2002
Financial Report

MANAGEMENT'S DISCUSSION AND ANALYSIS

Operating Environment

The Authority is a provider of low-cost power and energy in New York State (State). To maintain its position in a changing environment, the Authority has undertaken and continues to carry out a multifaceted program, including: (a) the sale of its two nuclear plants to eliminate the risks associated with their operation; (b) the upgrade and relicensing of the Niagara and St. Lawrence-FDR projects; (c) implementing modifications to existing power sales agreements with substantially all of its Southeastern New York (SENY) governmental customers, the result of which is that such customers have agreed to purchase all their power and energy requirements (except for certain termination and limited customer load transfer rights) from the Authority until at least January 1, 2006; (d) implementing modifications to existing power sales arrangements with 82 business customers, resulting in the extension of the terms of such arrangements to either 2005 or 2007; (e) construction of a 500-megawatt (MW) combined-cycle electric generating plant at the Authority's Poletti plant site; (f) the reduction of the Authority's outstanding debt by $900 million from 1995-2002; and (g) the appointment of a new officer responsible for energy and fuel risk management and control.

The Authority's financial performance goal is to produce revenues sufficient to meet its ongoing operating requirements, to meet its indenture requirements (including debt service) and maintain adequate liquidity which can be called upon in the event of emergency repairs and replacements, to meet competitive challenges or to augment revenues in the event of an extended outage at any of its facilities.

Following is summary financial information for 2002 and 2001:

Summary Balance Sheet

(in Millions)

	2002	2001	Increase
Capital Assets	**$2,824**	$2,807	$ 17
Other Assets	**2,913**	2,451	462
Total Assets	**$5,737**	$5,258	$ 479
Long-term Liabilities	**$3,370**	$2,985	$ 385
Other Liabilities	**684**	674	10
Total Liabilities	**4,054**	3,659	395
Equity			
Invested in capital assets, net of related debt	**1,408**	1,392	16
Restricted	**173**	131	42
Unrestricted	**102**	76	26
Total Equity	**1,683**	1,599	84
Total Liabilities and Equity	**$5,737**	$5,258	$479

Summary Statement of Revenues, Expenses, and Changes in Equity

(in Millions)

	2002	2001	Variance Favorable (Unfavorable)
Operating Revenues	**$2,061**	$2,016	$ 45
Operating Expenses			
Fuel	**196**	188	(8)
Purchased power	**953**	1,120	167
Operations & Maintenance	**332**	213	(119)
Wheeling	**273**	272	(1)
Depreciation	**176**	136	(40)
Asset impairment charge	**63**	62	(1)
	1,993	1,991	(2)
Net Operating Revenues	**68**	25	43
Investment and other income	**94**	91	3
Interest expense	**78**	98	20
Net Revenues	**84**	18	66
Equity - Beginning	**1,599**	1,581	18
Equity - Ending	**$1,683**	$1,599	$ 84

The following summarizes the Authority's financial performance for the year:

Summary

The Authority had net revenues of $84 million in the year 2002, compared to $18 million in 2001. This $66 million increase results from increases of $43 million in net operating revenues and $3 million in investment and other income; and a $20 million decrease in interest expense.

Higher net operating revenues were primarily attributable to higher revenues and lower purchased power costs partially offset by higher Operations and Maintenance (O&M) expenses and depreciation. Higher operating revenues resulted primarily from increased sales of the output from the Authority's hydroelectric generating plants and PowerNow! Projects. Lower purchased power costs during 2002 were primarily attributable to higher hydroelectric net generation. Higher depreciation costs reflected a full year of accelerated depreciation on the PowerNow! Projects versus a partial year of depreciation in 2001. O&M costs for 2002 included the cost of a voluntary contribution to the State of $67 million for lost gross receipt tax revenues related to the statutorily enacted Power for Jobs program and a provision of $30 million for accrued retiree health and insurance benefits. Interest costs were less in 2002 primarily due to lower rates on variable rate debt.

The Authority has continued to prudently manage its capital structure. During 2002, long-term debt increased by $366 million or 19% primarily due to the issuance of $532 million in bonds during October 2002 to finance the construction of a 500-MW electric generating plant at its Poletti plant site in New York City. However, during the period 1995 to 2002, the Authority reduced its debt/equity ratio from 2.52 to 1.56.

Operating Revenues

Operating revenues of $2,061 million in 2002 were $45 million or 2% greater than the $2,016 million in 2001 and $27 million or 1% greater than the previous record high of $2,034 million in 2000. During 2002, additional revenues were generated by the PowerNow! and hydroelectric projects. Revenues from energy sales to the New York Independent System Operator (ISO) were greater due to higher volumes and higher market prices.

Fuel

Fuel costs increased by $8 million (4%), to $196 million in 2002 from $188 million in 2001, primarily due to higher fossil-fuel plant generation. The increase was mitigated by lower prices for oil and gas consumed.

Purchased Power

Purchased power costs decreased by $167 million (15%), to $953 million in 2002 from $1,120 million in 2001 primarily reflecting decreased power purchases, ancillary service charges and transmission congestion charges from the ISO. Due to increased hydroelectric production, less energy was purchased to meet the requirements of the Authority's customers. Ancillary service costs were lower in 2002 due to a reduction in local reliability charges incurred by the Authority in the SENY region.

Operations and Maintenance

O&M expenses increased to $332 million in 2002 from $213 million in 2001, primarily due to the cost of a voluntary contribution to the State ($67 million) for lost gross receipt tax revenues related to the statutorily enacted Power for Jobs program and a provision of $30 million for accrued retiree health and insurance benefits.

The Authority is authorized under legislation to make voluntary contributions (up to $125 million for the duration of the Power for Jobs (P4J) program) to the State for gross receipt tax revenues lost as a result of the P4J program. The intent of the legislation is for the contributions to offset revenue lost due to tax credits taken by the State's investor-owned utilities as part of the P4J program. The Authority's staff intends to recommend to the Authority's Trustees that a total contribution of $125 million be made pursuant to this legislation, all such contributions to be made only if and to the extent that monies are available to the Authority for such purpose and are not required for Authority purposes.

Effective January 1, 2002, the Authority implemented accrual accounting for its Other Postemployment Benefits (OPEB) obligations, based on the approach provided in GAS No. 27, "Accounting for Pensions by State and Local Government Employers." The Authority previously recorded such retiree benefits as expenses when paid. The basic assumption supporting the accrual approach is that employees earn their retirement benefits during their working lives. Utilizing this approach, the Authority's estimated obligation for future retiree health and insurance benefits as of December 31, 2001 was $271 million based on a study by actuarial consultants. The current year expense of $30 million includes the amortization of the prior year liability over 20 years and an amount attributed to current year employee service.

Depreciation and Asset Impairment Charge

To meet capacity deficiencies and ongoing local reliability requirements in the New York City metropolitan area, the Authority installed eleven 44-MW natural-gas-fueled combustion-turbine electric generation units at various sites in New York City and in the service territory of the Long Island Power Authority (LIPA) during the summer of 2001.

Financial Accounting Standards (FAS) No. 144 " Accounting for the Impairment or Disposal of Long Lived Assets" superseded FAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of," but still retains FAS No. 121's framework for long-lived assets to be disposed of by sale. FAS No. 144 requires long-lived and certain other assets to be reviewed for impairment if the carrying amount of an asset may not be recoverable. During 2002 and 2001, the Authority performed asset impairment analyses on these units and recognized charges of $63 million and $62 million, respectively. (See Note B (6) to the financial statements for additional information.)

Depreciation expense for the year 2002 was higher than the prior year due to the inclusion of depreciation charges related to the PowerNow! Projects for a full year versus a partial year in 2001. (See Note B(4) to the financial statements for additional information.)

Non-Operating Income

Non-operating income increased by $23 million, including a decrease of $20 million in interest expense and an increase of $3 million in investment and other income. The decrease in interest expense was primarily attributable to lower interest rates. Higher investment income resulted from higher mark-to-market adjustments on the Authority's investment portfolio and an increase in the size of the portfolio towards the end of the year; offset by lower rates (investment yields).

Cash Flows

During 2002, the Authority generated cash flows of $323 million from operations. Cash flows from operating activities for the year 2002 were $251 million higher than 2001 primarily due to an increase in production at the hydroelectric facilities and a full year of operation at the PowerNow! Projects.

Net Generation

During 2002, the Authority's total net generation increased by 2.6 billion kilowatt-hours (KWh) (12%) to 24.2 billion KWh. The increase was primarily attributable to an increase in production at the Authority's Niagara and St. Lawrence-FDR projects. At the fossil-fuel units, net generation was 15% higher than the previous year. Increased generation at the PowerNow! and Flynn Projects was partially offset by lower production at the Poletti Project.

Below average water levels in the Great Lakes beginning in the spring of 1999 have reduced the amount of water available to generate power at the Authority's Niagara and St. Lawrence-FDR Projects in 1999, 2000 and 2001 and required curtailment of electricity supplied to the Authority's customers from these Projects. Flow conditions improved somewhat in 2002. Hydroelectric generation was below average in 2002 and is expected to be below average in 2003.

Capital Asset and Long-term Debt Activity

Estimated costs to be incurred on outstanding contracts in connection with the Authority's construction programs aggregated approximately $375 million at December 31, 2002.

In connection with the licensing of its planned 500-MW electric generating project, the Authority has entered into an agreement which will require the closure of its existing Poletti Project by no later than 2010 and possibly as early as 2008. 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 such Project each year.

Risk Management

In April 2002, the Authority created the position of Vice President, Chief Risk Officer - Energy Risk Assessment and Control (CRO). The CRO reports to the President and Chief Executive 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 ISO energy markets.

The objective of the Authority's risk management program is to manage the impact of interest rate, energy price and fuel cost changes on its earnings and cash flows. To achieve these objectives, the Authority's trustees have authorized the use of various interest rate, energy and fuel hedging instruments.

Capital Structure

(In Millions)

	2002	2001
Long-term debt		
Senior		
Revenue bonds	**$1,265**	$ 1,041
Adjustable rate tender notes	**172**	177
Subordinated		
Subordinate revenue bonds	**438**	504
Commercial paper	**451**	238
Total long-term debt	**2,326**	1,960
Equity	**1,683**	1,599
Total Capitalization	**$4,009**	$3,559

Total long-term debt, net of current maturities, increased by $366 million, primarily due to: the issuance of $532 million Series 2002 A Revenue Bonds, which will be used to finance the construction of the 500-MW electric generating plant at the Authority's Poletti plant site in New York City; early extinguishments of debt; and scheduled maturities. Total Debt to Equity as of December 31, 2002, increased to 1.56 to 1 from 1.43 to 1 as of December 31, 2001. The December 31, 2001 ratio was the lowest Total Debt to Equity ratio since the Authority implemented proprietary accounting in 1982.

Debt Ratings

	Moody's	Standard & Poor's	Fitch
Long-term debt	Aa2	AA-	AA
Adjustable Rate Tender Notes	Aa2/VMIG1	AA-/A-1+	N/A
Commercial Paper	P-1	A-1	F1+
Weekly Rate Bonds and Commercial Paper Bonds	Aa3/VMIG1	A+/A-1	AA-/F1+
Auction Rate Bonds	Aaa	AAA	AAA

The Authority has a $850 million line of credit with a syndicate of banks supporting the Commercial Paper Notes, the Weekly Rate Bonds and the Commercial Paper Bonds. The line expires February 2, 2004. The Auction Rate Bonds are insured by Financial Security Assurance, Inc.

Report of Management

Management is responsible for the preparation, integrity and objectivity of the financial statements of the Power Authority of the State of New York (the Authority), as well as all other information contained in the Annual Report. The financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America and, in some cases, reflect amounts based on the best estimates and judgments of management, giving due consideration to materiality. Financial information contained in the Annual Report is consistent with the financial statements.

