FINANCIAL REPORT 2005

New York Power Authority

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 accounting principles generally accepted in the United States 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. The Inspector General is responsible for 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. In addition, as part of its audit of the Authority's financial statements, Ernst & Young LLP, independent auditors, considers internal controls over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for purposes of expressing an opinion on the effectiveness of the Authority's internal controls over financial reporting. Management has considered the recommendations of the internal auditors and the independent auditors 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, 2005 and 2004, 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 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 auditors, periodically, throughout the year, to discuss internal controls and accounting matters, the Authority's financial statements, and the scope and results of the audit by the independent auditors and of the audit programs of the Authority's internal auditing department. The independent auditors, the Director of Internal Audits, the Inspector General and the Vice President of Ethics and Regulatory Compliance have direct access to the Audit Committee.

Joseph M. Del Sindaco
Senior Vice President & Chief Financial Officer

Report of Independent Auditors

ERNST & YOUNG LLP

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

We have audited the accompanying balance sheet and related statement of revenues, expenses, and change in net assets and of cash flows of the Power Authority of the State of New York (the "Authority") as of and for the years ended December 31, 2005 and 2004. 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 audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we express no such opinion. An audit also 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 audit provides a reasonable basis for our opinion.

In our opinion, the 2005 and 2004 financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of December 31, 2005 and 2004, and the changes in its financial position and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States.

Management's Discussion and Analysis on pages 4 to 9 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Ernst & Young LLP

5 Times Square
New York, NY 10036

February 15, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

Operating Environment

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

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

The Authority operates in a competitive and sometimes volatile market environment. Volatility in the energy market has unfavorably impacted the Authority in its role as a buyer and has resulted in higher costs of purchased power and fuel in its NYC Governmental Customer and other market areas. The NYC Governmental Customer market cost situation has been addressed and mitigated by both the cost-sharing provisions in the new long-term supplemental electricity supply agreements and the newly constructed 500-MW plant discussed above. It should be noted, however, that higher energy prices have, in some cases, favorably impacted the Authority in its role as a seller (revenues) in the electricity market.

The Authority also operates in an environment where certain programs implemented by the State have been funded by voluntary contributions from the Authority. For 2005, a principal reason for the decline in net revenues relates to accruals for voluntary contributions to the State related to the Power for Jobs program (PFJ Program) and customer rebates related to the PFJ Program.

Summary Statement of Revenues, Expenses, and Changes in Net Assets

(*in Millions*)

	2005	2004	2003	2005 vs. 2004 Favorable/ (Unfavorable)	2004 vs. 2003 Favorable/ (Unfavorable)
Operating Revenues	**$2,506**	$2,215	$2,292	13%	(3%)
Operating Expenses					
Purchased power	**1,158**	1,015	1,132	(14%)	10%
Fuel	**378**	260	281	(45%)	7%
Operations & Maintenance	**448**	356	338	(26%)	(5%)
Wheeling	**299**	277	278	(8%)	0%
Depreciation	**147**	148	159	1%	7%
Asset impairment charge		64		100%	n/m
Total Operating Expenses	**2,430**	2,120	2,188	(15%)	3%
Net Operating Revenues	**76**	95	104	(18%)	(9%)
Investment and other income	**60**	64	62	(6%)	3%
Interest expense, net	**78**	77	77	(1%)	0%
Revenues, net before cumulative effect of change in accounting principle	**58**	82	89	(29%)	(8%)
Cumulative effect of change in accounting principle			16	-	n/m
Net Revenues	**58**	82	73	(29%)	12%
Net Assets - Beginning	**1,838**	1,756	1,683	5%	4%
Net Assets - Ending	**$1,896**	$1,838	$1,756	3%	5%

The following summarizes the Authority's financial performance for the years 2005 and 2004:

The Authority had net revenues of $58 million in the year 2005, compared to $82 million in 2004. This $24 million decrease in net revenues is primarily attributable to an increase in Operations & Maintenance costs ($92 million) primarily due to the Authority's increased voluntary contributions to the State and higher rebates to customers related to the PFJ Program ($82 million). These items were partially offset by the lack of an asset impairment charge in 2005, whereas a $64 million charge was recognized in 2004. In addition, higher revenues ($291 million) were partially offset by higher purchased power ($143 million) and fuel costs ($118 million). Revenues for 2005 were higher than those in the prior year period primarily due to higher sales volume and higher rates charged to certain customers along with higher sales to the New York Independent System Operator (NYISO) and increased revenues from ancillary services.

Non-operating income was lower in 2005 due to rising interest rates which lowered the market value of interest sensitive investments. The Authority continued to prudently manage its capital structure. During 2005, long-term debt, net of current maturities, decreased by $35 million, or 2%, primarily due to scheduled maturities and early extinguishment of debt, which were substantially offset by an increase in long-term commercial paper. Total debt increased by $14 million due to an increase in commercial paper. Interest expense increased by $1 million, primarily due to higher interest rates on variable rate debt. During the period 1995 to 2005, the Authority reduced its total debt/equity ratio from 2.21 to 1.22, which is the Authority's lowest debt/equity ratio since it implemented proprietary accounting in 1982.

The Authority had net revenues of $82 million in the year 2004, compared to $89 million in 2003 before the cumulative effect of a change in accounting principle. This $7 million decrease in net revenues before the cumulative effect adjustment is primarily attributable to the negative impact of lower revenues ($77 million), and an asset impairment charge ($64 million), partially offset by lower purchased power costs ($117 million). Revenues for 2004 were lower than those in the prior year period primarily due to a lower volume of market-based sales. The 2004 asset impairment charge of $64 million includes $30 million related to the Authority's CSC transmission project (CSC Project) and $34 million related to the Small Clean Power Plants (SCPPs). During 2004, higher production at the Authority's hydroelectric facilities resulted in significantly lower purchased power costs. Higher operations and maintenance expenses incurred during 2004 were more than offset by lower fuel costs and lower depreciation.

Operating Revenues

Operating revenues of $2,506 million in 2005 were $291 million or 13% higher than the $2,215 million in 2004, primarily due to higher sales volume and higher rates charged to the certain customers along with higher prices of market-based sales to the NYISO ($50 million) and higher revenues from ancillary services ($20 million). Prices on market-based sales were higher in 2005 due to higher prices resulting from a spike in fuel costs.

Purchased Power and Fuel

Purchased power costs increased by 14% in 2005 to $1,158 million from $1,015 million in 2004, primarily due to the increased volume and higher prices related to purchased power for the NYC Governmental Customer market area resulting from the spike in fuel prices. Fuel costs were $118 million (45%) higher during 2005, reflecting both higher fossil-fuel production and higher prices for natural gas and fuel oil

Operations and Maintenance

O&M expenses increased by 26% in 2005 to $448 million. The increase was primarily related to increases in the Authority's voluntary contributions to New York State and the Power for Jobs rebate program. Excluding the increases in the Authority's voluntary contributions to New York State and the Power for Jobs rebate program, O&M increased by 2% ($8 million) in 2005 to $364 million.

Depreciation and Asset Impairment Charge

Depreciation expense for the year 2005 was comparable to the prior year. Depreciation expense in recent years has been at a lower level due to a significant reduction in the book value of the SCPPs since the units were installed in the year 2001. This reduction resulted from the asset impairment provisions discussed below and the continued application of accelerated depreciation for these facilities.

The Authority has performed asset impairment analyses on its facilities on an ongoing basis and recognized a charge of $64 million in 2004, including $34 million related to the SCPPs and $30 million related to the CSC Project. The Authority had previously recognized asset impairment charges of $63 million in 2002 and $62 million in 2001 related to the SCPPs. The Authority's CSC Project was undertaken to enhance the efficiency of the transmission system in New York State. The project was completed but with significant uncertainty regarding the mechanisms that would be available to the Authority to recover its capital cost. The Authority's SCPPs were installed 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 ongoing local reliability requirements in the New York City metropolitan area. These impairments were recognized based on the standards promulgated by the Financial Accounting Standard Board. Such standards require the recognition of an impairment charge when the cash flows resulting from the operation of a plant asset are expected to be less than its book value. The Governmental Accounting Standards Board has established new rules regarding the recognition of asset impairments which were applied to the Authority's financial statements effective January 1, 2005. Under these rules, asset impairments are generally recognized only when the service utility of an asset is reduced or physically impaired.

Cash Flows

During 2005, the Authority generated cash flows of $188 million from operations compared to $283 million in 2004. Cash flows from operating activities for 2005 were lower than 2004 primarily due to an increase in accounts receivable; to payments related to higher purchased power and fuel costs incurred by the Authority offset substantially by higher revenues; and rebates relating to the PFJ Program.

