2014	18.8 TWH	($40.3)	21.1 TWH	$41.1
2015	19.0 TWH	($40.1)	21.4 TWH	$41.2
2016	19.1 TWH	($41.7)	21.4 TWH	$43.2
2017	18.7 TWH	($43.5)	21.0 TWH	$43.8

Electric Price and Fuel Risk

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

On July 21, 2010, President Obama signed into law the Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank Act"). The Dodd-Frank Act addresses swaps and forward energy transactions and dependent upon the resolution of numerous issues, including, although unlikely, whether and to what extent NYPA's transactions are required to be cleared through clearinghouses and/or traded on exchanges with accompanying collateral and/or margin requirements; and whether and to what extent public power entities such as the Authority are exempted from these requirements, the impact on the Authority's liquidity and/or future risk mitigation activities could be significant.

Litigation Risk

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

The parties agreed to a land claim settlement, dated February 1, 2005, which if implemented would include, among other things, the payment by the Authority of $2 million a year for 35 years to the tribal plaintiffs, the provision of up to 9 MW of low cost Authority power for use on the reservation, the transfer of two Authority-owned islands; Long Sault and Croil, and a 215 acre parcel on Massena Point to the tribal plaintiffs, and the tribal plaintiffs withdrawing any judicial challenges to the Authority's new license, as well as any claims to annual fees from the St. Lawrence FDR project.

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

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

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

In the interim, the State and the St. Regis plaintiffs have been discussing a settlement of the land claims, as well as other issues between the State and the tribes. The discussions are ongoing.

Tropical Storm Irene. In late November 2011, approximately 14 notices of claim were received by the Authority involving the heavy rains and widespread flooding resulting from Tropical Storm Irene's passage through the Northeast in late August 2011. The notices of claim essentially claim that property and other damages allegedly incurred by certain landowners were the result of the Authority's negligence in its operations at its Blenheim-Gilboa Pumped Storage Power Project located on the Schoharie Creek in Schoharie County, New York. In addition, in mid-January 2012, the County of Schoharie, eight towns and villages therein, and one school district ("Municipalities") filed a motion in Schoharie County Supreme Court requesting leave to serve late notices of claim on the Authority. In August 2012, Municipalities initiated a lawsuit in Schoharie County Supreme Court against the Authority involving the heavy rains and widespread flooding resulting from Tropical Storm Irene's passage through the Northeast in August 2011. The Municipalities essentially allege that they sustained property damage and lost tax revenues resulting from lowered assessed valuation of taxable real property due to the Authority's negligence in its operations at the Blenheim-Gilboa pumped-storage hydroelectric facility located on the Schoharie Creek in Schoharie County, New York. The Municipalities complaint seeks judgment "in an amount to be determined at trial with respect to each [of the ten plaintiffs] in the sum of at least $5,000,000, plus punitive damages in the sum of at least $5,000,000" as well as attorney fees. In February 2012, a private landowner filed a similar motion and lawsuit in such court on behalf of a park campground and makes nearly the same allegations with the plaintiff seeking at least $5 million in damages, at least $5 million in punitive damages, as well as attorney's fees. In November 2012, the Authority formally responded to the two lawsuits.

In December 2012, the Authority was served with a third lawsuit by five plaintiffs arising out of Tropical Storm Irene and the Authority's operation of its Blenheim-Gilboa Pumped Storage Project. Plaintiffs previously filed timely notices of claim. The five plaintiffs include three individual landowners and two corporations. The three individual landowners own properties located in Schoharie, NY and Central Bridge, NY and are claiming damages in the aggregate amount of $1.55 million. The two corporations also own properties in Schoharie, NY and are claiming damages in the aggregate amount of $1.05 million.

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

Strategic Initiatives

The Authority is considering several projects, which are in varying stages of review and/or development. These initiatives include, but are not limited to: participation in a joint venture project (NY Transco) amongst the existing transmission owners in the State of New York for the purpose of building out new transmission infrastructure in the State as well as replacing and/or upgrading aging transmission assets; participation in a Con Edison-led initiative to devise and execute on the Indian Point Contingency Plan which contemplates more robust transmission and generating assets in response to a possible closure of the Indian Point nuclear facilities; and an off-shore wind generating facility in the Atlantic Ocean near Long Island. Contractual and regulatory arrangements, if any, for the Authority to undertake these initiatives or for customers to take the related power are still to be determined. As a result, the financial plan does not reflect any costs or revenues with respect to these initiatives except for certain study-related expenses.