The Authority maintains a system of internal controls to provide reasonable assurance that transactions are executed in accordance with management's authorization, that financial statements are prepared in accordance with generally accepted accounting principles and that the assets of the Authority are properly safeguarded. The system of internal controls is documented, evaluated and tested on a continuing basis. No internal control system can provide absolute assurance that errors and irregularities will not occur due to the inherent limitations of the effectiveness of internal controls; however, management strives to maintain a balance, recognizing that the cost of such system should not exceed the benefits derived.

The Authority maintains an internal auditing program that independently assesses the effectiveness of internal controls and reports findings and recommends possible improvements to management. In addition, as part of its audit of the Authority's financial statements, PricewaterhouseCoopers LLP, independent accountants, considers internal controls in determining the nature, timing and extent of audit procedures to be applied. Management has considered the recommendations of the internal auditors and the independent accountants concerning the system of internal controls and has taken actions that it believed to be cost-effective in the circumstances to respond appropriately to these recommendations. Management believes that, as of December 31, 2002 and 2001, the Authority's system of internal controls provides reasonable assurance as to the integrity and reliability of the financial statements, the protection of assets from unauthorized use or disposition and the prevention and detection of fraudulent financial reporting. The Inspector General's responsibilities include investigating allegations of wrongdoing; monitoring compliance with the Authority's rules and regulations; and initiating reviews and investigations into areas of special concern or vulnerability.

The Authority's Board of Trustees has an Audit Committee composed of Trustees who are not employees of the Authority. The Audit Committee meets with the Authority's management, its Director of Internal Audits and its independent accountants to discuss internal controls and accounting matters, the Authority's financial statements, and the scope and results of the audit by the independent accountants and of the audit programs of the Authority's internal auditing department. The independent accountants, the Director of Internal Audits, the Inspector General and the Vice President of Ethics and Compliance have direct access to the Audit Committee.

Michael H. Urbach

Michael H. Urbach
Senior Vice President and Chief Financial Officer

Report of Independent Accountants

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

In our opinion, the accompanying balance sheets and the related statements of revenues, expenses, and changes in equity and of cash flows present fairly, in all material respects, the financial position of the Power Authority of the State of New York (the "Authority") at December 31, 2002 and 2001, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Authority's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion. As discussed in note H, the Authority changed its method of accounting for other postemployment benefits in 2002.

PricewaterhouseCoopers LLP

New York, N.Y.
February 14, 2003

BALANCE SHEETS

December 31, 2002 and 2001 (in Thousands)

Assets		**2002**	2001
Utility Plant	Electric plant in service	**$4,536,346**	$4,410,994
	Less accumulated depreciation	**1,901,503**	1,740,786
		2,634,843	2,670,208
	Construction work in progress	**314,427**	198,807
	Less allowance for asset impairment (Note B(6))	**125,000**	62,000
	Net utility plant	**2,824,270**	2,807,015
Restricted Funds	Cash	**470**	247
	Investment in securities, at fair value (Notes D,I and K)	**789,730**	767,744
		790,200	767,991
Capital Funds	Cash	**840**	596
	Investment in securities, at fair value	**459,292**	59,279
	Interest receivable on investments	**1,944**	856
		462,076	60,731
Current Assets	Cash	**378**	2,063
	Investment in securities, at fair value	**506,423**	440,761
	Interest receivable on investments	**9,177**	13,660
	Receivables-customers (net)	**181,188**	174,181
	Materials and supplies, at average cost:		
	Plant and general	**46,862**	39,205
	Fuel (Notes G and L(4))	**14,887**	18,855
	Prepayments, miscellaneous receivables and other	**122,223**	97,372
		881,138	786,097
Other Noncurrent Assets	Unamortized debt expense	**16,467**	14,838
	Deferred charges, long-term receivables and other	**309,206**	299,184
	Notes receivable-nuclear plant sale (Note K)	**453,182**	522,911
		778,855	836,933
	Total Assets	**$5,736,539**	$5,258,767

Liabilities and Capitalization			
Capitalization	Long-term debt (Notes C and E):		
	Senior		
	Revenue bonds	**$1,264,900**	$1,040,673
	Adjustable rate tender notes	**171,975**	176,490
	Subordinated		
	Subordinate revenue bonds	**438,290**	504,295
	Commercial paper	**450,889**	238,337
		2,326,054	1,959,795
	Equity		
	Invested in capital assets, net of related debt	**1,408,088**	1,391,840
	Restricted	**173,372**	131,551
	Unrestricted	**101,923**	76,433
		1,683,383	1,599,824
	Total Capitalization	**4,009,437**	3,559,619
Current Liabilities	Long-term debt due within one year	**103,334**	100,450
	Short-term debt (Note F)	**199,092**	221,599
	Accounts payable and accrued liabilities	**380,938**	351,704
		683,364	673,753
Other Noncurrent Liabilities	Liability to decommission divested nuclear facilities (Note K)	**702,501**	689,291
	Disposal of spent nuclear fuel (Note K)	**182,529**	179,437
	Deferred revenues and other	**158,708**	156,667
		1,043,738	1,025,395
Commitments and Contingencies (Note L)			
	Total Liabilities and Capitalization	**$5,736,539**	$5,258,767

The accompanying notes are an integral part of these financial statements.

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN EQUITY

Years ended December 31, 2002 and 2001 (in Thousands)

		2002	2001
Operating Revenues	Power sales	**$1,643,275**	$1,604,342
	Transmission charges	**143,484**	139,274
	Wheeling charges	**273,608**	272,405
	Total Operating Revenues	**2,060,367**	2,016,021
Operating Expenses	Operations	**286,934**	163,033
	Fuel oil and gas (Notes G and L(4))	**195,937**	187,686
	Purchased power	**952,673**	1,120,626
	Maintenance	**45,360**	49,675
	Wheeling	**273,608**	272,405
	Depreciation	**175,518**	135,690
	Asset impairment charge (Note B (6))	**63,000**	62,000
	Total Operating Expenses	**1,993,030**	1,991,115
	Net Operating Revenue	**67,337**	24,906
Other Income	Investment income (Note D)	**90,995**	88,169
	Other	**3,397**	2,787
	Total Other Income	**94,392**	90,956
Other Deductions	Interest on long-term debt	**84,069**	107,574
	Interest-other	**5,574**	8,588
	Interest capitalized	**(9,174)**	(19,192)
	Amortization of debt discount/(premium) and expense	**(2,299)**	557
	Total Other Deductions	**78,170**	97,527
	Net Revenues	**83,559**	18,335
	Equity at January 1	**1,599,824**	1,581,489
	Equity at December 31	**$1,683,383**	$1,599,824

The accompanying notes are an integral part of these financial statements.

STATEMENTS OF CASH FLOW

Years ended December 31, 2002 and 2001 (in Thousands)

		2002	2003
Cash Flows From Operating Activities	Received from customers for the sale of power, transmission and wheeling	**$ 2,060,341**	$ 1,914,442
	Paid to suppliers and employees for:		
	Operations and maintenance	**(315,690)**	(250,247)
	Purchased power	**(953,296)**	(1,118,881)
	Fuel oil and gas	**(195,937)**	(195,350)
	Wheeling of power by other utilities	**(272,809)**	(278,334)
	Net cash provided by operating activities	**322,609**	71,630
Cash Flows From Capital and Related Financing Activities	Earnings received on Capital Fund investments	**2,827**	8,391
	Sale of commercial paper	**411,930**	266,702
	Issuance of 2002 and 2001 Series A Revenue Bonds	**532,250**	191,360
	Repayment of notes	**(4,180)**	(3,870)
	Tender of 1998 B Revenue Bonds (2002 and 2001 at face value)	**(243,915)**	(231,280)
	Retirement of Bonds (2002: $168,673 and 2001: $233,965 principal amount)	**(168,725)**	(233,965)
	Repayment of commercial paper	**(199,999)**	(73,803)
	Gross additions to utility plant	**(259,482)**	(502,404)
	Interest paid, net	**(80,026)**	(95,650)
	Net cash used in capital and related financing activities	**(9,320)**	(674,519)
Cash Flows From Noncapital-Related Financing Activities	Energy conservation program payments received from participants	**51,258**	60,593
	Energy conservation program costs	**(47,579)**	(90,758)
	Sale of commercial paper	**30,000**	123,687
	Repayment of commercial paper	**(52,507)**	(115,988)
	Interest paid on commercial paper	**(6,426)**	(7,970)
	Entergy receivable	**108,120**	96,917
	POCR funds received from New York State (Note I)		1,500
	CAS funds received from New York State (Note I)	**24,366**	25,372
	Payment to New York State (Note I)		(1,500)
	Net cash provided by non-capital-related activities	**107,232**	91,853
Cash Flows From Investing Activities	Earnings received on investments	**37,361**	40,129
	Purchase of investment securities	**(9,283,385)**	(9,524,728)
	Sale of investment securities	**8,824,285**	9,997,639
	Net cash provided by/(used in) investing activities	**(421,739)**	513,040
	Net increase/(decrease) in cash	**(1,218)**	2,004
	Cash and cash equivalents, January 1	**2,906**	902
	Cash and cash equivalents, December 31	**$ 1,688**	$ 2,906
Reconciliation to Net Cash Provided by Operating Activities	Net Revenues	**$ 83,559**	$ 18,335
	Adjustments to reconcile net revenues to net cash provided by operating activities:		
	Earnings received on investments	**(37,361)**	(40,129)
	Provision for depreciation	**175,518**	135,690
	Asset impairment charge	**63,000**	62,000
	Provision for retiree health benefits	**23,100**	
	Provision for spent fuel disposal	**3,091**	7,049
	Amortization of deferred revenues	**(9,944)**	(9,870)
	Amortization of debt discount and expenses	**4,040**	6,947
	Other amortization & non-cash charges	**(63,824)**	(69,880)
	DOE decommissioning and decontamination costs charged to expense	**1,669**	1,632
	Interest paid, net	**86,452**	103,620
	Net increase in prepayments and other	**(5,950)**	(12,670)
	Net (increase)/decrease in receivables and inventory	**(7,563)**	33,899
	Net increase/(decrease) in accounts payable and accrued liabilities and other deferred credits	**6,134**	(165,612)
	Other	**688**	619
	Net cash provided by operating activities	**$ 322,609**	$ 71,630

The accompanying notes are an integral part of these financial statements.

NOTES TO FINANCIAL STATEMENTS

Note A - General

The Power Authority of the State of New York (Authority) is a corporate municipal instrumentality and political subdivision of the State of New York (State) created by the Legislature of the State by Chapter 772 of the Laws of 1931, as last amended by Chapter 226 of the Laws of 2002.

The Authority is authorized by the Power Authority Act (Act) to help provide a continuous and adequate supply of dependable electricity to the people of the State. The Authority generates, transmits and sells electricity principally at wholesale. The Authority's primary customers are municipal and rural cooperative electric systems, investor-owned utilities, high-load-factor industries and 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's trustees are appointed by the Governor of the State, with the advice and consent of the State Senate, to serve five-year terms. The Authority is a fiscally independent public corporation that does not receive State funds or tax revenues or credits. It generally finances construction of new projects through sales of bonds and notes to investors and pays related debt service with revenues from the generation and transmission of electricity. Accordingly, the financial condition of the Authority is not controlled by or dependent on the State or any political subdivision of the State. However, pursuant to the Clean Water/Clean Air Bond Act of 1996, the Authority administers a Clean Air for Schools Projects program, for which $125 million in Bond Act monies have been allocated for effectuation of such program. Under the criteria set forth in Governmental Accounting Standards Board (GASB) Statement No. 14, "The Financial Reporting Entity," as amended by GAS No. 39, "Determining Whether Certain Organizations Are Component Units," the Authority considers its relationship to the State to be that of a related organization.