Net Generation

Net generation for 2005 was 24.6 million MWh compared to the 24.2 million MWh generated in 2004. The 2% increase was attributable to higher production at the Authority's Poletti and SCPP facilities. Combined net generation from the Niagara and St. Lawrence facilities at 20.5 million megawatt-hours (MWh) was essentially unchanged from

2004 (20.4 million MWh). During 2005, net generation at Poletti and the SCPPs increased by 15% (to 2.40 million MWh) and 21% (to 0.75 million MWh), respectively.

Beginning in 1999, below average water levels in the Great Lakes reduced the amount of water available to generate power at the Authority's Niagara and St. Lawrence-FDR projects, thereby requiring curtailment of the electricity supplied to the Authority's customers from these projects. Flow conditions improved somewhat in 2002; however, hydroelectric generation continued to be at or below average in 2003, 2004 and 2005. Water levels improved somewhat in 2005 from 2004 and 2003, but continued to be below average. Water levels are expected to continue to be below average in 2006.

NYC Governmental Customer - New Long-term Supplemental Electricity Supply Agreements

The Authority and its five major NYC Governmental Customers have signed a new long-term supplemental electricity supply agreement (Agreement) under which the Authority will continue to provide full-requirements service to these customers through the end of the year 2017. For 2005, production charges were revised to produce an additional $105 million in revenues. Rates for 2005 were fixed and not subject to adjustment based on actual costs incurred by the Authority in providing service to NYC Governmental Customers. During 2005, under the Agreement, the Authority and the NYC Governmental Customers consulted on developing several risk management options and the NYC Governmental Customers selected a single such option to be implemented by the Authority starting in the year 2006. Under the option selected, a sharing plan would apply that would represent the NYC Governmental Customers' maximum exposure under the Agreement. This plan will allow the Authority to share the burden of higher purchased power and fuel costs in 2006. Under such plan, the first $60 million of cost under-recoveries in 2006 would be shared equally by the Authority and its NYC Governmental Customers. Under-recoveries in excess of $60 million in 2006 would be borne by the Authority. Cost savings are also subject to a sharing plan: however the first $10 million in savings are to be fully credited to the NYC Governmental Customers. Except for any such amounts borne by the Authority under a sharing plan, the NYC Governmental Customers would pay all of the costs incurred to serve them, including hedging costs. Any customer can terminate the Agreement upon three years' notice, and under certain limited circumstances, one year's notice, to the Authority but the customer would be subject to an exit fee representing its pro-rata share of any resources purchased on behalf of this customer class through a collaborative procurement process.

The Authority has commenced discussions with its remaining Governmental Customers, which are located in Westchester County regarding future power supply and prices. Any such new supplemental agreements would commence on January 1, 2007, when the current pricing arrangements with these customers expire.

Energy Cost Savings Benefits

Legislation was enacted into law in July 2005 (Chapter 313, 2005 Laws of New York) (the ''2005 Act'') which amends the Act and the New York Economic Development Law (''EDL'') in regard to several of the Authority's economic development power programs and the creation of new energy cost savings benefits to be provided to certain Authority customers. Relating to the Energy Cost Savings Benefits ("ECS Benefits"), the 2005 Act revises the Act and the EDL to allow up to 70 MW of relinquished Replacement Power, up to 38.6 MW of Preservation Power that might be relinquished or withdrawn in the future, and up to an additional 20 MW of unallocated St. Lawrence-FDR Project power to be sold by the Authority into the market and to use the net earnings, along with other funds of the Authority, as deemed feasible and advisable by the Authority's Trustees, for the purpose of providing ECS Benefits. The ECS Benefits will be administered by New York State Economic Development Power Allocation Board (EDPAB) and awarded based on criteria designed to promote economic development, maintain and develop jobs, and encourage new capital investment throughout New York State. Initially, and through December 31, 2006, the ECS Benefits will be available only for business customers served under the Authority's High Load Factor, Economic Development Power and Municipal Distribution Agency programs which would, in the absence of the ECS Benefits, face rate increases beginning November 1, 2005. To implement the 2005 Act, the Governor and Legislative leaders agreed that the businesses eligible to receive ECS Benefits should receive no overall rate increases (for delivery and commodity) until February 1, 2006 at which time rates would be increased so that total billed charges to all customers would increase by approximately 5%. In August 2006, an additional 6% increase would be implemented. The Authority estimates that the ECS Benefits to be paid by the Authority in 2005 and 2006 from internal funds, in addition to funds derived from the sale of hydroelectric power, as discussed above, would, in the aggregate, amount to $8 million. It is uncertain whether any ECS Benefits would be paid from Authority internal funds in the period after 2006.

A summary of the 2005 Act can be found in Note M(9).

Summary Balance Sheet

(*in Millions*)

	2005	2004	2003
Capital Assets	**$3,444**	$3,255	$3,190
Other Assets	**2,945**	2,780	2,882
Total Assets	**$6,389**	$6,035	$6,072
Long-term Liabilities	**$3,739**	$3,556	$3,673
Other Liabilities	**754**	641	643
Total Liabilities	**4,493**	4,197	4,316
Net Assets	**1,896**	1,838	1,756
Total Liabilities and Net Assets	**$6,389**	$6,035	$6,072

Capital Asset and Long-term Debt Activity

The Authority currently estimates that it will expend approximately $1,183 million for various capital improvements over the five-year period 2006-2010. The Authority anticipates that these expenditures will be funded using existing construction funds, internally-generated funds and additional borrowings. Such additional borrowings are expected to be accomplished through the issuance of additional commercial paper notes and/or the issuance of long-term fixed rate debt. Projected capital requirements during this period include:

Projects	(*in Millions*)
Niagara Upgrade	$ 20
Niagara Relicensing	44
St. Lawrence-FDR Modernization Program	100
St. Lawrence-FDR Relicensing Process/ Implementation	47
Blenheim-Gilboa Modernization Program	130
Energy Services and Technology Projects	493
Transmission	82
Other	267
Total	$1,183

In connection with the licensing of its newly constructed 500-MW Project, the Authority 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 from such project each year. The resolution of issues relating to the construction of the Authority's 500-MW Project has resulted in a commercial operation date of the Project of December 31, 2005 and estimated direct construction and overhead costs of the Project of approximately $740 million.

On October 23, 2003, the Federal Energy Regulatory Commission (FERC) issued to the Authority a new 50-year license (New License) for the St. Lawrence-FDR project, effective November 1, 2003. The Authority estimates that the total costs associated with the relicensing of the St. Lawrence-FDR project for a period of 50 years will be approximately $210 million of which approximately $129 million has already been spent or will be spent in near future. These total costs could increase in the future as a result of additional requirements that may be imposed by FERC under the New License.

In connection with the Authority's filing on August 18, 2005 of an application for a new, 50-year FERC license for its Niagara Project, the Authority has reached settlement agreements with various public and private entities. Pursuant to these agreements, the Authority would, among other things, provide monies for the establishment of a Greenway fund, a host communities fund, and certain ecological and land acquisition funds, as well as for a groundwater infiltration abatement project. The Authority would also provide 25 MWs of power to certain host communities, provide 1 MW of power and certain land and other benefits to the Tuscarora Nation, undertake a series of improvements in recreational areas, and provide for continued out-of-state power allocations from the Project. In December 2005, the Governor announced that the Authority had reached an additional relicensing settlement agreement with the City of Buffalo and Erie County pursuant to which the Authority would provide monies for establishment of a Greenway fund, a waterfront development fund, and other specified purposes. The Authority currently expects that the costs associated with the relicensing of the Niagara Project for a period of 50 years will be at least $510 million (2007 dollars), which includes the value of the power allocations, as well as the capital and operation and maintenance costs associated with the settlement elements contained in each package. This amount also includes $46.7 million in administrative costs associated with the relicensing effort, with the final amount and timing of such costs being uncertain at this point. The amount of such costs would depend upon the results of the relicensing process and any requirements imposed by FERC as a condition of such relicensing.

The Authority is in negotiations with other entities as part of the relicensing process, which may result in additional settlement agreements imposing significant additional financial obligations on the Authority. In addition to internally generated funds, the Authority will issue additional debt obligations in the future to fund Niagara relicensing costs. The Authority believes that it will be feasible to collect in its rates for the sale of Niagara power amounts necessary to fund such relicensing costs.

More detailed information about the Authority's capital assets is presented in Notes B and E to the financial statements.