(e) Revised Forecast of 2013 Budget

(in Millions)

	Original Budget 2013	Forecast 2013	Variance Better/(Worse) 2013
Operating Revenues:			
Customer Revenues	$2,119.6	$2,084.0	($35.6)
NYISO Market Revenues	$678.6	$910.6	$232.1
Total Operating Revenues	$2,798.1	$2,994.7	$196.5
Operating Expenses:			
Purchased Power	$773.8	$870.7	($96.8)
Fuel oil and gas	$322.9	$329.7	($6.8)
Wheeling Expenses	$582.9	$594.6	($11.6)
O&M Expenses	$413.4	$421.2	($7.7)
Other Expenses	$201.1	$192.1	$9.0
Depreciation and Amortization	$227.8	$228.0	($0.2)
Total Operating Expenses	$2,522.0	$2,636.2	($114.2)
NET OPERATING REVENUES	**$276.2**	**$358.5**	**$82.3**
Other Income:			
Investment Income	$27.7	$14.8	($12.8)
Other Income	$76.6	$75.9	($0.7)
Total Other Income	**$104.2**	**$90.7**	**($13.5)**
Non-Operating Expenses			
Interest & Other Expenses	$185.0	$180.8	$4.2
Contributions to State	$65.0	$65.0	$0.0
Total Non-Operating Expense	**$250.0**	**$245.8**	**$4.2**
NET INCOME	**$130.4**	**$203.4**	**$73.0**

(f) Reconciliation of 2013 Budget and 2013 Revised Forecast

The 2013 year-end net income projection is $203.4 million, which is $73.0 million above the budget. The primary drivers of this variance are increased capacity prices and higher than budgeted energy production at the Niagara and St. Lawrence hydroelectric facilities. An increase in market-based capacity prices relative to budget is being driven by the retirement of a 500 MW coal facility along and an increase in the Locational Capacity Requirement for the New York City and Long Island load pockets. In addition, increased river flows due to higher than expected rainfall has resulted in an approximate 5% increase in hydroelectric energy production. These factors are driving the variance in NYISO market revenues and purchased power.

On the expense side, the mark-to-market value of the Authority's investment income portfolio has declined compared to the budget due to higher interest rates.

(g) Statement of 2012 Financial Performance

New York Power Authority
Net Income - Actual vs. Budgeted
For the Year ended December 31, 2012
(in millions)

	Actual	Budget	Variance Favorable/ (Unfavorable)
Operating Revenues			
Customer	$1,994	$2,173	($179)
NYISO Market Revenues	$679	$696	($17)
Total Operating Revenues	**$2,673**	**$2,869**	**($196)**
Operating Expenses			
Purchased Power	$743	$826	$82
Fuel Consumed - Oil & Gas	$228	$330	$102
Wheeling	$598	$610	$13
Operations & Maintenance	$369	$371	$2
Other Expenses	$201	$194	($6)
Depreciation & Amortization	$226	$222	($4)
Allocation to Capital	($11)	($12)	($1)
Total Operating Expenses	**$2,354**	**$2,541**	**$187**
Operating Income	**$319**	**$328**	**($9)**
Nonoperating Revenues and Expenses			
Nonoperating Revenues			
Investment Income	$36	$31	$4
Other income	$84	$87	($3)
Total Nonoperating Revenues	**$120**	**$118**	**$1**
Nonoperating Expenses			
Contribution to New York State	$85	$85	$0
Interest and Other Expenses	$179	$195	$17
Total Nonoperating Expenses	**$264**	**$280**	**$17**
Nonoperating Income (Loss)	**($144)**	**($162)**	**$18**
Net Income	**$175**	**$166**	**$9**

Net income for the year ended December 31, 2012 was $175 million, which was $9 million above the budget of $166 million. Lower customer revenue resulting from the pass-through of lower purchased power costs, due largely to lower fuel and electric prices, had little effect on net income. The positive variance was mainly attributable to lower interest costs.

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

	2014 Request	2015	2016	2017
Headquarters	629	625	621	617
Power Generation	930	916	902	888
Transmission	169	167	165	163
R&D	17	17	17	17
TOTAL	**1,745**	**1,725**	**1,705**	**1,685**

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

As the Authority is projecting positive net income for the 2014-2017 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

New York Power Authority
Projected Debt Outstanding (FYE)
(in thousands)

	2014	2015	2016	2017
Revenue Bonds	$940,900	$887,815	$832,105	$1,008,900
Adjustable Rate Tender Notes	$96,410	$86,115	$75,000	$58,355
Subordinated Note (2012)	$23,560	$22,780	$21,995	$21,200
Commercial Paper Notes	$594,287	$677,279	$751,143	$596,561
Grand Total	$1,655,157	$1,673,989	$1,680,243	$1,685,016

New York Power Authority
Debt Service as Percentage of Pledged Revenues (Accrual Basis)
(Debt Service in thousands)

	2014		2015		2016		2017	
	Debt Service	**% of Rev.**	**Debt Service**	**% of Rev.**	**Debt Service**	**% of Rev.**	**Debt Service**	**% of Rev.**
Revenue Bonds	$102,798	3.40%	$102,760	3.51%	$103,386	3.38%	$108,696	3.47%
Adjustable Rate Tender Notes	$11,528	0.38%	$12,893	0.44%	$17,482	0.57%	$19,152	0.61%
Subordinated Debt	$1,505	0.05%	$1,505	0.05%	$1,504	0.05%	$1,505	0.05%
Commercial Paper Notes	$32,466	1.07%	$18,564	0.63%	$21,873	0.72%	$27,321	0.87%
Grand Total Debt Service	**$148,297**	**4.90%**	**$135,721**	**4.64%**	**$144,245**	**4.72%**	**$156,675**	**5.00%**