Income of the Authority and properties acquired by it for its projects are exempt from taxation. However, the Authority is authorized by 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.

Note B - Accounting Policies

(1) Accounts of the Authority are maintained substantially in accordance with the Uniform System of Accounts prescribed by the Federal Energy Regulatory Commission (FERC). The Authority complies with all applicable pronouncements of the GASB. In accordance with GAS No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting," the Authority also has elected to comply with all authoritative pronouncements applicable to non-governmental entities [i.e., Financial Accounting Standards Board (FASB) statements] that do not conflict with GASB pronouncements.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(2) Effective January 1, 2002, the Authority adopted GAS No. 34, "Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments," as amended by GAS No. 37, "Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus," which establishes standards for external financial reporting. These reporting standards include a management's discussion and analysis (MD&A) section; a Balance Sheet; a Statement of Revenues, Expenses, and Changes in Equity; and a Statement of Cash Flows. It requires the classification of Equity into three components: Invested in Capital Assets, net of related debt; Restricted; and Unrestricted.

In conjunction with GAS No. 34, the Authority adopted GAS No. 38, "Certain Financial Statement Note Disclosures." GAS No. 38 modifies, establishes, and rescinds certain financial statement disclosure requirements including requiring the disclosure of debt service requirements (principal and interest) to maturity; terms by which interest payments change for variable rate debt; minimum payments related to capital and noncancelable operating leases to the end of the lease term; and gross increases and decreases in short-term debt.

(3) Utility plant is stated at original cost and consists of amounts expended for labor, materials, services and indirect costs to license, construct, acquire, complete and place in operation the projects of the Authority. Interest on amounts borrowed to finance construction of the Authority's projects is charged to the project prior to completion. Borrowed funds for a specific construction project are deposited in a capital fund account. Earnings on fund investments are held in this fund to be used for construction.

Earnings on unexpended funds are credited to the cost of the related project (construction work in progress) until completion of that project. Construction work in progress costs are reduced by revenues received for power produced (net of expenditures incurred in operating the projects) prior to the date of completion. The costs of current repairs are charged to operating expense, and renewals and betterments are capitalized. The cost of utility plant retired and the cost of removal less salvage are charged to accumulated depreciation. Effective January 1, 2003, the Authority will adopt FAS No. 143 which establishes accounting standards for the recognition and measurement of liabilities for asset retirement obligations and associated costs (see Note B(12))

(4) With the exception of the Authority's PowerNow! Projects, depreciation of plant assets is provided on a straight-line basis over the estimated useful lives of the various classes of plant, as determined by independent engineers. The Authority is providing for depreciation of the PowerNow! Projects using the double-declining balance method (DDB) based on the expectation that the revenue- earning power of those units will be greater during the earlier years of the units' lives. The Authority installed these eleven 44-MW natural-gas-fueled combustion-turbine electric generation units at various sites in New York City and in the service territory of the Long Island Power Authority (LIPA) during the Summer of 2001 to meet capacity deficiencies and to meet ongoing local reliability requirements in the New York City metropolitan area, which could have adversely affected the statewide electric pool.

(5) Net electric plant in service at December 31, 2002 and 2001, and the related depreciation provisions expressed as a percentage of average depreciable electric plant on an annual basis were:

(In Millions) Type of Plant	Net Electric Plant in Service 2002	Net Electric Plant in Service 2001	Average Depreciation Rate 2002	Average Depreciation Rate 2001
Production:				
Steam	**$ 116.7**	$ 128.8	**3.7%**	3.2%
Hydro	**826.9**	782.9	**1.7%**	1.7%
Other	**531.5**	583.3	**10.9%**	15.6%
Transmission	**964.6**	987.7	**2.9%**	3.1%
General	**195.1**	187.5	**6.1%**	5.9%
	$ 2,634.8	$ 2,670.2	**4.0%**	4.6%

Changes in Capital Assets *(In Millions)*	2002	2001
Gross utility plant, beginning balance	**$4,411.0**	$ 3,766.9
Add: Acquisitions	**144.6**	649.8
Less: Dispositions (including sales and retirements)	**19.2**	5.7
Gross utility plant, ending balance	**4,536.4**	4,411.0
Less: Accumulated depreciation	**1,901.6**	1,740.8
Less: Allowance for asset impairment (Note B(6))	**125.0**	62.0
Add: Construction work in progress	**312.5**	198.8
Net utility plant, ending balance	**$2,822.3**	$ 2,807.0

(6) Management assesses the economic value of the Authority's operating facilities on an ongoing basis in light of increasing competition in the utility industry. FAS No. 144, "Accounting for the Impairment or Disposal of Long Lived Assets," superseded FAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of," but still

retains FAS No. 121's framework for long-lived assets to be disposed of by sale. FAS No. 144 requires long-lived and certain other assets to be reviewed for impairment to determine whether the carrying amount of an asset may not be recoverable. An asset is considered impaired, and is reduced to estimated fair value, if the future undiscounted net cash flows expected to be generated by the use of the asset are insufficient to recover the carrying amount of that asset. The Authority determines fair value by estimating the net present value of future cash inflows and outflows over the life of the project.

The impairment analysis requires estimates of possible future market prices, load, competition and many other factors. The recorded impairment charge is the result of utilizing these underlying assumptions in the analysis.

During 2002 and 2001, the Authority performed asset impairment analyses on the PowerNow! Projects and recognized charges of $63 million and $62 million, respectively.

(7) Deferred revenues for 2002 and 2001 of $92.5 million and $98.3 million, respectively, represent certain billings related to the recovery of costs that have been deferred and are being amortized over the life of the applicable asset.

At December 31, 2002 and 2001, deferred charges included $57.1 million and $65.9 million, respectively, of energy-services-program costs and $11.1 million and $12.1 million, respectively, of fixed gas costs in excess of current recoveries. These deferred costs are being recovered from customers.

(8) For purposes of reporting cash flows, cash includes cash and cash equivalents and short-term investments with maturities, when purchased, of three months or less.

(9) Debt refinancing charges representing the difference between the reacquisition price and the net carrying value of the debt refinanced are amortized using the interest method over the life of the new debt or the old debt, whichever is shorter, in accordance with GAS No. 23, "Accounting and Financial Reporting for Refundings of Debt Reported by Proprietary Activities."

(10) Revenues are recorded when billed. Customers' meters are read, and bills are rendered, monthly. Wheeling charges are for costs incurred for the transmission of power over transmission lines owned by other utilities. Sales and purchases of power between the Authority's facilities are eliminated from revenues and operating expenses. Energy costs are charged to expense as incurred. Sales to three Southeastern New York (SENY) governmental customers and three investor-owned utilities operating in the State accounted for approximately 70 and 68 percent of the Authority's operating revenues in 2002 and 2001, respectively. The aforementioned SENY governmental customers have entered into long-term contracts with the Authority through at least January 1, 2006 [see Note L(2)].

(11) The Authority uses financial derivative instruments to manage the impact of interest rate, energy price and fuel cost changes on its earnings and cash flows. Effective January 1, 2001, the Authority adopted FAS No. 133, "Accounting for Derivatives and Hedging Activities," as amended by FAS No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities," to the extent appropriate under Governmental Accounting Standards. These financial accounting standards establish accounting and reporting requirements for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. The standard requires that the Authority recognize the fair value of all derivative instruments as either an asset or liability on the Balance Sheet with the offsetting gains or losses recognized in earnings or deferred charges. Application of FAS No. 133 may increase the volatility of reported earnings (see Note G).

(12) Effective January 1, 2003, the Authority will adopt FAS No. 143, "Accounting for Asset Retirement Obligations" (FAS No. 143). FAS No. 143 requires an entity to record the fair value of legal obligations associated with the retirement of long-term assets as a capitalized asset and as an asset-retirement liability. The recognition of the depreciation of such asset and the accretion of interest on such liability will be charged to expense over the useful life of the assets. The Authority is currently in the process of completing its analysis of FAS No. 143 and has concluded on a preliminary basis that the impact on future net revenues will not be significant.

(13) Certain prior year amounts have been reclassified to conform with the current year's presentation.

Note C - Bond Resolution

On February 24, 1998, the Authority adopted its "General Resolution Authorizing Revenue Obligations" (the Bond Resolution). The Bond Resolution covers all of the Authority's projects, which it defines as any project, facility, system, equipment or material related to or necessary or desirable in connection with the generation, production, transportation, transmission, distribution, delivery, storage, conservation, purchase or use of energy or fuel, whether owned jointly or singly by the Authority, including any output in which the Authority has an interest authorized by the Act or by other applicable State statutory provisions, provided, however, that the term "Project" shall not include any Separately Financed Project as that term is defined in the Bond Resolution. The Authority has covenanted with bondholders under the Bond Resolution that at all times the Authority shall maintain rates, fees or charges, and any contracts entered into by the Authority for the sale, transmission, or distribution of power shall contain rates, fees or charges sufficient together with other monies available therefor (including the anticipated receipt of proceeds of sale of Obligations issued under the Bond Resolution or other bonds, notes or other obligations or evidences of indebtedness of the Authority that will be used to pay the principal of Obligations issued under the Bond Resolution in anticipation of such receipt, but not including any anticipated or actual proceeds from the sale of any Project), to meet the financial requirements of the Bond Resolution. Revenues of the Authority (after deductions for operating expenses and reserves, including reserves for working capital, operating expenses or compliance purposes) are applied first to the payment of, or accumulation as a reserve for payment of, interest on and the principal or redemption price of Obligations issued under the Bond Resolution and the payment of Parity Debt issued under the Bond Resolution.

The Bond Resolution also provides for withdrawal for any lawful corporate purpose as determined by the Authority, including but not limited to the retirement of Obligations issued under the Bond Resolution, from amounts in the Operating Fund in excess of the operating expenses, debt service on Obligations and Parity Debt issued under the Bond Resolution, and subordinated debt service requirements. The Authority has periodically reacquired Series 1998 Revenue Bonds when available at favorable prices.

Note D - Cash and Investments

Investment of the Authority's funds is administered in accordance with the applicable provisions of the Bond Resolution and with the Authority's investment guidelines. These guidelines comply with the New York State Comptroller's investment guidelines for public authorities and were adopted pursuant to Section 2925 of the New York Public Authorities Law. 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. All investments are held by designated custodians in the name of the Authority. Securities that are the subject of repurchase agreements must have a market value at least equal to the cost of the investment and interest, and the agreements are limited to a maximum fixed term of five business days. At December 31, 2002 and 2001, the Authority had investments in repurchase agreements of $4.4 million and $19.8 million, respectively. The bank balances were $4.9 million and $4.6 million, respectively, of which $0.3 million and $0.2 million, respectively, were covered by Federal depository insurance, and $4.7 million and $4.4 million, respectively, were uninsured. The uninsured balances related primarily to amounts in checking accounts for which checks had been issued but had not yet cleared.

A summary of unexpended funds for projects in progress included in the Capital Fund at December 31, 2002 and 2001, is in the Investment Summary.

The Authority does not engage in securities lending or reverse repurchase agreements.