Capital Structure

(*in Millions*)

	2005	2004	2003
Long-term debt			
Senior			
Revenue bonds	**$1,167**	$1,299	$1,421
Adjustable rate tender notes	**156**	162	167
Subordinated			
Subordinate revenue bonds	**78**	110	232
Commercial paper	**540**	405	444
Total long-term debt	**$1,941**	$1,976	$2,264
Net assets	**1,896**	1,838	1,756
Total Capitalization	**$3,837**	$3,814	$4,020

During 2005, long-term debt, net of current maturities, decreased by $35 million, primarily due to scheduled maturities ($156 million), and early extinguishments of debt ($32 million), which were partially offset by an increase in commercial paper ($153 million). During 2004, long-term debt, net of current maturities, decreased by $288 million, primarily due to early extinguishments of debt ($161 million) and scheduled maturities ($127 million). Total Debt to Equity as of December 31, 2005, decreased to 1.22 to 1 from 1.25 to 1 as of December 31, 2004. The Total Debt to Equity ratio as of December 31, 2005 is the lowest ratio since the Authority implemented proprietary accounting in 1982.

In January 2006, the Authority issued $172.5 million principal amount of Series 2006 A Revenue Bonds (2006 A Bonds) at a premium of $10.2 million for a total of $182.7 million. The 2006 A Bonds are due in various amounts beginning on November 15, 2007 through November 15, 2020 with interest rates ranging from 3.20% to 5.00%. Principal and interest payments on $144.3 million (84%) of the 2006 A Bonds are insured (Insured Bonds) by Financial Guaranty Insurance Company and are rated "AAA" by Standard & Poor's Rating Services and Fitch Ratings; and "Aaa" by Moody's Investors Service, Inc. The Insured Bonds are due November 15, 2010 through 2020. The uninsured $28.2 million (16%) of the 2006 A Bonds (due November 15, 2007 through 2009) is rated the same as the Authority's senior long-term debt in the Debt Ratings table below. The proceeds of the 2006 A Bonds were used to redeem $178.2 million Series 2000 A Revenue Bonds on February 23, 2006, and to pay the costs of issuance of the 2006 A Bonds.

Debt Ratings

	Moody's	Standard & Poor's	Fitch
Senior Debt:			
Long-term debt	Aa2	AA-	AA
Adjustable Rate Tender Notes	Aa2/VMIG1	AA-/A-1+	N/A
Subordinate Debt:			
Commercial Paper	P-1	A-1	F1+
Weekly Rate Bonds and Commercial Paper Bonds	Aa3/VMIG1	A+/A-1	AA/F1+
Municipal Bond Insurance Support:			
Series 2003 A Revenue Bonds (Senior Debt)	Aaa	AAA	AAA
Auction Rate Bonds (Subordinate Debt)	Aaa	AAA	AAA

In September 2004, Fitch Ratings increased the Authority's subordinate debt rating to "AA" from "AA-".
In June 2005, Standard & Poor's affirmed the Authority's debt ratings.

The Authority has a $800 million line of credit with a syndicate of banks supporting the Commercial Paper Notes and the Weekly Rate Bonds. The line expires February 1, 2007.

More detailed information about the Authority's debt is presented in Note F to the financial statements.

Risk Management

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-price and fuel-price hedging instruments.

The Vice President, Chief Risk Officer - Energy Risk Assessment and Control 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.

New York State Budget Matters

Legislation enacted into law, as part of the 2000-2001 State budget, as amended in 2002, 2003 and 2004, provides that the Authority "as deemed feasible and advisable by the Trustees, is authorized to make an additional annual voluntary contribution into the state treasury to the credit of the general fund," in connection with the PFJ Program. The Authority has made voluntary contributions totaling $219 million (including $50 million payments in March 2005 and December 2004) in addition to reimbursement payments to Power for Jobs customers, $37 million in 2005 and $58 million forecasted for 2006, in connection with the Power for Jobs legislation, (see Note M (3), "Power for Jobs"), if such monies are not needed for other Authority purposes.

The Executive Budget for State Fiscal Year 2005-2006 extended the PFJ Program to December 31, 2006 and increased the cap on Authority contributions from $275 million to $394 million. The Authority was authorized to make additional voluntary contributions in the amount of $75 million to the State. The Authority's staff will consider recommending to the Authority's Trustees that voluntary contributions be made to the State in the first quarter of 2006 in the amount of $75 million if such funds are not needed for other Authority purposes. Such amount would be in addition to reimbursement payments to Power for Jobs customers in connection with the current PFJ Program and any additional reimbursements which may be made as a result of the extension of the PFJ Program. The Authority's Trustees would only provide such additional financial assistance if and to the extent that monies are available to the Authority for such purpose and are not needed for Authority purposes.

The proposed Executive Budget for State Fiscal Year 2006-2007 includes a provision authorizing an additional voluntary contribution from the Authority but does not propose an increase in the aggregate $394 million cumulative cap on such contributions.

BALANCE SHEETS

December 31, 2005 and 2004 (*in Millions*)

Assets		**2005**	2004
Utility Plant	Electric plant in service	**$5,471**	$4,461
	Less accumulated depreciation	**2,138**	2,015
	Net electric plant in service	**3,333**	2,446
	Construction work in progress	**111**	809
	Net utility plant	**3,444**	3,255
Restricted Funds	Cash and cash equivalents	**13**	2
	Investment in securities, at fair value (Notes D, J and L)	**917**	894
	Total restricted funds	**930**	896
Capital Funds	Cash and cash equivalents	**46**	44
	Investment in securities, at fair value	**100**	166
	Total capital funds	**146**	210
Current Assets	Cash and cash equivalents	**108**	77
	Investment in securities, at fair value	**466**	497
	Interest receivable on investments	**13**	10
	Accounts receivable	**231**	185
	Materials and supplies, at average cost:		
	Plant and general	**63**	61
	Fuel (Notes H and M(4))	**26**	17
	Risk management assets (Note H)	**273**	109
	Miscellaneous receivables and other	**130**	111
	Total current assets	**1,310**	1,067
Other Noncurrent Assets	Unamortized debt expense	**14**	16
	Deferred charges, long-term receivables and other	**356**	337
	Notes receivable - nuclear plant sale (Note L)	**189**	254
	Total other noncurrent assets	**559**	607
	Total Assets	**$6,389**	$6,035

Liabilities and Net Assets			
Long-term Debt	Long-term debt (Notes C and F):		
	Senior		
	Revenue bonds	**$1,167**	$1,299
	Adjustable rate tender notes	**156**	162
	Subordinated		
	Subordinate revenue bonds	**78**	110
	Commercial paper	**540**	405
	Total long-term debt	**1,941**	1,976
Current Liabilities	Long-term debt due within one year	**156**	127
	Short-term debt (Note G)	**218**	198
	Accounts payable and accrued liabilities	**380**	316
	Total current liabilities	**754**	641
Other Noncurrent Liabilities	Liability to decommission divested nuclear facilities (Note L)	**851**	822
	Disposal of spent nuclear fuel (Note L)	**192**	187
	Deferred revenues and other	**755**	571
	Total other noncurrent liabilities	**1,798**	1,580
Net Assets	Invested in capital assets, net of related debt	**1,653**	1,604
	Restricted	**23**	24
	Unrestricted	**220**	210
	Net assets - sub-total	**1,896**	1,838
	Total Liabilities and Net Assets	**$6,389**	$6,035

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

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

Years ended December 31, 2005 and 2004 *(in Millions)*

		2005	2004
Operating Revenues	Power sales	**$2,063**	$1,796
	Transmission charges	**144**	142
	Wheeling charges	**299**	277
	Total Operating Revenues	**2,506**	2,215
Operating Expenses	Purchased power	**1,158**	1,015
	Operations	**369**	276
	Fuel oil and gas (Notes H and M(4))	**378**	260
	Maintenance	**79**	80
	Wheeling	**299**	277
	Depreciation	**147**	148
	Asset impairment charge (Note B (6))		64
	Total Operating Expenses	**2,430**	2,120
	Net Operating Revenue	**76**	95
Other Income	Investment income (Note D)	**42**	43
	Other	**18**	21
	Total Other Income	**60**	64
Other Expenses	Interest on long-term debt	**105**	99
	Interest - other	**8**	5
	Interest capitalized	**(31)**	(23)
	Amortization of debt discount/ (premium) and expense	**(4)**	(4)
	Total Other Deductions	**78**	77
	Net Revenues	**58**	82
	Net Assets at January 1	**1,838**	1,756
	Net Assets at December 31	**$1,896**	$1,838

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

STATEMENTS OF CASH FLOWS

Years ended December 31, 2005 and 2004 (*in Millions*)