New York Power Authority
Planned Use of Debt Issuances
(in thousands)

TYPE	**Amount**	**Assumed Interest Rate**	**Project / Description**
Period January 1, 2014 – December 31, 2014			
Tax Exempt Commercial Paper	$107,107	0.25%	Energy Services Program
Taxable Commercial Paper	$3,684	0.50%	Energy Services Program
Taxable Commercial Paper	$51,283	0.50%	Robert Moses Niagara Power Plant / Transmission
Total Issued 2014	$162,074		
Period January 1, 2015 – December 31, 2015			
Tax Exempt Commercial Paper	$139,286	0.50%	Energy Services Program
Tax Exempt Commercial Paper	$82	0.50%	Robert Moses Niagara Power Plant
Taxable Commercial Paper	$4,790	0.75%	Energy Services Program
Taxable Commercial Paper	$54,636	0.75%	Robert Moses Niagara Power Plant / Transmission
Total Issued 2015	$198,794		

Period January 1, 2016 – December 31, 2016			
Tax Exempt Commercial Paper	$108,759	0.75%	Energy Services Program
Tax Exempt Commercial Paper	$141	0.75%	Robert Moses Niagara Power Plant
Taxable Commercial Paper	$3,740	1.00%	Energy Services Program
Taxable Commercial Paper	$61,241	1.00%	Robert Moses Niagara Power Plant / Transmission
Total Issued 2016	$173,881		

Period January 1, 2017 – December 31, 2017			
Tax Exempt Commercial Paper	$108,759	1.00%	Energy Services Program
Taxable Commercial Paper	$3,741	1.25%	Energy Services Program
Tax-Exempt Fixed Rate Bonds	$1,886	5.00%	Refund Commercial Paper Notes issued for Robert Moses Niagara Power Project *
Taxable Fixed Rate Bonds	$238,264	7.25%	Refund Commercial Paper Notes issued for Robert Moses Niagara Power Project and Transmission *
Total Issued 2017	$352,650		

* Does not include Commercial Paper issued in 2017 for the Robert Moses Niagara Power Project and Transmission that was refunded with Fixed Rate Bonds in 2017.
Taxable amount $71,105 and Tax Exempt $1,663

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.

Scheduled Debt Service Payments (Accrual Basis)

Outstanding (Issued) Debt

	Principal	Interest	Total
2014	$88,661,431	$59,363,853	$148,025,284
2015	$76,264,319	$57,937,926	$134,202,245
2016	$82,278,139	$58,240,819	$140,518,958
2017	$88,349,439	$45,567,585	$133,917,024

Proposed Debt

	Principal	Interest	Total
2014	$0	$271,301	$271,301
2015	$0	$1,519,055	$1,519,055
2016	$0	$3,725,773	$3,725,773
2017	$2,137,909	$20,619,853	$22,757,761

Total Debt

	Principal	Interest	Total
2014	$88,661,431	$59,635,154	$148,296,585
2015	$76,264,319	$59,456,981	$135,721,300
2016	$82,278,139	$61,966,591	$144,244,730
2017	$90,487,348	$66,187,437	$156,674,785

(m) Capital Investments and Sources of Funding

The Authority currently estimates that it will expend approximately $2 billion for various capital improvements over the financial period 2014-2017. The Authority anticipates that these expenditures will be funded using existing construction funds, internally-generated funds and additional borrowings. Such additional borrowings are expected to be accomplished through the issuance of additional commercial paper notes and/or the issuance of long-term fixed rate debt. Projected capital requirements during this period include:

(In thousands)	2014	2015	2016	2017
Transmission Life Extension & Modernization (LEM)	$ 3,387	$ 37,005	$ 33,005	$ 33,005
St. Lawrence Breaker and Relay Replacement	$ 14,054	$ 19,179	$ 19,504	$ 14,478
Marcy South Series Compensation	$ 10,223	$ 46,943	$ 8,891	$ 2,186
Lewiston Pump Generation Plant LEM	$ 59,774	$ 47,692	$ 55,427	$ 50,416
SCPP Black Start (Hellgate, Harlem River)	$ 4,834	$ 2,788	$ 962	$ -
Blenheim Gilboa Relicensing	$ 3,164	$ 5,032	$ 5,473	$ 5,766
St. Lawrence Headgate Automation	$ 466	$ 3,550	$ 5,423	$ 5,637
St. Lawrence Generator Step-Up Transformer Replacement	$ 6,840	$ 5,960	$ 6,360	$ 6,020
Small Hydro LEM (Crescent Units 3 & 4, Vischer Ferry Units 3 & 4)	$ 4,646	$ 765	$ -	$ -
Total Energy Services	$ 222,323	$ 288,153	$ 225,000	$ 225,000
Other	$ 171,895	$ 107,002	$ 83,358	$ 111,979
GRAND TOTAL	**$ 501,606**	**$ 564,067**	**$ 443,402**	**$ 454,487**

2014-2017 Capital Investments by Function
(in millions)