INVESTMENT SUMMARY
(Amounts in Thousands)

Estimated Fair Market Value(1)
December 31, 2002

	Total	Total Restricted Funds	Restricted Funds: Decommissioning Trust Fund	Restricted Funds: POCR & CAS Projects Funds	Restricted Funds: ART Note Debt Reserve	Capital Fund	Current Assets
U.S. Government/Agencies	$ 1,045,110	$ 383,511	$ 303,162	$ 65,070	$ 15,279	$ 357,047	$ 304,552
Other debt securities	486,636	186,887	181,402		5,485	102,245	197,504
Repurchase agreements	4,367						4,367
Equity securities	154,420	154,420	154,420				
Cash and equivalents	64,912	64,912	63,517	1,395			
	$ 1,755,445	$ 789,730	$ 702,501	$ 66,465	$ 20,764	$ 459,292	$ 506,423
Summary of Maturities(2)							
Years							
0-1	$ 380,657	$ 141,222	$ 65,905	$ 66,465	$ 8,852	$ 173,098	$ 66,337
1-5	433,510	104,677	92,765		11,912	209,600	119,233
5-10	185,724	99,035	99,035				86,689
10+	601,134	290,376	290,376			76,594	234,164
Common stock	154,420	154,420	154,420				
	$ 1,755,445	$ 789,730	$ 702,501	$ 66,465	$ 20,764	$ 459,292	$ 506,423

Estimated Fair Market Value(1)
December 31, 2001

	Total	Total Restricted Funds	Restricted Funds: Decommissioning Trust Fund	Restricted Funds: POCR & CAS Projects Funds	Restricted Funds: ART Note Debt Reserve	Capital Fund	Current Assets
U.S. Government/Agencies	$ 712,384	$ 373,256	$ 302,331	$ 57,025	$ 13,900	$ 15,096	$ 324,032
Other debt securities	313,102	172,015	165,562		6,453	44,183	96,904
Repurchase agreements	19,825						19,825
Equity securities	173,128	173,128	173,128				
Cash and equivalents	49,345	49,345	48,270	1,075			
	$ 1,267,784	$ 767,744	$ 689,291	$ 58,100	$ 20,353	$ 59,279	$ 440,761
Summary of Maturities(2)							
Years							
0-1	$ 228,504	$ 111,373	$ 53,273	$ 58,100		$ 12,830	$ 104,301
1-5	310,312	94,709	75,706		$ 19,003	32,939	182,664
5-10	168,428	120,146	120,146				48,282
10+	387,412	268,388	267,038		1,350	13,510	105,514
Common stock	173,128	173,128	173,128				
	$ 1,267,784	$ 767,744	$ 689,291	$ 58,100	$ 20,353	$ 59,279	$ 440,761

(1) Realized and unrealized gains and losses on investments in these funds are recognized as investment income in accordance with GAS No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools."

(2) The estimated fair values of these investments, by stated maturities, are shown in this schedule. Actual maturities are likely to differ from stated maturities since the issuers of certain securities have the right to prepay obligations without penalty.

Note E - Long-term Debt

December 31, 2002 and 2001
(Amounts in Thousands)

Components
Long-term debt at December 31, 2002 and 2001 consists of:

	2002	2001
Senior Debt		
1.Revenue Bonds	**$ 1,264,900**	$1,040,673
2. Adjustable Rate Tender Notes	**171,975**	176,490
Subordinated Debt		
3. Subordinate Revenue Bonds	**438,290**	504,295
4. Commercial Paper	**450,889**	238,337
	$ 2,326,054	$1,959,795

Senior Debt	**2002 Amount**	2001 Amount	Interest Rate	Maturity	Earliest Redemption Date Prior to Maturity
1. Revenue Bonds					
Series 1998 A	**$ 300,565**	$ 341,880	4.13% to 5.50%	2/15/2003 to 2016	2/15/2008 (a)
Series 1998 B		243,915			(b)
Series 1998 D	**39,985**	79,535	6.26%(c)	2/15/2003	
Series 2000 A Revenue Bonds					
Serial Bonds	**210,785**	217,300	4.25% to 5.50%	11/15/2003 to 2020	11/15/2005 (a)
Term Bonds	**10,365**	10,350	5.25%	11/15/2030	11/15/2010 (a)
Term Bonds	**66,850**	66,850	5.25%	11/15/2040	11/15/2010 (a)
Series 2001 A Revenue Bonds					
Serial Bonds	**188,055**	191,360	3.50% to 5.50%	11/15/2003 to 2008	Non-callable
Series 2002 A Revenue Bonds					
Serial Bonds	**520,095**		2.00% to 5.25%	11/15/2005 to 2022	11/15/2012 (a)
	1,336,700(d)	1,151,190(d)			
Plus: Unamortized premium	**52,261**	16,818			
Less: Deferred refinancing costs	**30,346**	36,515			
	1,358,615	1,131,493			
Less: Due within one year	**93,715**	90,820			
	$ 1,264,900	$1,040,673			

Notes to Revenue Bonds (table above) and Subordinate Revenue Bonds (table on following page)

(a) Bonds are subject to redemption prior to maturity in whole or in part as provided in the supplemental resolutions authorizing the issuance of each series of bonds, beginning for each series on the date indicated, at principal amount or at various redemption prices according to the date of redemption, together with accrued interest to the redemption date. Subordinate Revenue Bonds Series 1 through 5 and 9, 10, and 12 may be redeemed on any interest payment date. Subordinate Revenue Bonds Series 8 may be redeemed on their respective purchase dates.

(b) Mandatory tenders of the Series 1998 B Revenue Bonds in accordance with the supplemental resolution authorizing their issuance in the amount of $243.9 million were made on November 15, 2002. This amount was refinanced utilizing commercial paper.

(c) Interest not excluded from gross income for bondholders' Federal income tax purposes.

(d) At December 31, 2002 and 2001, the current market value of these bonds (both senior and subordinate revenue bonds) was approximately $1.9 billion and $1.8 billion, respectively. Market values were obtained from a third party that utilized a matrix-pricing model.

(e) During 2002, Subordinate Revenue Bonds Series 13 was redeemed. During 2001, Series 6, 7, and 11 were redeemed. Interest rates for bonds outstanding as of December 31, 2002, are indicated in the table.

(f) Interest is paid on the first business day of the month.

(g) Interest is paid weekly.

(h) Interest is paid on the re-marketing date.

All of the Series 1998 C Revenue bonds were defeased on December 21, 2000. In prior years, the Authority defeased certain General Purpose Bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the Authority's financial statements. At December 31, 2002 and 2001, $2.0 billion and $2.2 billion, respectively, of outstanding bonds were considered defeased.

2. Adjustable Rate Tender Notes (Notes)

2007 Notes	$ 26,490	$ 30,670	At 12/31/02: 2.95%	March 1, 2007	May be tendered
2016 Notes	75,000	75,000	At 12/31/02: 2.90%	March 1, 2016	by holder on any
2020 Notes	75,000	75,000	At 12/31/02: 2.90%	March 1, 2020	adjustment date.
	176,490	180,670			
Less: Due within one year	4,515	4,180			
	$ 171,975	$ 176,490			

Adjustable Rate Tender Notes (Notes)

The Notes may be tendered to the Authority by the holders on any adjustment date. The next rate adjustment date is September 2, 2003.

The Authority has entered into a revolving credit agreement (Agreement) with a syndicate of banks to provide a supporting line of credit. Under the Agreement, which terminates on September 3, 2003, the Authority may borrow up to $180.7 million for the purpose of repaying, redeeming or purchasing the Notes. The Agreement provides for interest on outstanding borrowings (none outstanding at December 31, 2002 and 2001) at either (i) the Federal Funds Rate plus a percentage, or (ii) if the loan extends beyond 180 days, a rate based on the London Interbank Offered Rate plus a percentage. The Authority is confident that it will be able to renew or replace this Agreement as necessary.

In accordance with the Adjustable Rate Tender Note Resolution, a Note Debt Service Reserve account has been established in the amount of $20 million

Subordinated Debt	2002 Amount	2001 Amount	Interest Rate	Maturity	Earliest Redemption Date Prior to Maturity
3. Subordinate Revenue Bond (e)			At 12/31/02		
Series 1	**$ 30,000**	$ 68,500	Variable: 1.55% (f)	2/15/2021	(a)
Series 2	**57,225**	59,625	Auction Rate: 1.25%(g)	2/15/2018	(a)
Series 3	**40,000**	40,000	Auction Rate: 1.35%(g)	2/15/2025	(a)
Series 4	**40,000**	40,000	Auction Rate: 1.50%(g)	2/15/2025	(a)
Series 5	**75,000**	75,000	Variable: 1.55% (f)	11/15/2011	(a)
Series 8	**25,000**	25,000	Variable: 1.18%(h)	11/15/2011	(a)
Series 9	**75,000**	75,000	Auction Rate: 1.10%(g)	11/15/2011	(a)
Series 10	**75,000**	75,000	Auction Rate: 1.40%(g)	11/15/2011	(a)
Series 12	**25,000**	25,000	Auction Rate: 1.30%(g)	11/15/2011	(a)
Series 13		25,000		11/15/2011	(a)
	442,225(d)	508,125(d)			
Less: Deferred refinancing costs	**1,410**	1,580			
	440,815	506,545			
Less: Due within one year	**2,525**	2,250			
	$ 438,290	$ 504,295			

Notes: See Notes to Revenue Bonds and Subordinate Revenue Bonds on the preceding page.

		2002 Amount	2001 Amount	Interest Rate	Maturity	Earliest Redemption Date Prior to Maturity
4. Commercial Paper (Long-term portion)				At 12/31/02		
CP (Series 2)*	- Availability: $ 450,000	$ 369,710	$ 157,700	1.26%****	2013	Not Applicable.
CP (Series 3)**	- Availability: 350,000	83,758	83,837	1.43%****	2020	Not Applicable.
CP (Series 4)***	- Availability: 220,000					
	- Availability: $1,020,000	453,468	241,537			
Less: Due within one year		2,579	3,200			
		$ 450,889	$ 238,337			

Commercial Paper (Long-term portion)

The proceeds of the Series 2, 3, and 4 notes were used to refund General Purpose Bonds and have been used, and may in the future be used, for other corporate purposes. It is the Authority's intention to renew Series 2 and 3 notes as they mature so that their ultimate maturity dates will range from 2003 to 2020, as indicated in table above.

The Authority has a line of credit under a revolving credit agreement to provide liquidity support for the Series 1-3 Commercial Paper notes, with a syndicate of banks, providing $850 million for such Commercial Paper notes and for other purposes until February 2, 2004. As of December 31, 2002 and 2001, no borrowings had been made under the revolving credit agreement. (See Note F- Short-term Debt relating to Series 1 Commercial Paper notes)

Commercial Paper notes are subordinated to the Series 1998 Revenue Bonds, the Series 2000 A Revenue Bonds, the Series 2001 A Revenue Bonds, the Series 2002 A Revenue Bonds, and the Adjustable Rate Tender Notes.

* Interest excluded from gross income for noteholders' Federal income tax purposes. Average interest rates for 2002 and 2001 were 1.37% and 1.95%, respectively. Average interest rates for both years do not include the Authority's .23% cost for remarketing fees and liquidity support.

** Interest not excluded from gross income for noteholders' Federal income tax purposes. Average interest rates for 2002 and 2001 were 1.77% and 3.64%, respectively. Average interest rates for both years do not include the Authority's .23% cost for remarketing fees and liquidity support.