		2005	2004
Cash Flows From Operating Activities	Received from customers for the sale of power, transmission and wheeling	**$2,440**	$2,225
	Paid to suppliers and employees for:		
	Purchased power	**(1,181)**	(1,035)
	Operations and maintenance	**(389)**	(372)
	Fuel oil and gas	**(389)**	(259)
	Wheeling of power by other utilities	**(293)**	(276)
	Net Cash Provided by Operating Activities	**188**	283
Cash Flows From Capital and Related Financing Activities	Earnings received on Capital Fund investments	**4**	6
	Sale of commercial paper	**239**	25
	Repayment of notes	**(5)**	(5)
	Retirement of bonds	**(150)**	(180)
	Repayment of commercial paper	**(88)**	(64)
	Gross additions to utility plant	**(254)**	(216)
	Interest paid, net	**(92)**	(104)
	Net Cash Used in Capital and Related Financing Activities	**(346)**	(538)
Cash Flows From Noncapital -Related Financing Activities	Energy conservation program payments received from participants	**32**	66
	Energy conservation program costs	**(75)**	(55)
	Sale of commercial paper	**52**	47
	Repayment of commercial paper	**(31)**	(66)
	Interest paid on commercial paper	**(5)**	(6)
	Entergy notes receivable	**94**	94
	Net Cash Provided by Noncapital-Related Financing Activities	**67**	80
Cash Flows From Investing Activities	Earnings received on investments	**29**	24
	Purchase of investment securities	**(9,108)**	(7,288)
	Sale of investment securities	**9,214**	7,488
	Net Cash Provided by Investing Activities	**135**	224
	Net increase in cash	**44**	49
	Cash and cash equivalents, January 1	**123**	74
	Cash and Cash Equivalents, December 31	**$167**	$123

Reconciliation to Net Cash Provided by Operating Activities	Net Operating Revenues	**$76**	$95
	Adjustments to reconcile net revenues to net cash provided by operating activities:		
	Provision for depreciation	**147**	148
	Asset impairment charge		64
	Net increase in prepayments and other	**(10)**	(5)
	Net (increase)/decrease in receivables and inventory	**(60)**	2
	Net (decrease)/increase in accounts payable and accrued liabilities	**35**	(21)
	Net Cash Provided by Operating Activities	**$188**	$283

*The accompanying notes are an integral part of these financial statement*s

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 766 of the Laws of 2005.

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 (Bond Act), 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

The Authority's accounting policies include the following:

(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 Authority also complies with FAS No. 71, "Accounting for the Effects of Certain Types of Regulation," as amended. This standard allows utilities to capitalize or defer certain costs or revenue based on management's ongoing assessment that it is probable these items will be recovered through the rate making process.

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) 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 less salvage is charged to accumulated depreciation.

(3) With the exception of the Authority's Small Clean Power Plants (SCPPs), depreciation of plant assets is provided on a straight-line basis over the estimated useful lives of the various classes of plant. The Authority is providing for depreciation of the SCPPs using the double-declining balance method 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 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.

(4) Net electric plant in service at December 31, 2005 and 2004, 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 **2005**	2004	Average Depreciation Rate **2005**	2004
Production:				
Steam	**$ 57**	$ 78	**5.1 %**	4.5%
Hydro	**992**	952	**1.8 %**	1.7%
Gas Turbine\ Combined Cycle	**1,057**	284	**4.8 %**	6.6%
Transmission	**926**	938	**2.8 %**	2.7%
General	**301**	194	**4.5 %**	4.8%
	$3,333	$2,446	**3.1 %**	3.3%

(5) Effective January 1, 2003, the Authority implemented FAS No. 143, "Accounting for Asset Retirement Obligations" (FAS No. 143), which requires an entity to record a liability at fair value to recognize legal obligations for asset retirements in the period incurred and to capitalize the cost by increasing the carrying amount of the related long-lived asset. The Authority has determined that it has legal liabilities for the retirement of certain SCPPs in New York City. As of January 1, 2003 the liability calculated under the provisions of FAS No. 143 was approximately $15.8 million, which was charged to the cumulative effect of a change in accounting principle. This charge represents the amount that would have been recorded at January 1, 2003 if FAS No. 143 had always been applied to the existing legal obligations.

In addition to the FAS No. 143 asset retirement obligations, the Authority has other cost of removal obligations that are being collected from customers, and, under the provisions of FAS No. 71, "Accounting for the Effects of Certain Types of Regulation," were previously included in accumulated depreciation. The Authority has estimated that the balance of such regulatory liabilities included in accumulated depreciation at December 31, 2005 and 2004 were approximately $179 million and $169 million, respectively, and has reclassified such amounts to Other Noncurrent Liabilities on the Balance Sheets.

Asset retirement obligations (ARO) and regulatory amounts included in Other Noncurrent Liabilities are as follows:

(*in Millions*)	ARO Amounts	Regulatory Amounts
Balance – December 31, 2004	$17	$169
Accretion expense	1	--
Depreciation expense	--	10
Balance – December 31, 2005	**$18**	**$179**

(6) Effective January 1, 2005, the Authority implemented GAS No. 42, "Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries" (GAS No. 42), which states that asset impairments are generally recognized only when the service utility of an asset is reduced or physically impaired.

GAS No. 42 states that asset impairment is a significant, unexpected decline in the service utility of a capital asset. The service utility of a capital asset is the usable capacity that at acquisition was expected to be used to provide service, as distinguished from the level of utilization, which is the portion of the usable capacity currently being used. Decreases in utilization and existence of or increases in surplus capacity that are not associated with a decline in service utility are not considered to be impairment.

The Authority had previously recognized asset impairment charges of $34 million in 2004, $63 million in 2002 and $62 million in 2001 related to the SCPPs; and $30 million in 2004 related to the CSC Project. The Authority's CSC Project was undertaken to enhance the efficiency of the transmission system in New York State. The project was completed but with significant uncertainty regarding the mechanisms that would be available to the Authority to recover its capital cost. The Authority's SCPPs were installed at various sites in New York City and in the service territory of LIPA during the summer of 2001 to meet capacity deficiencies and ongoing local reliability requirements in the New York City metropolitan area. These impairments were recognized based on the standards promulgated by the Financial Accounting Standard Board. Such standards require the recognition of an impairment charge and a reduction of an asset's carrying value to fair value when the cash flows resulting from the operation of a plant asset are expected to be less than its book value.

(7) Cash includes cash and cash equivalents and short-term investments with maturities, when purchased, of three months or less. The Authority accounts for investments at their fair value. Fair value is determined using quoted market prices. Investment income includes changes in the fair value of these investments.

(8) 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. The Authority has adopted FAS No. 133, "Accounting for Derivatives and Hedging Activities" (FAS No. 133), 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.

(9) Accounts receivable are classified as current assets and are reported net of an allowance for uncollectible amounts.

(10) Material and supplies are valued at the lower of cost or market. These inventories are charged to expense during the period in which the maintenance or repair occurs.

(11) At December 31, 2005 and 2004, deferred charges included $80.4 million and $62.4 million, respectively, of energy-services-program costs. In addition, the deferred charges relating to the mark-to-market of derivatives are included in this classification. See Note B(8) above and Note H for more detailed information. These deferred costs are being recovered from customers.

(12) 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."

(13) 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 Net Assets and in other noncurrent liabilities on the Balance Sheet.

(14) Net Assets represent the difference between assets and liabilities and are classified into three categories:

- Investment in Capital Assets, Net of Related Debt – This reflects the net assets of the Authority that are invested in capital assets, net of related debt and accounts such as related risk management assets and liabilities. This indicates that these assets are not accessible for other purposes.
- Restricted Net Assets – This represents the net assets that are not accessible for general use because their use is subject to restrictions enforceable by third parties.
- Unrestricted Net Assets – This represents the net assets that are available for general use.

Restricted and unrestricted resources are utilized, as applicable, by the Authority for their respective purposes.

(15) Revenues are recorded when service is provided. 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 NYC Governmental Customers and three investor-owned utilities operating in the State accounted for approximately 46 and 45 percent of the Authority's operating revenues in 2005 and 2004, respectively. The Authority distinguishes operating revenues and expenses from non-operating items in the preparation of its financial statements. The principal operating revenues are generated from the sale, transmission, and wheeling of power. The Authority's operating expenses include fuel, maintenance, depreciation, purchased power costs, and other expenses related to the sale of power. All revenues and expenses not meeting this definition are reported as other income and expenses.

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

(17) Certain prior year amounts have been reclassified to conform with the current year's presentation. These reclassifications had no effect on net income.