*** Interest excluded from gross income for noteholders' Federal income tax purposes.

**** Interest payment dates vary from 1 to 270 days from date of issuance.

Total Long-Term Debt	$ 2,429,388	$2,060,245
Less: Due within one year	103,334	100,450
	$ 2,326,054	$1,959,795

Long-term Debt
Maturities and Interest Expense
(in Millions)

	Total	2003	2004	2005	2006	2007	2008 to 2012	2013 to 2017	2018 to 2022	2023 to 2027	2028 to 2032	2033 to 2037	2038 to 2040
Maturities													
Bonds	$1,778.9	$ 96.2	$ 58.5	$ 122.5	$ 135.4	$ 120.2	$ 606.4	$ 282.4	$ 262.8	$ 17.4	$ 18.7	$25.1	$ 33.3
Plus: Unamortized premium	52.3												
Less: Deferred refinancing costs	31.8												
	1,799.4												
ART Notes	176.5	4.5	4.9	5.3	5.7	6.1	35.2	56.4	58.4				
CP (LT)	453.5	2.6	2.1	2.1	2.5	3.4	9.8	386.7	44.3				
Face Value	2,408.9	$103.3	$ 65.5	$ 129.9	$ 143.6	$ 129.7	$ 651.4	$ 725.5	$ 365.5	$ 17.4	$ 18.7	$25.1	$33.3
Book Value	$2,429.4												
Interest													
Bonds		$ 69.2	$ 66.5	$ 64.0	$ 58.5	$ 52.6	$ 192.2	$ 119.1	$ 52.8	$ 20.7	$ 18.4	$12.8	$ 3.8
ART Notes		5.1	5.0	4.8	4.7	4.4	19.9	13.6	3.0				
CP (LT)		5.9	5.8	5.8	5.8	5.7	28.2	8.5	1.8				
		$ 80.2	$ 77.3	$ 74.6	$ 69.0	$ 62.7	$ 240.3	$ 141.2	$ 57.6	$ 20.7	$ 18.4	$12.8	$ 3.8

Interest rate used to calculate future interest expense on variable rate debt is based on the interest rate as of December 31, 2002.

Terms by Which Interest Rates Change for Variable Rate Debt:

Adjustable Rate Tender Notes

In accordance with the Adjustable Rate Tender Note Resolution adopted April 30, 1985 (Note Resolution), the Authority may designate a rate period of different duration, effective on any rate adjustment date. The Remarketing Agent appointed under the Note Resolution determines the rate for each rate period which, in the Agent's opinion, is the minimum rate necessary to remarket the Notes at par.

Series 1, 5, and 8 Bonds - The Remarketing Agent appointed under the Subordinate Resolution determines the rate for each rate period which, in the Agent's opinion, is the minimum rate necessary to remarket the Bonds at par.

Series 2 to 4, 9, 10, and 12 Bonds - The Auction Agent appointed under the Subordinate Resolution determines the Auction Rate for each Auction Period based on the Auction Procedures set forth in the supplemental resolution authorizing the issuance of the Bonds.

Subordinate Revenue Bonds

The Authority determines the rate period (or auction rate period) based on needs and/or advice of the Remarketing Agent (or the Auction Agent).

Commercial Paper (Long-term portion)

The Authority determines the rate for each rate period which is the minimum rate necessary to remarket the Notes at par in the Dealer's opinion.

Changes in Long-term Liabilities
(in Thousands)

Changes in Long-term Debt	**2002**	2001
Long-term debt, beginning balance	**$1,959,795**	$ 2,034,954
Increases	**990,757**	489,310
Decreases	**(521,164)**	(464,019)
	2,429,388	2,060,245
Due within one year	**103,334**	100,450
Long-term debt, ending balance	**$2,326,054**	$ 1,959,795

Changes in Other Long-term Liabilities	**2002**	2001
Other long-term liabilities, beginning balance	**$ 1,025,395**	$ 1,129,684
Increases	**96,961**	156,611
Decreases	**(78,618)**	(260,900)
Other long-term liabilities, ending balance	**$ 1,043,738**	$ 1,025,395

Net Operating Leases (Amounts due under non-cancelable operating leases)
(in Thousands)

	2003	2004	2005	2006	2007	2008 to 2012	2013 to 2014
Gross Operating Leases	$ 8,423	$ 8,932	$ 8,587	$ 7,121	$ 6,640	$ 10,681	$ 528
Less: Subleases/Assignments[1]	7,038	7,399	7,482	6,279	5,874	8,401	
Net Operating Leases	$ 1,385	$ 1,533	$ 1,105	$ 842	$ 766	$ 2,280	$ 528

[1] Subleases/assignments resulted primarily from consolidation of Authority headquarters' offices and assignment of a certain office lease to an Entergy subsidiary.

Note F - Short-term Debt

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

	December 31, 2002		December 31, 2001	
(in Millions)	Availability	Outstanding	Availability	Outstanding
CP (Series 1)	**$ 350.0**	**$ 199.1**	$ 350.0	$ 221.6

Under the Commercial Paper Note Resolution adopted June 28, 1994, as last amended, the Authority may issue from time to time a separate series of notes maturing not more than 270 days from the date of issue, up to a maximum amount outstanding at any time of $350 million (Series 1). See Note E - Long-term Debt for Commercial Paper Series 2, 3 and 4.

The proceeds of the Series 1 notes have been and shall be used to finance the Authority's current and future energy services programs and for other corporate purposes.

The changes in short-term debt are as follows:
(in Millions)

Year	Beginning Balance	Increases	Decreases	Net Increase/ (Decrease)	Ending Balance
2002	**$ 221.6**	**$ 30.0**	**$ 52.5**	**($ 22.5)**	**$ 199.1**
2001	213.9	123.7	116.0	7.7	221.6

The Authority has a line of credit under a revolving credit agreement to provide liquidity support for the Series 1-3 Commercial Paper notes, with a syndicate of banks, providing $850 million for such Commercial Paper notes and for other purposes until February 2, 2004. As of December 31, 2002 and 2001, no borrowings had been made under the revolving credit agreement.

Commercial Paper notes are subordinated to the Series 1998 Revenue Bonds, the Series 2000 A Revenue Bonds, the Series 2001 A Revenue Bonds, the Series 2002 A Revenue Bonds, and the Adjustable Rate Tender Notes.

Note G - Risk Management and Hedging Activities

The objective of the Authority's risk management program is to manage the impacts of interest rate, energy and fuel market price fluctuations on its earnings, cash flows and market values of assets and liabilities. To achieve this objective, the Authority's trustees have authorized the use of various interest rate, energy, and fuel hedging instruments that are considered derivatives under FAS No. 133. Effective January 1, 2001, the Authority implemented FAS No. 133 as amended by FAS No. 138. These standards establish accounting and reporting requirements for derivative instruments and hedging activities (see Note B(11)). The fair values of all Authority derivative instruments are reported in Assets or Liabilities on the Balance Sheet.

(1) Interest Rate Risk Management

(a) Series 1998 B Revenue Bonds

In 1998, the Authority entered into forward interest rate swaps to fix rates on long-term obligations expected to be issued to refinance $499.4 million of Series 1998 B Revenue Bonds required to be tendered in the years 2002 and 2001. Based upon these forward interest rate swaps, the Authority would pay interest calculated at fixed rates (4.7% to 5.1%) to the counterparties. In return, the counterparties would pay interest to the Authority based upon the Bond Market Association Index on the established reset dates. In 2001, upon completion of the $231.2 million mandatory payment of the 1998 B Revenue Bonds, which were subject to mandatory tender in November 2001, the Authority terminated the 2001 forward interest rate swaps at a cost of $12.7 million. On November 15, 2002 the Authority completed the remaining mandatory payment on the 1998 B Revenue Bonds, which were subject to mandatory tender on that date, from the proceeds of the issuance of Series 2 and Series 3 Commercial Paper. The 2002 forward interest swaps became active on November 15, 2002 and are designated as a hedge on the interest cost of the Series 2 and Series 3 Commercial Paper. The Authority intends to refinance the Series 2 and Series 3 Commercial Paper with fixed rate debt when it is advantageous to do so in the future.

On December 31, 2002 and 2001, the unrealized losses on the 2002 forward interest rate swaps were $38 million and $8.9 million, respectively. Since the Authority anticipates the recovery of the unamortized $10 million termination cost and the future settlement costs of the 2002 interest rate swaps from customers, these amounts have been deferred in Other Non-current Assets on the Balance Sheet. The cost of terminating the 2001 forward interest rate swaps is being amortized as an adjustment to the hedged debt's interest cost over the shorter of the original Series 1998 B Revenue Bonds debt (hedged) period or the refinanced period. Settlement payments and receipts from the open interest rate swaps are being recorded as an adjustment to the hedged debt's interest cost.

(b) Series 2000 A Revenue Bonds

In 2000, the Authority entered into fixed-to-floating interest rate swaps related to the issuance of the fixed rate Series 2000 A Revenue Bonds. The Authority's objective was to create a synthetic floating rate issue to reduce the cost of the debt issue over its life. The swaps require the counterparties to pay the Authority a rate of 5.03% on the notional amount ($296 million) of the swap and for the Authority to pay a rate based upon the Bond Market Association Index. In 2002 and 2001, the net settlement payments and receipts of these fixed-to-floating interest rate swaps resulted in reductions of $10.2 million and $6.1 million, respectively to the hedged debt's interest cost. On August 15, 2001 and January 15, 2002, the Authority entered into floating-to-fixed interest rate swaps designed to mirror the 2000 A interest rate swaps notional amounts. The objective was to lock-in the lower interest costs on the 2000 A interest rate swaps resulting from lower interest rate trends since their execution through July 2001. The swaps require the Authority to pay the counterparties rates ranging between 3.149% and 3.50% on the total notional amount ($296 million) of the swaps and for the counterparties to pay a rate based upon the Bond Market Association Index. In 2002 and 2001, the net settlement payments and receipts of these floating-to-fixed interest rate swaps resulted in charges of $5.8 million and $1.3 million, respectively, to interest cost. As of December 31, 2002 and 2001, unrealized losses on all these interest rate swaps were $1.4 million and $4.3 million, respectively. These unrealized losses on the 2001 and 2000 interest rate swaps have been deferred in Other Non-current Assets on the Balance Sheet as recoverable from customers.

(c) Adjustable Rate Tender Notes

On June 13, 2002, the Authority entered into a forward interest rate swap with the objective of limiting exposure to rising interest rates on the Authority's Adjustable Rate Tender Notes (Notes) for the period September 2, 2003 to September 1, 2006. Based upon the forward interest rate swap, the Authority would pay interest calculated at a fixed rate of 3.48%. In return the counterparty would pay interest to the Authority based upon 66% of the London Interbank Offered Rate (LIBOR) established on the reset dates that coincide with the Notes rate reset dates. On December 31, 2002, the unrealized loss on the forward interest rate swap was $7.1 million. This unrealized loss has been deferred in Other Non-current Assets on the Balance Sheet as recoverable from customers.

If any of the underlying hedged debt were retired prior to maturity, the unamortized gain or loss of the related swaps would be included in the gain or loss on the extinguishment of the obligation.

(d) Commercial Paper Series 1 and Subordinate Revenue Bonds

During 2001, the Authority purchased interest rate caps with the objective of limiting exposure to rising interest rates relating to the Commercial Paper Series 1 and Subordinate Revenue Bonds. The interest rate for the Commercial Paper is capped at 5.9% based upon the Bond Market Association Index for an initial notional amount ($250 million) through July 1, 2004. The interest rate for the Subordinate Revenue Bonds was capped between 4.0% and 6.0% based upon the Bond Market Association Index for notional amounts ($200 to $400 million) through December 31, 2004. In 2002 and 2001, interest rate market conditions did not exceed any of the contractual caps. The fair values of the interest rate caps as of December 31, 2002 and 2001 were $4,000 and $1.0 million assets, respectively. In 2002 and 2001, fair value fluctuations of the interest rate caps resulted in a $1.0 million increase in the hedged debt's interest cost in 2002 and a $64,000 reduction in the hedged debt's interest costs in 2001.

(2) Energy Market Risk Management

(a) Customer Load Requirements

On December 18, 2001, the Authority entered into a long-term forward energy swap to fix the cost of energy to meet certain long-term customer load requirements between 2004 and 2007. On December 31, 2002 and 2001, the fair values of the forward energy swap were an $4.2 million and $8.9 million liability, respectively. Since the Authority anticipates recovery from customers for any net settlement costs of the forward energy swap, these unrealized losses have been deferred in Other Non-current Assets on the Balance Sheet.