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, as defined in the Bond Resolution, 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

Credit Risk

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

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

Interest Rate Risk

Securities that are the subject of repurchase agreements must have a market value at least equal to the cost of the investment. The agreements are limited to a maximum fixed term of five business days and may not exceed the greater of 5% of the investment portfolio or $100 million. The Authority has no other policies limiting investment maturities.

Concentration of Credit Risk

There is no limit on the amount that the Authority may invest in any one issuer; however, investments in authorized certificates of deposit shall not exceed 25% of the Authority's invested funds. At December 31, 2005, 11.7 percent and 6.0 percent of the Authority's investments were in FNMA and FHLMC securities, respectively.

Decommissioning Fund

The Decommissioning Trust Fund is managed by an external investment portfolio manager. Under the Decommissioning Agreements (see Note L), the Authority will make no further contributions to the Decommissioning Funds. The Authority's decommissioning responsibility will not exceed the amounts in each of the Decommissioning Funds. Therefore, the Authority's obligation is not affected by various risks which include credit risk, interest rate risk, and concentration of credit risk. In addition, the Decommissioning Trust Fund is not required to be administered in accordance with the Authority's or New York State investment guidelines.

Other

All investments are held by designated custodians in the name of the Authority. At December 31, 2005 and 2004, the Authority had investments in repurchase agreements of $84.9 million and $54.1 million, respectively. The bank balances were $ 6.9 million and $6.6 million, respectively, of which $5.4 million and $ 5.0 million, respectively, were collateralized.

A summary of unexpended funds for projects in progress included in the Capital Fund at December 31, 2005 and 2004, is in the Investment Summary.

Investment Summary
(in Millions)
Estimated Fair Value
December 31, 2005

	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
Cash and equivalents	$ 167	$ 13		$13		$ 46	$108
U.S. Government /Agencies							
Treasury Bills	45	45		45			
Treasury Notes	17					17	
GNMA	87						87
	149	45		45		17	87
Other debt securities							
FNMA	193	6			$ 6	18	169
FHLMC	98	8			8	35	55
FHLB	81					17	64
FFCB	33						33
All Other	73	7		1	6	13	53
	478	21		1	20	83	374
Repurchase Agreements	5						5
Portfolio Manager	851	851	$851				
Total Investments	1,483	917	851	46	20	100	466
	$1,650	$930	$851	$59	$20	$146	$574

Summary of Maturities Years	Total	Total Restricted Funds	Decommissioning Trust Fund	POCR & CAS Projects Funds	ART Note Debt Reserve	Capital Fund	Current Assets
0-1	$ 455	$ 114	$ 35	$59	$20	$105	$236
1-5	371	130	130			28	213
5-10	82	66	66				16
10+	435	313	313			13	109
Common Stock	307	307	307				
	$1,650	$930	$851	$59	$20	$146	$574

Estimated Fair Value
December 31, 2004

	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
Cash and equivalents	$ 123	$ 2		$ 2		$ 44	$ 77
US Government /Agencies							
Treasury Bills	72	51		51		21	
Treasury Notes							
GNMA	85						85
	157	51		51		21	85
Other debt securities							
FNMA	194	6			$ 6	43	145
FHLMC	210	9			9	61	140
FHLB	43					13	30
FFCB	32					13	19
All Other	95	6		1	5	15	74
	574	21		1	20	145	408
Repurchase Agreements	4						4
Portfolio Manager	822	822	$822				
Total Investments	1,557	894	822	52	20	166	497
	$1,680	$896	$822	$54	$20	$210	$574

Summary of Maturities Years	Total	Total Restricted Funds	Decommissioning Trust Fund	POCR & CAS Projects Funds	ART Note Debt Reserve	Capital Fund	Current Assets
0-1	$ 356	$ 56	$ 2	$54		$132	$168
1-5	402	112	92		$20	66	224
5-10	142	141	141				1
10+	500	307	307			12	181
Common Stock	280	280	280				
	$1,680	$896	$822	$54	$20	$210	$574

Note E – Changes in Capital Assets

(in Millions)

The Changes in Capital Assets are as follows:

	2005	2004
Gross utility plant, beginning balance	**$4,461**	$4,460
Add: Acquisitions	**1,023**	76
Less: Dispositions (including retirements) and impairments, if any	**13**	75
Gross utility plant, ending balance	**5,471**	4,461
Less: Accumulated depreciation	**2,138**	2,015
Add: Construction work in progress	**111**	809
Net utility plant, ending balance	**$3,444**	$3,255

Note F - Long-term Debt
(in Millions)

Components

Long-term debt at December 31, 2005 and 2004 consists of:

	2005	2004
Senior Debt		
Revenue Bonds	**$1,167**	$1,299
Adjustable Rate Tender Notes	**156**	162
Subordinated Debt		
Subordinate Revenue Bonds	**78**	110
Commercial Paper	**540**	405
	$1,941	$1,976

Senior Debt	**2005 Amount**	2004 Amount	Interest Rate	Maturity	Earlies Redemption Date Prior to Maturit
1. Revenue Bonds					
Series 1998 A	**$ 167**	$ 212	4.4% to 5.5%	2/15/2006 to 2016	2/15/200
Series 2000 A Revenue Bonds					
Serial Bonds	**187**	195	4.4% to 5.50%	11/15/2006 to 2020	11/15/200
Term Bonds	**10**	10	5.25%	11/15/2030	11/15/201
Term Bonds	**67**	67	5.25%	11/15/2040	11/15/201
Series 2001 A Revenue Bonds					
Serial Bonds	**136**	182	4.00% to 5.50%	11/15/2006 to 2008	Non-callabl
Series 2002 A Revenue Bonds					
Serial Bonds	**500**	520	2.125% to 5.25%	11/15/2006 to 2022	11/15/201
Series 2003 A Revenue Bonds					
Serial Bonds	**28**	28	3.69% to 4.83%	11/15/2008 to 2013	Any dat
Term Bonds	**186**	186	5.230% to 5.749%	11/15/2018 to 2033	Any dat
	1,281	1,400			
Plus: Unamortized premium	**33**	40			
Less: Deferred refinancing costs	**17**	21			
	1,297	1,419			
Less: Due within one year	**130**	120			
	$1,167	$1,299			

Interest on Series 2003 A Revenue Bonds is not excluded from gross income for bondholders' Federal income tax purposes.

In prior years, the Authority defeased certain Revenue Bonds and 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, 2005 and 2004, $400 million and $500 million, respectively, of outstanding bonds were considered defeased.

In January 2006, the Authority issued $172.5 million principal amount of Series 2006 A Revenue Bonds (2006 A Bonds) at a premium of $10.2 million for a total of $182.7 million. The 2006 A Bonds are due in various amounts beginning on November 15, 2007 through November 15, 2020 with interest rates ranging from 3.20% to 5.00%. Principal and interest payments on $144.3 million (84%) of the 2006 A Bonds are insured (Insured Bonds) by Financial Guaranty Insurance Company and are rated "AAA" by Standard & Poor's Rating Services and Fitch Ratings; and "Aaa" by Moody's Investors Service, Inc. The Insured Bonds are due November 15, 2010 through 2020. The uninsured $28.2 million (16%) of the 2006 A Bonds (due November 15, 2007 through 2009) is rated the same as the Authority's senior long-term debt (See Debt Ratings table on page8). The proceeds of the 2006 A Bonds were used to redeem $178.2 million Series 2000 A Revenue Bonds on February 23, 2006, and to pay the costs of issuance of the 2006 A Bonds. The present value of the economic savings from this refunding is approximately $14 million.

Senior Debt	2005 Amount	2004 Amount	Interest Rate*	Maturity	Earliest Redemption Date Prior to Maturity
2. Adjustable Rate Tender Notes (Notes)					
2007 Notes	**$12**	$ 17	At 12/31/05: 2.80 %	3/1/2007	May be tendered
2016 Notes	**75**	75	At 12/31/05: 2.80 %	3/1/2016	by holder on any
2020 Notes	**75**	75	At 12/31/05: 2.80 %	3/1/2020	adjustment date.
	162	167			
Less: Due within one year	**6**	5			
	$156	$162			

The Notes may be tendered to the Authority by the holders on any adjustment date. The next rate adjustment dates are March 1, 2006 and September 1, 2006. The Authority has entered into a revolving credit agreement (Agreement) with Dexia Credit Local, acting through its New York Agency, to provide a supporting line of credit. Under the Agreement, which terminates on September 5, 2006, the Authority may borrow up to $162 million for the purpose of repaying, redeeming or purchasing the Notes. The Agreement provides for interest on outstanding borrowings (none outstanding at December 31, 2005 and 2004) at either (i) the Federal Funds Rate plus a percentage, or (ii) a rate based on the London Interbank Offered Rate (LIBOR) 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.

* See Note H for the Authority's risk management program relating to interest rates.

Subordinated Debt	2005 Amount	2004 Amount	Interest Rate At 12/31/05	Maturity
3. Subordinate Revenue Bonds				
Series 3	**$40**	$ 40	Auction Rate: 2.75%	02/15/2025
Series 4	**40**	40	Auction Rate: 3.10%	02/15/2025
Series 5		30		11/15/2011
	80	110		
Less: Due within one year	**2**			
	$78	$110		

During 2005, Subordinate Revenue Bonds, Series 5, were redeemed. During 2004, Subordinate Revenue Bonds, Series 2 and 12, were redeemed.

Senior and Subordinate Revenue 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. Series 2003 A Revenue Bonds (2003 A Bonds) are subject to optional redemption on any date. The 2003 A Term Bonds are subject to sinking fund redemptions in specified amounts beginning four years prior to their respective maturities. Subordinate Revenue Bonds, Series 3 and 4, may be redeemed on any interest payment date.

At December 31, 2005 and 2004, the current market value of these bonds (both senior and subordinate revenue bonds) was approximately $1.57 billion and $1.60 billion, respectively. Market values were obtained from a third party that utilized a matrix-pricing model.

Subordinated Debt	Availability	2005	2004	Interest Rate At 12/31/05	Maturity
4. Commercial Paper (Long-term portion)					
EMCP (Series 1)	$ 100	**$ 39**	$ 20	3.14%	2006 to 2025
CP (Series 2)	450	**248**	269	3.10%	2006 to 2014
CP (Series 3)	350	**271**	118	4.33%	2006 to 2025
CP (Series 4)	220				
	$1,120	**558**	407		
Less: Due within one year		**18**	2		
		$540	$405		

Under the Extendible Municipal Commercial Paper (EMCP) Note Resolution, adopted December 17, 2002, and as subsequently amended and restated, the Authority may issue a series of notes, designated EMCP Notes, Series 1, maturing not more than 270 days from the date of issue, up to a maximum amount outstanding at any time of $ 100 million (EMCP Notes).

The proceeds of the Series 2, 3, and 4 Commercial Paper Notes (CP Notes) were used to refund General Purpose Bonds and for other corporate purposes. The proceeds of the EMCP Notes issued in 2005 were used to refund Series 3 CP Notes. CP Notes and EMCP Notes have been used, and may in the future be used, for other corporate purposes. It is the Authority's intention to renew the Series 2 and 3 CP Notes and the EMCP Notes as they mature so that their ultimate maturity dates will range from 2006 to 2025, as indicated in table above.

The Authority has a line of credit under a revolving credit agreement (the RCA) to provide liquidity support for the Series 1-3 CP Notes, with a syndicate of banks, providing $800 million for such CP Notes and for other purposes until February 1, 2007, which succeeded another revolving credit agreement (the Prior RCA) in January 2004. No borrowings have been made under the RCA or the Prior RCA. The Authority has the option to extend the maturity of the EMCP Notes and would exercise such right in the event there is a failed remarketing. This option serves as a substitute for a liquidity facility for the EMCP Notes.

CP Notes and EMCP Notes are subordinate to the Series 1998 Revenue Bonds, the Series 2000 A Revenue Bonds, the Series 2001 A Revenue Bonds, the Series 2002 A Revenue Bonds, the Series 2003 A Revenue Bonds, and the Adjustable Rate Tender Notes.

Interest on the CP (Series 3) is taxable for Federal income tax purposes.

Long-term Debt
Maturities and Interest Expense

(*in Millions*)

Year	Principal	Interest	Total
2006	$ 156	$ 92	$ 248
2007	212	84	296
2008	176	75	251
2009	143	68	211
2010	113	62	175
2011-2015	471	252	723
2016-2020	448	153	601
2021-2025	186	69	255
2026-2030	67	42	109
2031-2035	65	20	85
2036-2040	44	8	52
	2,081	925	3,006
Plus : Unamortized bond premium	33		33
Less: Deferred refinancing cost	17		17
	$2,097	$925	$3,022

Interest rate used to calculate future interest expense on variable rate debt is the interest rate at December 31, 2005.

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.

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).

Series 3 and 4 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.

CP Notes and EMCP Notes (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. If the Authority exercises its option to extend the maturity of the EMCP Notes, the reset rate will be (1.35 X BMA) + E, where BMA is the Bond Market Association Municipal Swap Index, which is calculated weekly, and where "E" is a fixed percentage rate expressed in basis points (each basis point being 1/100 of one percent) that is determined based on the Authority's debt ratings. As of December 31, 2005, the reset rate would have been 5.91%.

Changes in Long-term Liabilities

(*in Millions*)

Changes in Long-term Debt	**2005**	2004	Changes in Other Long-term Liabilities	**2005**	2004
Long-term debt, beginning balance	**$1,976**	$2,264	Other long-term liabilities, beginning balance	**$1,580**	$1,409
Increases	**243**	30	Increases	**277**	244
Decreases	**(122)**	(191)	Decreases	**(59)**	(73)
	2,097	2,103			
Due within one year	**156**	127			
Long-term debt, ending balance	**$1,941**	$1,976	Other long-term liabilities, ending balance	**$1,798**	$1,580

Note G - Short-term Debt

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

	December 31, 2005		December 31, 2004	
(*in Millions*)	Availability	Outstanding	Availability	Outstanding
CP Notes (Series 1)	**$350**	**$218**	$350	$ 198

Under the Commercial Paper Note Resolution adopted June 28, 1994, as amended and restated on November 25, 1997, and as subsequently 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 CP Notes). See Note F - Long-term Debt for Series 2, 3 and 4 CP Notes and the EMCP Notes. The proceeds of the Series 1 CP 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	Ending Balance
2005	**$197.9**	**$51.8**	**$31.5**	**$218.2**
2004	$216.7	$47.0	$65.8	$ 197.9

CP Notes are subordinate to the Series 1998 Revenue Bonds, the Series 2000 A Revenue Bonds, the Series 2001 A Revenue Bonds, the Series 2002 A Revenue Bonds, the Series 2003 A Revenue Bonds, and the Adjustable Rate Tender Notes.

Note H - Risk Management and Hedging Activities

In addition to insurance, which is described in item (4) herein, another aspect of the Authority's risk management program is to manage the impacts of interest rate, energy and fuel market fluctuations on its earnings, cash flows and market values of assets and liabilities. To achieve its objectives 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. These standards establish accounting and reporting requirements for derivative instruments and hedging activities (see Note B (8)). The fair values of all Authority derivative instruments, as defined by FAS No. 133, 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 (the 2002 SWAPS and 2001 SWAPS, respectively). Based upon these forward interest rate swaps, the Authority would pay interest calculated at fixed rates (4.7 percent to 5.1 percent) to the counterparties. In return, the counterparties would pay interest to the Authority based upon the Bond Market Association Municipal Swap Index (BMA Index) on the established reset dates. In 2001, upon completion of the $231.2 mandatory redemption of the Series 1998 B Revenue Bonds, the Authority terminated the 2001 SWAPS at a cost of $12.7 million. On November 15, 2002 the Authority completed the remaining mandatory payment on the Series 1998 B Revenue Bonds from the proceeds of the issuance of Series 2 and Series 3 CP Notes. The 2002 SWAPS became active on November 15, 2002 and are designated as a hedge on the interest cost of the Series 2 and Series 3 CP Notes that were issued to make the mandatory payments. The Authority intends to refinance the Series 2 and Series 3 CP Notes with fixed rate debt when it is advantageous to do so in the future.

During 2005 and 2004, net settlement payments on the 2002 SWAPS resulted in increases in interest costs of $7.2 million and $10.8 million, respectively. On December 31, 2005 and 2004, the unrealized losses on the 2002 SWAPS were $17.5 million and $26.8 million, respectively. Since the Authority anticipates the recovery from customers of the remaining unamortized $3.1 million termination cost and the future settlement costs of the 2002 SWAPS, these amounts have been deferred in Other Noncurrent Assets on the Balance Sheet. The cost of terminating the 2001 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.