During 2002 and 2001, the Authority entered into a number of short-term energy swaps. The objective of these short-term energy swaps was to fix the price of purchased energy in the New York Independent System Operator (NYISO) electric market to meet short-term forecasted load requirements for the Power for Jobs program. On December 31, 2002 and 2001, the fair values of these short-term energy swaps were a $2.2 million unrealized gain and a $0.6 unrealized loss, respectively. The net settlements and fair value fluctuations of short-term energy swaps resulted in reductions in 2002 of $6.4 million and increases in 2001 of $16.5 million to Purchased Power costs.

(b) Electric Supply Interruptions

During 2001, the Authority purchased a number of energy call options and outage insurance agreements. The objective of these energy call options and outage insurance agreements is to limit exposure to the volatility of the NYISO electric market resulting from interruptions in electric supply. These hedging instruments resulted in increases of $5.1 million to Purchased Power cost in 2001. No similar position was taken in 2002.

(c) Generating Capacity

During 2002, the Authority sold a number of covered call options on a portion of its generating capacity with the objectives of hedging prices in a rising market and mitigating the effect of falling market prices on revenue. In 2002, the premiums received, payments made to counterparties and fair value fluctuations of these covered call options resulted in increases of $1.4 million to Operating Revenue. No similar position was taken in 2001.

(3) Fuel Market Risk Management

During 2001, the Authority purchased put and call options for natural gas with the objective of limiting the exposure to the floating market price and stated floor price found in the Enron Contract (see Note L(5) Natural Gas Contract). In 2001, the premiums paid and net settlements of these options resulted in a credit to fuel expense of $3.7 million. On November 30, 2001, the Authority gave notice of early termination of the Enron Contract. On December 2, 2001, Enron Corp. and certain of its subsidiaries filed for Chapter 11 bankruptcy protection (see Note L (5) Natural Gas Contract).

Note H - Pension Plans, Other Postemployment Benefits, Deferred Compensation and Savings Plans

Pension Plans:

Substantially all employees of the Authority are members of the New York State and Local Employees Retirement System (System), which is a cost-sharing, multiple-public-employer defined-benefit pension plan. Membership in and annual contributions to the System are required by the New York State Retirement and Social Security Law. The System offers plans and benefits related to years of service and final average salary, and, effective July 17, 1998, all benefits generally vest after five years of accredited service.

Members of the System with less than "10 years of service or 10 years of membership" contribute 3% of their gross salaries and the Authority pays the balance of the annual contributions for these employees. The Authority pays the entire amount of the annual contributions for employees with at least 10 years of service.

The Authority's contributions to the System are paid in December of each year on the basis of the Authority's estimated salaries for the System's fiscal year ending the following March 31. Contributions are made in accordance with funding requirements determined by the actuary of the System using the aggregate cost method.

Under this plan, the Authority's required contributions to the System were $0.9 million, $5.8 million, and $0.5 million for the years ended March 31, 2003, 2002 and 2001, respectively (paid on or about December 15, 2002, 2001 and 2000). The $5.8 million contribution in 2001 included $4.6 million for the cost of participating in the System's early retirement incentive program for the year 2000.

For detailed information concerning the System, reference is made to the State of New York Comprehensive Annual Financial Report of the Comptroller for the fiscal year ended March 31, 2002.

Other Postemployment Benefits (OPEB):

The Authority provides certain health care and life insurance benefits for eligible retired employees and their dependents. Employees and/or their dependents become eligible for these benefits when the employee has 10 years of service and retires or dies while working at the Authority. The cost of these benefits was charged to expense as paid and totaled $6.4 million for the year ended December 31, 2001. 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." As of January 1, 2002, the present value of the Authority's OPEB obligation was $271.1 million (prior service obligation) utilizing the projected unit credit method and a discount rate of 6%. Beginning in 2002, the Authority will recognize this prior service obligation over 20 years using level dollar amortization of $22.3 million annually. The 2002 OPEB provision of $29.9 million includes the amortization of the prior service obligation, a provision for active employees as of the beginning of the year, and an interest charge on the unfunded balance at year end. The 2002 OPEB provision was funded at $6.8 million or 22.7% as shown on the following table. Approximately 1,100 participants were eligible to receive these benefits at December 31, 2002.

	2002
Actuarial Accrued Liability (AAL)	
2002 Beginning Balance	—
2002 Accrual	$ 29.9
2002 payments to retirees	(6.8)
Unfunded AAL (UAAL)	$ 23.1
Funded ratio as of December 31, 2002	22.7%
Ratio of UAAL to covered payroll	19.0%

The Authority accrues the cost of unused sick leave which is payable upon the retirement of its employees. The current year's cost is accounted for as a current operating expense in the Statement of Revenues, Expenses, and Changes in Equity and as a deferred liability in the Balance Sheet.

Deferred Compensation and Savings Plans:

The Authority offers union employees and salaried employees a deferred compensation plan created in accordance with Internal Revenue Code, Section 457. This plan permits participants to defer a portion of their salaries until future years. Amounts deferred under the plan are not available to employees or beneficiaries until termination, retirement, death or unforeseeable emergency.

The Authority also offers salaried employees a savings plan created in accordance with Internal Revenue Code Section 401(k). This plan also permits participants to defer a portion of their salaries. The Authority matches contributions of employees with a minimum of one year of service up to limits specified in the plan, and such matching contributions totaled $1.9 million and $1.8 million for 2002 and 2001, respectively.

Independent trustees are responsible for the administration of the 457 and 401(k) plan assets under the direction of a committee of union representatives and non-union employees and a committee of non-union employees, respectively. Various investment options are offered to employees in each plan. Employees are responsible for making the investment decisions relating to their savings plans.

Early Retirement Incentive Program:
On June 25, 2002, the Board of Trustees approved the Authority's participation in the System's early retirement incentive program for the year 2002. The estimated cost of participating in the program is $5.7 million.

Note I - Petroleum Overcharge Restitution (POCR) Funds and Clean Air for Schools (CAS) Projects Funds

Legislation enacted into State law from 1995 to 2002 authorizes the Authority to utilize $59.6 million in petroleum overcharge restitution (POCR) funds and $0.6 million in other State funds (Other State Funds), to be made available to the Authority by the State pursuant to the legislation, for a variety of energy-related purposes, with certain funding limitations. The legislation also states that the Authority "shall transfer" equivalent amounts of money to the State prior to dates specified in the legislation. The use of POCR funds is subject to comprehensive Federal regulations and judicial orders, including restrictions on the type of projects that can be financed with POCR funds, the use of funds recovered from such projects and the use of interest and income generated by such funds and projects. Pursuant to the legislation, the Authority is utilizing POCR funds and the Other State Funds to implement various energy services programs that have received all necessary approvals.

The disbursements of the POCR funds and the Other State Funds to the Authority, and the Authority's transfers to the State totaling $57.7 million to date took place annually from 1996 to 2001. The POCR funds are included in restricted funds in the Balance Sheet. The funds are held in a separate escrow account, and the Authority invests the funds until they are utilized. In September 2002, the Authority's Trustees authorized the transfer of $2.5 million to the State upon the execution of an agreement providing for the transfer to the Authority of $2.5 million in additional POCR funds authorized by legislation enacted into law in 2002.

The New York State Clean Water/Clean Air Bond Act of 1996 made available $125 million for Clean Air for Schools Projects (CAS Projects) for elementary, middle and secondary schools, with the Authority authorized to undertake implementation of the CAS Projects program. The CAS Projects are designed to improve air quality for schools and include, but are not limited to, projects that replace coal-fired furnaces and heating systems with furnaces and systems fueled with oil or gas. CAS Projects funds totaling $125 million to date were transferred to the Authority and held in an escrow account for the CAS Projects program.

Note J - Statewide ISO

Pursuant to FERC Order No. 888, the New York investor-owned electric utilities (the IOUs), LIPA and the Authority, and certain other entities established two not-for-profit organizations, the NYISO and the New York State Reliability Council (Reliability Council). 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 the 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 Authority, the current IOUs and LIPA are members of both the NYISO and the Reliability Council.

The NYISO is responsible for scheduling the use of the bulk transmission system in the State, which normally includes all the Authority's transmission facilities, and for collecting for ancillary services, losses and congestion fees from transmission customers. Each IOU 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 customer also pays a separate fee for the benefit of the Authority that is designed to assure that the Authority will recover its entire transmission revenue requirement.

The Authority dispatches power from its generating facilities in conjunction with the NYISO. The NYISO coordinates the reliable dispatch of power and operates a market for the sale of electricity and ancillary services within the State. The NYISO surveys the capacity of generating installations serving the State (installed capacity) and the load requirements of the electricity servers and provides an auction market for generators to sell installed capacity. The NYISO also administers day-ahead and hourly markets whereby generators bid to serve the announced requirements of the local suppliers of energy and ancillary services to retail customers. The Authority participates in these markets as both a buyer and a seller of electricity and ancillary services. A significant feature of the energy market is that prices are determined on a location-specific basis, taking into account local generating bids submitted and the effect of transmission congestion between regions of the State. The NYISO collects charges associated with the use of the transmission facilities and the sale of power and services bid through the markets that it operates. It 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.

Under the NYISO Open Access Transmission Tariff certain charges for NYISO operating costs, congestion, losses, ancillary services and a portion of the Authority's transmission costs are assessed against the Authority and other entities responsible for serving ultimate customers. In the case of the Authority, such costs are significant. For 2002 and 2001, expenses associated with the Authority's participation in the NYISO have amounted to approximately $106 million and $164 million, respectively.

The Authority expects that such charges will continue in the future and may increase with increases in NYISO operating costs. For 2002, these costs were fully offset by revenues earned by the Authority in selling energy and ancillary services in the NYISO markets. During 2001, costs associated with the Authority's participation in the ISO were only partially offset by revenues. However, the Authority can give no assurance that such offsets, either full or partial, will continue in the future. In addition, due to competitive and economic development considerations, it is uncertain at this time whether any such costs to the Authority not offset will be passed on to the customers of the Authority.

The NYISO issued revisions to previous billings resulting in decreased charges of $4.9 million in 2002 and increased charges of $39 million in 2001. These billing revisions included adjustments related to energy purchased and sold into NYISO markets and for NYISO operating costs and ancillary services prior to 2002 and 2001, respectively.

Because of NYISO requirements, the Authority is required to bid into the NYISO day-ahead market (DAM) virtually all of the installed capacity output of its units. The NYISO then decides which Authority units will be dispatched, if any, and how much of such units' generation will be dispatched. The dispatch of a particular unit's generation depends upon the bid prices for the unit submitted by the Authority and whether the unit is needed by the NYISO to meet expected demand. If an Authority unit is dispatched by the NYISO, the Authority receives a fixed price (the Market Clearing Price), based on NYISO pricing methodology, for the energy dispatched above that needed to meet Authority contractual load (the Excess Energy). For the energy needed to meet Authority contractual load (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 that 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 hourly market and the Market Clearing price in the day-ahead market, and (2) in regard to the Contract Energy amount, the price of energy in the NYISO hourly market, which is offset by amounts received based on the Contract Price. This hourly market price is subject to more volatility than the day-ahead market price. The risk attendant with this outage situation is that, under certain circumstances, the Market Clearing Price in the day-ahead market and the Contract Price may be well below the price in the NYISO hourly 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 because of its size, nature and location, and in connection with the Authority's purchase of power and energy from the

Indian Point 3 and FitzPatrick nuclear plants (see Note (K) - Nuclear Plant Divestiture and Related Matters).

In addition to the risk associated with the Authority bidding into the day-ahead market, the Authority could incur substantial costs, in times of maximum energy usage, by purchasing replacement energy for its customers in the NYISO day-ahead market or through other supply arrangements to make up for lost energy due to an extended outage of its units.

Although FERC is currently considering issues related to the development of a single, fully integrated Northeastern United States Regional Transmission Operator (RTO), it is uncertain what form such RTO will ultimately take, which entities, including the NYISO, will ultimately be part of the RTO, and what the timeframe for the RTO's implementation will be.

Note K - Nuclear Plant Divestiture and Related Matters

(1) Nuclear Plant Divestiture

On November 21, 2000 (Closing Date), the Authority sold its nuclear plants (Indian Point 3 [IP3] and James A. FitzPatrick [JAF]) to two subsidiaries of Entergy Corp. (collectively Entergy or the Entergy Subsidiaries) for cash and non-interest bearing notes totaling $967 million (subsequently reduced by closing adjustments to $956 million) 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.

In November 2002, the Authority received a payment of $108.1 million from Entergy. As of December 31, 2002 and 2001, the present value of the notes receivable were:

(in Thousands)

	2002	2001
Notes receivable - nuclear plant sale	**$522,911**	$587,767
Less: Due within one year	**69,729**	64,856
	$453,182	$522,911

The Authority entered into a power purchase agreement (PPA) to purchase energy and capacity from Entergy at rates that approximated future market prices as of the Closing Date. Under the PPA, the Authority is obligated to purchase 100% of IP3's output through December 2004, and fixed amounts of JAF's output for the same period (360 megawatts [MW] for the year 2001; 303 MW, year 2002; 255 MW, year 2003; and 255 MW, year 2004).

The Authority has agreed to purchase the remaining output of JAF through the year 2003 on a unit contingent basis under an additional power purchase agreement (the APPA). This output will be purchased at a lower price than the fixed amounts purchased under the PPA.

On September 6, 2001, a subsidiary of Entergy Corp. completed the purchase of Indian Point 1 and 2 (IP1 and IP2) nuclear power plants from Consolidated Edison Company of New York Inc. Under an agreement between the Authority and Entergy, which was entered into in connection with the sale of the Authority's nuclear plants to Entergy, the acquisition of the IP2 nuclear plant by a subsidiary of Entergy Corp. resulted in the Entergy subsidiary which now owns IP3 being obligated to pay the Authority $10 million per year for 10 years beginning September 6, 2003, subject to certain termination and payment reduction provisions upon the occurrence of certain events, including the sale of IP3 or IP2 to another entity and the permanent retirement of IP2 or IP3.

(2) Nuclear Fuel Disposal

In accordance with the Nuclear Waste Policy Act of 1982, in June 1983, the Authority entered into a contract with the U.S. Department of Energy (DOE) under which DOE, commencing not later than January 31, 1998, would accept and dispose of spent nuclear fuel.

In conjunction with the sale of the nuclear plants, the Authority's contract with the DOE was assigned to Entergy. The Authority remains liable to Entergy for the pre-1983 spent fuel obligation and retains the funds collected from customers to cover such fee. As of December 31, 2002, the liability to Entergy totaled $182.5 million. The Authority retained its pre-closing claim against DOE under the DOE standard contract for failure to accept spent fuel on a timely basis.

The Authority will bear the cost of the remaining DOE charges for the decontamination and decommissioning of DOE nuclear enrichment facilities related to IP3 and JAF, amounting to approximately $16 million as of December 31, 2002, to be paid from 2003 to 2006.

(3) Nuclear Plant Decommissioning

The Decommissioning Agreements with each of the Entergy Subsidiaries deal with the decommissioning funds (the Decommissioning Funds) currently maintained by the Authority under a master decommissioning trust agreement (the Trust Agreement). Under the Decommissioning Agreements, the Authority will make no further contributions to the Decommissioning Funds.

The Authority will retain contractual decommissioning liability until license expiration, a change in the tax status of the fund, or any early dismantlement of the plant, at which time the Authority will have the option of terminating its decommissioning responsibility and transferring the plant's fund to the Entergy Subsidiary owning the plant. At this time, the Authority will be entitled to be paid an amount equal to the excess of the amount in the Fund over the Inflation Adjusted Cost Amount described below, if any. The Authority's decommissioning responsibility is limited to the lesser of the Inflation Adjusted Cost Amount or the amount of the plant's Fund.

The Inflation Adjusted Cost Amount for a plant means a fixed estimated decommissioning cost amount adjusted in accordance with the effect of increases and decreases in the U.S. Nuclear Regulatory Commission (NRC) minimum cost estimate amounts applicable to the plant.

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

If the license for IP3 or JAF is extended, an amount equal to $2.5 million per year, for a maximum of 20 years, would be paid to the Authority by the relevant Entergy Subsidiary for each year of life extension.

Decommissioning Funds of $702.5 million and $689.3 million are included in Restricted Funds and Other Noncurrent Liabilities in the Balance Sheets at December 31, 2002 and 2001, respectively.

If the Authority is required to decommission IP3 or JAF pursuant to the relevant Decommissioning Agreement, an affiliate of the Entergy Subsidiaries, Entergy Nuclear, Inc. would be obligated to enter into a fixed price contract with the Authority to decommission the plant, the price being equal to the lower of the Inflation Adjusted Cost Amount or the plant's Fund amount.

Note L - Commitments and Contingencies

(1) Competition

The electric utility industry, including the utility industry in New York State, has undergone a fundamental transformation, leading to a deregulated and more competitive environment through changes in Federal and State laws and actions by regulatory bodies that permit competition for sales of electricity at the wholesale and retail levels. In addition, the restructuring has resulted in industry mergers and acquisitions, open-access transmission service and competition among utilities, marketers and the independent power producers in the sale of power and energy.

The Authority is a provider of low-cost power and energy in New York State. To maintain its position in a changing environment, the Authority has undertaken and continues to carry out a multifaceted program, including:

(a) the sale of its two nuclear plants to eliminate the risks associated with their operation;

(b) the upgrade and relicensing of the Niagara and St. Lawrence-FDR Projects;

(c) implementing modifications to existing power sales agreements with substantially all of its SENY governmental customers, the result of which is that such customers have agreed to purchase all their power and energy requirements (except for certain termination and limited customer load transfer rights) from the Authority until at least January 1, 2006;

(d) implementing modifications to existing power sales arrangements with 82 business customers, resulting in the extension of the terms of such arrangements to either 2005 or 2007;

(e) construction of a 500-MW combined-cycle electric generating plant at the Authority's Poletti plant site;

(f) the reduction of the Authority's outstanding debt by $900 million from 1995-2002; and

(g) the appointment of a new officer responsible for energy and fuel risk management and control.

In addition, to meet capacity deficiencies in the New York City metropolitan area during the summer of 2001, the Authority completed the installation of 11 electric generating units at various sites in New York City and in the service territory of LIPA. The PowerNow! Projects were used to meet capacity deficiencies during the summer of 2001, and are meeting ongoing local reliability requirements in the New York City metropolitan area.

The adoption and implementation of the Bond Resolution (see Note C) in 1998 is also part of this program. The Bond Resolution provides the Authority with greater flexibility to manage its business with fewer restrictions. The less restrictive provisions of the Bond Resolution have increased the ability of the Authority to retain its existing customer base and to more efficiently manage its cash flows and investments. The Authority is also now free to determine whether to sell or retain certain of its assets on the basis of its judgment regarding the effect of such sale or retention on its overall business and apply the proceeds in a way which best meets the current needs of the Authority.

The Authority has continued to prudently manage its capital structure. The Authority's restructuring of its long-term debt through open-market purchases and refundings, begun prior to the adoption of the Bond Resolution, has resulted in, and is expected to continue to result in, cost savings and increased financial flexibility. Since December 31, 1994, the Authority has reduced its total debt by $900 million, or 26% as reflected in the reduction of its debt/equity ratio from 2.52 to 1.56. However, during 2002, long-term debt increased by $366 million or 19% primarily due to the issuance of $532 million in bonds during October 2002 to finance the construction of a 500-MW electric generating plant at its Poletti plant site in New York City. The Authority expects to continue debt retirement in the future to the extent funds are available and not needed for the Authority's expenses or reserves.

The Authority can give no assurance that even with these measures it will not lose customers in the future as a result of the restructuring of the State's electric utility industry and the emergence of new competitors or increased competition from existing participants. In addition, the Authority's ability to market its power and energy on a competitive basis is limited by provisions of the Act that 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.

(2) Long-term Contracts

In 1995, the Authority negotiated modifications to then existing power sales arrangements with substantially all of the SENY governmental customers, resulting in such agreements extending until at least January 1, 2006.

These agreements include stabilized rate features through 2001, depending upon the contract, with rates thereafter adjusted based upon, in the case of some contracts, changes in the cost to provide service or, in the case of other contracts, a market-based electric price index (which the Authority has agreed to set at zero through 2004). Certain of the contracts provide for shared savings, beginning in 1998, contingent upon the Authority's reducing the cost of service to the SENY service area. In other instances, rate rebates and economic development incentives were provided. Customers have the right to terminate their service if the Authority increases baseline demand and energy charges to meet bond covenant requirements. Customers may also reduce service by limited amounts under certain specified conditions and, under certain contracts, may exercise their right to transfer load not already transferred pursuant to the agreements to another supplier, if rate increases exceed specified amounts at specified times.

Pursuant to these contracts the Authority has agreed to undertake up to $401 million in energy-efficiency projects over the term of the contracts. Such projects must be approved by Authority management before being undertaken, and agreements for full repayment from customers of project costs must be in place. Through December 31, 2002, $139.2 million had been expended.

The Authority has also negotiated modifications to existing power sales arrangements with 82 business customers formerly served by power and energy from the Authority's JAF plant (now served by power and energy purchased from the new Entergy Subsidiary owner of JAF (JAF Purchased Power and Energy)), as augmented by other Authority resources, which would extend the customers' purchases of Authority power and energy to either 2005 or 2007, and under which the Authority would provide the customers with rate discounts and other compensation and would forgo certain rate adjustment rights over the term of the agreements. These agreements encompass approximately 328 MW and 353 MW of power and accounted in 2002 and 2001, respectively, for an estimated $69 million and $85 million, respectively, in annual revenues.

The revenues from these SENY and business customers were approximately 38% and 40% of the Authority's 2002 and 2001 Operating Revenues (including wheeling charges), respectively.

The destruction of the World Trade Center (WTC) towers on September 11, 2001 had caused a reduction in the Authority's Port Authority of New York and New Jersey peak load of approximately 80 MW's. Annual revenues from the sale of power and energy to the WTC amounted to approximately $20 million (excluding delivery charges). This power and energy was reallocated in 2002 to businesses in lower Manhattan that were displaced or otherwise impacted by the terrorist attacks. Sixty-four (64) allocations totaling 80 MW's were made to nearly 100 businesses in lower Manhattan. The first businesses began receiving power on December 1, 2002. The remaining deliveries will be phased in throughout 2003.

(3) Power for Jobs

In 1997, 1998, 2000 and 2002, legislation was enacted into New York law which authorized the Power for Jobs program (the Program) to make available low-cost electric power to businesses, small businesses, and not-for-profit organizations. Under the Program, the New York State Economic Development Power Allocation Board (EDPAB) recommends for Authority approval allocations to eligible recipients of power from JAF Purchased Power and Energy, from power purchased by the Authority through a competitive procurement process and power from other sources. In the first three phases of the Program, 450 MW of power were made available, phased in over three years which ended in July 2000. In the fourth phase of the Program, 300 MW of power were made available beginning September 2000. Allocation of this 300 MW of power was completed in 2001. In the fifth phase of the Program, 183 MW of power were made available beginning July 31, 2002, the effective date of the legislation. The power will be made available for allocation to phase two and phase three Program recipients. Any remaining power after these allocations may be made available for new allocations. Under 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 Program power is sold to the local utilities of the eligible recipients pursuant to sale for resale agreements at rates which are an amalgamation of the rate for JAF Purchased Power and Energy and the cost of the competitive procurement (or alternative acquisition) power plus a charge for the transmission of such power.