(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 percent on the notional amount ($296 million) of the swap and for the Authority to pay a rate based upon the BMA Index. In 2005 and 2004, the net settlement payments and receipts of these fixed-to-floating interest rate swaps resulted in reductions of $5.9 million and $10.3 million, respectively, to the hedged debt's interest cost. On July 19, 2001 and January 9, 2002, the Authority entered into floating-to-fixed interest rate swaps designed to mirror the Series 2000 A Revenue Bond interest rate swaps notional amounts. The objective was to lock-in the lower interest costs on the Series 2000 A Revenue Bond interest rate swaps resulting from lower interest rate trends since their execution through July of 2001. The swaps require the Authority to pay the counterparties rates ranging between 3.149 percent and 3.50 percent on the total notional amount ($296 million) of the swaps and for the counterparties to pay a rate based upon the BMA Index. In 2005 and 2004, the net settlement payments and receipts of these floating-to-fixed interest rate swaps resulted in charges of $1.6 million and $3.4 million, respectively, to interest cost. As of December 31, 2004, the unrealized loss on all these interest rate swaps was $1.2 million.

In November and December of 2005, the counterparties to the fixed-to-floating interest rate swaps elected the option within the instruments to terminate their respective swaps. In December of 2005 the floating-to-fixed interest rate swaps expired. As of December 31, 2005, the fair value loss of $2.7 million on the related caps which range from 8% to 12.125% through 2030 was charged to interest cost.

(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 is paying interest calculated at a fixed rate of 3.48 percent. In return the counterparty would pay interest to the Authority based upon 66 percent of the six-month LIBOR established on the reset dates that coincide with the Notes rate reset dates. In 2005 and 2004, the net settlement payments and receipts on this forward interest rate swap resulted in a charge $2.2 million and $4.2 million, respectively. On December 31, 2005 and 2004, the unrealized losses on the forward interest rate swap were $0.8 million and $4.6 million, respectively. These unrealized losses have been deferred in Other Noncurrent 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 interest rate swaps would be included in the gain or loss on the extinguishment of the obligation.

(d) Series 1 CP Notes and Certain Subordinate Revenue Bonds
During 2004, certain interest rate caps that were purchased with the objective of limiting exposure to rising interest rates relating to the Series 1 CP Notes and certain Subordinate Revenue Bonds expired. During 2005 and 2004, interest rate market conditions did not exceed any of the contractual caps. The interest rate for the Series 1 CP Notes is capped at 5.9 percent based upon the BMA Index for a notional amount ($250 million) through July 1, 2007. The fair values of the interest rat e caps as of December 31, 2005 and December 31, 2004 were not significant.

(2) Energy Market Risk Management
(a) Customer Load Requirements
In 2001, the Authority entered into a long-term forward energy swap agreement to fix the cost of energy to meet certain long-term customer load requirements between 2004 and 2007. Net settlements on this forward energy swap resulted in a decrease of $89.7 million and $10.8 million in Purchased Power costs for 2005 and 2004 respectively. On December 31, 2005 and 2004, the fair values of this forward energy swap were unrealized gains of $89.8 million and $73.1 million, respectively. Since the Authority anticipates recovery of any net settlement costs of this forward energy swap from customers, these unrealized gains have been deferred in Other Noncurrent Liabilities on the Balance Sheets.

In 2003, 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 2005 and 2008. During 2005, net settlements on this forward energy swap resulted in a decrease of $24.5 million in Purchased Power costs. On December 31, 2005 and 2004, the fair values of this forward energy swap were unrealized gains of $76.0 million and $32.4 million, respectively. Since the Authority anticipates recovery of any net settlement costs of this forward energy swap from customers, these unrealized gains have been deferred in Other Noncurrent Liabilities on the Balance Sheets.

In 2003, the Authority entered into a long-term forward energy swap to fix the yearly cost to effectively purchase a maximum 26.5 megawatts of wind power energy between 2005 and 2014, the effectiveness of the swap being conditioned upon certain events occurring. Based upon the occurrence of certain default events covered under the long-term forward swap agreement the Authority exercised its right to terminate the long-term forward swap agreement in October of 2005.

On March 24, 2005, 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 2008 and 2010. On December 31, 2005 the fair value of this forward energy swap was a $25.5 million unrealized gain. Since the Authority anticipates recovery of any net settlements costs of this forward energy swap from customers, these unrealized gains have been deferred in Other NoncurrentLiabilities on the Balance Sheets.

During 2005 and 2004, the Authority entered into a number short-term energy swaps. The objective of these short-term energy swaps is to fix the price of purchases of energy in the New York Independent System Operator (NYISO) electric market to meet short-term forecasted load requirements for the Authority's PFJ Program. During 2005 and 2004, the net settlements of these short-term energy swaps resulted in Purchased Power cost decreases of $15.4 million and $3.7 million, respectively. On December 31, 2005 and 2004, the fair values of these short-term energy swaps were unrealized losses of $5.6 million and $1.8 million, respectively. Since the Authority anticipates recovery of any net settlements of the short-term energy swaps from customers, the unrealized losses have been deferred in Other Noncurrent Assets on the Balance Sheets.

During 2005 and 2004, the Authority entered into a number of short-term energy swaps. The objective of these short-term energy swaps is to fix the price of purchases of energy in the NYISO electric market to meet short-term forecasted load requirements for the Authority's NYC Governmental Customers. During 2005, net settlements of these short-term energy swaps resulted in a decrease of $6.3 million in Purchased Power costs. On December 31, 2005 and 2004, the fair values of these short-term energy swaps were an unrealized gain of $6.8 million and unrealized loss of $1.4 million, respectively. Since the Authority anticipates recovery of any net settlements of these short-term energy swaps from customers, these unrealized gains and losses have been deferred in Other Noncurrent Liabilities and Other Noncurrent Assets on the Balance Sheets.

During 2005, the Authority purchased a number of short-term energy options. The objective of these short-term energy options is to cap the price of purchases of energy in the NYISO electric market to meet short-term forecasted load requirements for the Authority's NYC Governmental Customers in 2006. On December 31, 2005, the intrinsic value of these short-term energy options was zero. The premiums of $7.2 million associated with these short-term energy options will be amortized to Purchased Power costs during 2006.

(b) Generating Capacity
During 2005 and 2004, the Authority entered into a number of fixed-to-floating energy swaps relating to a portion of the SCPPs' generation, with the objectives of hedging prices in a rising market and mitigating the effect of falling market prices on revenue during the summer period. In 2005 and 2004, net settlements with counterparties on these fixed-to-floating energy swaps resulted in a decrease of $1.4 million and an increase $3.2 million, respectively, in Operating Revenues.

During 2005 and 2004, the Authority entered into a number short-term energy swaps. The objective of these short-term energy swaps is to fix the price of purchases of energy in the NYISO electric market to meet short-term forecasted load requirements for operating the Authority's Lewiston Pump facility. During 2005, net settlements of these short-term energy swaps resulted in a decrease of $16.2 million in Purchased Power costs. On December 31, 2005 and 2004, the fair values of these short-term energy swaps were an unrealized gain of $ 19.8 million and an unrealized loss of $1.8 million, respectively. Since the Authority anticipates recovery of any net settlements of these short-term energy swaps from customers, these unrealized gains and losses have been deferred in Other Noncurrent Liabilities and Other Noncurrent Assets on the Balance Sheets.

(3) Fuel Market Risk Management
During 2005 and 2004, the Authority purchased a number of natural gas call options and swaps with the objective of limiting its exposure to the floating market price of natural gas required for electrical generation at its Flynn facility. On December 31, 2005 the fair value of these natural gas call options and swaps was $0.6 million. On December 31, 2004, the Authority did not hold any open natural gas call option or swaps positions. In 2005 and 2004, the premiums paid and the net settlements for these natural gas call options and swaps did not have a significant impact on fuel costs.

In 2005 and 2004, the Authority purchased a number of natural gas swaps with the objective of limiting its exposure to the floating market price of natural gas required for electrical generation at its Poletti facility. During 2005, net settlements of these natural gas swaps resulted in a decrease of $ 28.7 million in fuel costs. On December 31, 2005 and 2004 the fair values of these natural gas swaps were unrealized gains of $22.4 million and $0.8 million, respectively. Since the Authority anticipates recovery of any net settlements of these natural gas swaps from customers, these unrealized gains have been deferred in Other Noncurrent Liabilities on the Balance Sheets.

During 2005 and 2004, the Authority purchased a number of NYMEX natural gas and oil futures contracts with the objective of limiting its exposure to the floating market price of natural gas and oil required for electrical generation at its Poletti facility. During 2005, the liquidation of these NYMEX natural gas and oil futures contracts resulted in a decrease of $1.0 million to fuel costs. On December 31, 2005 and 2004, the fair values of these NYMEX natural gas and oil futures contracts was an unrealized gain of $25.7 million and an unrealized loss of $0.3 million, respectively. Since the Authority anticipates recovery of any net liquidations of these NYMEX natural gas futures from customers, these unrealized gains and losses have been deferred in Other Noncurrent Liabilities and Other Noncurrent Assets on the Balance Sheets.