In May 2000, legislation was enacted into law, as part of the 2000-2001 State budget, which 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." Such voluntary annual contributions shall be equal to 50% of the total amount of tax credits available each year to all local distributors of electricity. Under the legislation, the Authority shall make such contribution no later than 90 days after the end of the calendar year in which a gross receipts tax credit is available for the additional 300 MW of power under the fourth phase of the Program, with the first such contribution to be made in 2002. The legislation provides that in no case shall the amount of the total annual contributions for the years during which delivery and sale of phase four power takes place exceed the aggregate total of $125 million. Certain additional legislation enacted into law in May 2002 modified the methodology so that, for State fiscal year (SFY) 2002-2003, the annual contribution shall be equal to the total amount of credit available in 2001 and 2002 under the fourth and fifth phases of the Program. However, this modification left intact the $125 million maximum amount of contributions. The Authority made a contribution of $67 million pursuant to this legislation on December 30, 2002. Similar to the provisions of the legislation enacted in 2002, the Executive Budget for SFY 2003-2004 has proposed legislation authorizing the Authority to make a payment to the State treasury equal to 100 percent of the gross receipts tax credit provided in 2003 under the fourth and fifth phases. If enacted, the legislation would allow the Authority to make up to a $58 million voluntary contribution to the State treasury in SFY 2003-2004, while maintaining the $125 million statutory limit. The Authority's staff intends to recommend to the Authority's Trustees that a total contribution of $125 million be made pursuant to this legislation, all such contributions to be made only to the extent that such monies are available to the Authority for such purpose and are not needed for Authority purposes.

(4) Natural Gas Contract

The Authority had entered into a long-term contract with Enron Gas Marketing, Inc. (Enron Contract), which was succeeded in interest by Enron North America Corp. (Enron NAC), under which it was obligated to purchase approximately 11.10 billion cubic feet of natural gas annually until April 30, 2014, or pay a penalty on the unused volumes. Prior to termination, based on minimum purchase obligations in the Enron Contract, the Authority estimated that it would have paid an average annual amount for gas purchased under the contract of approximately $50.3 million during the term of the agreement. Under the agreement, the price paid for gas by the Authority would have been market-based, with a 10% demand charge to be paid on the 90% "take-or-pay" quantity and, until December 31, 2002, with a "floor" imposed on the price, with the floor escalating 3.5% each year. Historically, except for 2001 and 2000, the floor has exceeded the market price of natural gas. Given the terms of the Enron Contract and the capacity supply agreement for the Authority's Richard M. Flynn combined-cycle generating plant (Flynn), there was no assurance that in any given year payments to the Authority under such capacity supply agreement in compensation for Enron Contract gas costs would fully compensate the Authority for payments for such gas under the Enron Contract.

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 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 also 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." No formal action in the bankruptcy proceeding or litigation has yet been commenced in this matter.

The Authority is unable to predict the outcome of the matter described above, but believes that the Authority has meritorious defenses or positions with respect thereto.

The Authority is not involved in any other transaction with Enron Corp. or any of its subsidiaries, except for the terminated gas contract.

(5) Legal and Related Matters

a. The eight municipalities that are the plaintiffs in Village of Bergen v. Power Authority objected to the Authority's apportionment of indirect overhead costs in determining rates charged for service provided from the Authority's hydroelectric facilities. These municipalities claimed that the Authority's apportionment methodology resulted in overcharges from May 1, 1992. The litigation culminated in a judgment, entered in June, 2000, requiring the payment of refunds with interest to the plaintiffs. That judgment was affirmed by the Appellate Division in June, 2001 and leave to appeal the case was denied. The loss provision was accrued in 2001. The Authority paid the judgment in the first quarter of 2002.

b. In 1982 and again in 1989, several groups of 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 Project. 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 the American Tribe of Mohawk Indians (the American Tribe) 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 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 United States' 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. The tribal plaintiffs have moved to strike certain affirmative defenses and, joined by the United States, have moved to dismiss certain defense counterclaims. The defendants' opposition papers were filed in September 2002, and oral argument on the motions has been postponed until May 2003. In the meantime, representatives of the State and the American Tribe have continued their settlement discussions.

The Authority is unable to predict the outcome of the matters described above, but believes that the Authority has meritorious defenses or positions with respect thereto. However, adverse decisions in the matters discussed above could adversely affect Authority operations and revenues.

c. In addition to the matters described above, other actions or claims against the Authority are pending for the taking of property in connection with its projects, for negligence, for personal injury (including asbestos-related injuries), in contract, and for environmental, employment and other matters. All of such other actions or claims will, in the opinion of the Authority, be disposed of within the amounts of the Authority's insurance coverage, where applicable, or the amount which the Authority has available therefore and without any material adverse effect on the business of the Authority.

(6) Construction contracts

Estimated costs to be incurred on outstanding contracts in connection with the Authority's construction programs aggregated approximately $375 million at December 31, 2002.

(7) PowerNow! Projects

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 combustion-turbine electric units at various sites in New York City and one site in the service territory of LIPA. A number of parties had filed petitions challenging the Authority's site selection process for the PowerNow! Projects, including the adequacy of environmental studies, analysis of alternative sites and compliance with zoning laws. One of the lawsuits has been settled, with the Authority agreeing under the settlement agreement to cease operations at one of the Projects' sites, which houses two units, as early as September 25, 2004, if certain conditions are met, and if the Mayor of New York City directs such cessation. In the other two lawsuits, the Authority performed the environmental analysis required by the courts and is operating the Projects in accordance with previously issued judicial orders. In both cases, the Kings County Supreme Court vacated the injunctions and dismissed the proceedings during the first quarter of 2002.

(8) 500-MW Project

As a result of the State electric utility industry restructuring, including the Authority's agreement to comply with an in-City capacity requirement in the New York City area, the Authority is currently constructing a 500-MW combined-cycle natural-gas-and-distillate-fueled power plant at the Poletti site (the 500-MW Project) as the most cost-effective means of effectuating such compliance. The major components of the 500-MW Project consist of two gas turbines, a heat recovery steam generator, a steam turbine, a dry cooling system, and a condenser. The Authority estimates that the total cost of the 500-MW Project will be $650 million, with an expected in-service date of February 2005.

In August 2000, the Authority filed applications with the New York State Board on Electric Generation Siting and the Environment (the Siting Board) and the 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 proposed facility and for federally delegated water and air permits, respectively. In April 2001, the applications were deemed complete and hearings were held on the applications. In her opinion dated November 26, 2001, the Commissioner of the DEC determined that no issues remained for adjudication in the proceeding on federally delegated permits. On December 17, 2001, the Presiding and Associate Examiners issued their joint Recommended Decision supporting construction and operation of the facility. On January 24, 2002, the Siting Board met to consider and rule upon interlocutory appeals by certain parties to the proceeding from certain rulings by the Presiding and Associate Examiners. The Siting Board directed that further hearings be held in the proceeding on the issue of particulate matter air emissions of 2.5 microns or smaller as it relates to the proposed facility. The hearings were held in April 2002.

To resolve certain issues that arose in the course of the Siting Board proceeding, the Authority has entered into a Supplemental Joint Stipulation (the Stipulation Agreement) with certain parties (the Signing Parties) whereby, among other things, the Signing Parties have agreed not to oppose the issuance of a Certificate for the proposed plant. Among other things, the Stipulation Agreement will require the closure of the Authority's existing Poletti Project by no later than 2010 and possibly as early as 2008. The Stipulation 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 such Project each year. On September 13, 2002, the Authority filed the Stipulation Agreement with the Siting Board.

At an October 1, 2002 meeting, the Siting Board voted to grant a Certificate to the Authority for the 500-MW Project, effective as of October 2, 2002. The Authority has received final DEC air permits for the 500-MW Project.

KEY TO ABBREVIATIONS

A-C

Act - *Power Authority Act*

APPA - *Additional Power Purchase Agreement*

ART - *Adjustable Rate Tender Notes*

Authority - *Power Authority of the State of New York or New York Power Authority*

B-G -*Blenheim-Gilboa Pumped Storage Power Project*

CAS Projects Funds - *Clean Air for Schools Projects Funds*

Con Ed - *Consolidated Edison Company of New York, Inc.*

CP - *Commercial Paper*

D-H

DOE - *U.S. Department of Energy*

EDPAB - *New York State Economic Development Power Allocation Board*

Energy Act - *Energy Policy Act of 1992*

Entergy - *as used herein refers to Entergy Nuclear FitzPatrick, LLC and Entergy Nuclear Indian Point 3, LLC, which are subsidiaries of Entergy Nuclear Inc.*

FAS - *Financial Accounting Standards*

FASB - *Financial Accounting Standards Board*

FERC - *Federal Energy Regulatory Commission*

Flynn - *Richard M. Flynn Power Plant*

GAAP - *Generally Accepted Accounting Principles*

GAS - *Governmental Accounting Standards*

GASB - *Governmental Accounting Standards Board*

I-L

IP3 - *Indian Point 3 Nuclear Power Plant*

IRS - *U.S. Internal Revenue Service*

ISO - *Independent System Operator*

JAF - *James A. FitzPatrick Nuclear Power Plant*

KW - *Kilowatt: 1,000 watts*

KWh - *Kilowatt-hour: a unit of electrical energy equal to one kilowatt of power supplied or taken from an electric circuit steadily for one hour. A kilowatt-hour is the amount of electrical energy necessary to light ten 100-watt light bulbs for one hour.*

LIBOR - *London Interbank Offered Rate*

LILCO - *Long Island Lighting Company*

LIPA - *Subsidiary of Long Island Power Authority used to acquire the transmission and distribution system of LILCO.*

LISC - *Long Island Sound Cable transmission facility*

M-O

MDC - *Maximum Dependable Capability*

NERC - *Northeast Electric Reliability Council*

NIMO - *Niagara Mohawk Power Corporation*

NRC - *U.S. Nuclear Regulatory Commission*

NYISO - *New York Independent System Operator*

NYPA - *New York Power Authority*

NYPP - *New York Power Pool*

NYPP Member Systems - *The eight member systems were the six New York State investor-owned electric utilities, LIPA and NYPA.*

NYSEG - *New York State Electric & Gas Corporation*

O&M - *Operations and Maintenance*

P-Z

P&SA - *Purchase and Sale Agreement*

POCR Funds- *Petroleum Overcharge Restitution Funds*

Poletti - *Charles Poletti Power Project*

PPA - *Power Purchase Agreement*

PSC - *New York State Public Service Commission*

SENY - *Southeastern New York*

State - *State of New York*

New York Power Authority 2003
MISSION

Our history demonstrates that the underlying, and perhaps primary, purpose of the authority is to implement the State's energy policy in the public interest. Affordable and reliable energy is one of the cornerstones of New York's economic renaissance and NYPA has the resources and talent to play a leadership role in meeting the challenges presented by our changing industry.

- We will retain and create jobs in New York State by:
  - Facilitating the transition to competitive energy costs,
  - Mitigating the cost of energy to business, to government and to consumers throughout the State,
  - Delivering essential utility services that others can't or won't provide as well as we do,
  - Promoting the development and use of electric transportation and other energy-related innovative technologies.
- Our total commitment to performance excellence will prove us to be "best of class" in key areas of our operations. This will ensure we preserve our bedrock financial strength and achieve true customer satisfaction and loyalty.
- We recognize that a talented, skilled and motivated work force, committed to the highest ethical standards, is an essential factor in meeting our goals.
- Our stewardship of our hydroelectric and fossil generating assets and our transmission facilities will help to assure a robust, diverse and economically beneficial energy mix in New York State.
- NYPA will achieve these goals consistent with our commitment to safety and the environment.
- We all are absolutely committed to change the way we think, act, measure ourselves and execute our business to produce these positive results.

Our customers and the people of New York State will be the beneficiaries of all that we accomplish.