During 2005 the Authority entered into a number natural gas basis swaps with the objective of limiting exposure to the floating market natural gas pipeline transportation costs to the New York City Gate. During 2005, the net settlements of these natural gas basis swaps resulted in an increase of $ 4.5 million to fuel expense. On December 31, 2005, the fair value of these natural gas basis swaps was an unrealized loss of $9.0 million. Since the Authority anticipates recovery of any net settlements of these natural gas basis swaps from customers, these unrealized losses have been deferred in Noncurrent Assets on the Balance Sheets.

(4) Insurance
The Authority purchases insurance coverage for its operations, and in certain instances, is self-insured. Property insurance purchase protects the various real and personal property owned by the Authority and the property of others while in the care, custody and control of the Authority for which the Authority may be held liable. Liability insurance purchase protects the Authority from third-party liability related to its operations, including general liability, automobile, aircraft, marine and various bonds. The Authority self-insures a certain amount of its general liability coverage and the physical damage claims for its owned and leased vehicles. In addition, the Authority pursues subrogation claims against any entities that cause damage to its property.

Note I - 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.

In May, 2003, legislation was passed by the New York State Legislature, and signed into law by the Governor, that established, among other things, a minimum annual contribution by employers commencing with the System's fiscal year ending March 31, 2004. The new law will reduce the volatility of employer contributions, in future years, by requiring employers to make a minimum contribution of 4.5% of gross salaries every year, including years in which investment performance by the fund would make a lower contribution possible.

Under this plan, the Authority's required contributions to the System were $15.3 million, $15.9 million, and $11.2 million for the years ended March 31, 2006, 2005 and 2004, respectively (paid on or about December 15, 2005, 2004 and 2003). The $11.2 million contribution paid in 2003 included $5.5 million for the cost of participating in the System's early retirement incentive program in 2002.

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, 2005.

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. Prior to January 1, 2002, the cost of these benefits was charged to expense, as paid. Effective January 1, 2002, the Authority implemented accrual accounting for its OPEB obligations, based on the approach provided in GAS No. 27, "Accounting for Pensions by State and Local Government Employers." The Authority subsequently followed GAS No. 45, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions," when it was issued in June 2004. In December 2003, President George W. Bush signed into law the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (2003 Medicare Act). To reflect the effect of the 2003 Medicare Act and actuarial adjustments, the present value of the Authority's prior service OPEB obligation, as of January 1, 2004, of $ 317 million, was reduced by $29 million and $ 9 million respectively, to $279 million, resulting in a decrease of $ 38 million from the prior year. In 2004, the Authority continued recognizing this prior service obligation over a remaining 18-year period (based on a 20-year period begun in 2002) using level dollar amortization of $24.3 million annually. In 2004, the Authority also continued utilizing the projected unit credit method and a discount rate of 6 %. As of December 31, 2005, this prior service obligation is unfunded. The 2005, 2004 and 2003 OPEB provisions of $ 32.3 million, $30.9 million and $31.2 million, respectively, include 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. OPEB provisions continue to be financed on a pay-as-you-go basis. Approximately 1,100 participants were eligible to receive these benefits at December 31, 2005.

(In Millions)	**2005**	2004	2003
Unfunded Actuarial Accrued Liability (UAAL):			
Beginning Balance	**$300**	$317	$294
2003 Medicare adjustment		(29)	
Actuarial adjustment		(9)	
Adjusted beginning balance	**300**	279	294
Accrual	**32**	31	31
Payments to retirees during year	**(10)**	(10)	(8)
Ending Balance	**$322**	$300	$317
Covered payroll	**$131**	$129	$123
Ratio of UAAL to covered payroll	**246%**	233%	234%

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. Such matching annual contributions for 2005 and 2004 totaled $ 2.2 million and $ 2.1 million 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.

Note J - 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 $60.2 million to date, took place annually from 1996 to 2003. The POCR funds are included in restricted funds in the Balance Sheet. The funds are held in a separate escrow account until they are utilized.

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 K - NYISO

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.

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 required to pay the difference.

In times of maximum energy usage, this cost could be substantial. This outage cost risk is primarily of concern to the Authority in the case of its Poletti unit and 500-MW unit because of their size, nature and location, and in connection with the Authority's purchase of power and energy from the Indian Point 3 and 2 nuclear plants (see Note (L) - 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 or failure of its energy suppliers to meet their contractual obligations. As part of an ongoing risk mitigation program, the Authority implements as appropriate financial hedging techniques to cover, among other things, future maximum energy usage periods.

Note L - 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) maturing over a 15-year period. The present value of these payments recorded on the Closing Date, utilizing a discount rate of 7.5%, was $680 million.

In November 2005 and 2004, the Authority received a scheduled payment of $83.7 million for each year from Entergy. As of December 31, 2005 and 2004, the present value of the notes receivable were:

(*in Millions*)	**2005**	2004
Notes receivable - nuclear plant sale	**$254**	$315
Less: Due within one year	**65**	61
	$189	$254

As a result of competitive bidding, the Authority has agreed to purchase energy and capacity from Entergy's IP3 and IP2 nuclear power plants in the total amount of 500 MW during the period 2005 to 2008.

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. The September 6, 2005 and 2004 payments were received and are included in Other Income.

(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, 2005, the liability to Entergy totaled $192.4 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 IP 3 and JAF, amounting to approximately $4.5 million as of December 31, 2005, to be paid in 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 that 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 $851 million and $822 million are included in Restricted Funds and Other Noncurrent Liabilities in the Balance Sheets at December 31, 2005 and 2004, 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 M - Commitments and Contingencies

(1) Competition

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

To maintain its position as a low cost provider of power in a changing environment, the Authority has undertaken and continues to carry out a multifaceted program, including:

(a) the upgrade and relicensing of the Niagara and St. Lawrence-FDR projects;

(b) new long-term supplemental electricity supply agreements with its major NYC Governmental Customers;

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

(d) a significant reduction of outstanding debt; and

(e) implementation of an energy and fuel risk management program.

In addition, to meet capacity deficiencies in the New York City metropolitan area during the summer of 2001, the Authority completed the installation of the SCPPs at various sites in New York City and in the service territory of LIPA. The SCPPs 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 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, 1995, the Authority has reduced its total debt by $0.8 billion, or 26%, resulting in the reduction of its debt/equity ratio from 2.21 to 1.22, which is the Authority's lowest debt/equity ratio since it implemented proprietary accounting in 1982. During 2005, long-term debt, net of current maturities, decreased by $35 million, or 2%, primarily due to scheduled maturities (i.e., reclassifications to long-term debt due within one year of $156 million) and early extinguishments of debt ($32 million), which were partially offset by an increase in commercial paper ($153 million). The Authority expects to continue debt retirement in the future to the extent funds are available and not needed for the Authority's expenses, reserves, or other purposes.

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 and the 500-MW plant outputs, 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) NYC Governmental Customers - *New Long-term Supplemental Electricity Supply Agreements*

The Authority and its major NYC Governmental Customers, including the Metropolitan Transportation Authority, The City of New York, the Port Authority of New York and New Jersey (Port Authority), the New York City Housing Authority, and the New York State Office of General Services, have entered into new long-term supplemental electricity supply agreements (Agreements). The Agreements replaced earlier long-term agreements with these NYC Governmental Customers. Under the Agreements, the NYC Governmental Customers have agreed to purchase their electricity from the Authority through December 31, 2017, with the NYC Governmental Customers having the right to terminate service from the Authority at any time on three years' notice and, under certain limited conditions, on one year's notice, provided that they compensate the Authority for any above-market costs associated with certain of the resources used to supply the NYC Governmental Customers. A fixed rate was applied in 2005. Beginning in 2005, the Authority implemented a new price setting process under which the NYC Governmental Customers request the Authority to provide indicative electricity prices for the following year reflecting market-risk hedging options designated by the NYC Governmental Customers. In addition, beginning in 2006, under the Agreement, the NYC Governmental Customers can also elect to have a full cost pass-through arrangement relating to fuel, purchased power, and NYISO-related costs, including such an arrangement with some cost hedging. Except for any such amounts borne by the Authority under a sharing plan, the NYC Governmental Customers will pay all of the costs incurred to serve them, including hedging costs. Beginning in 2008, NYPA will also offer the NYC Governmental Customers a minimum volatility pricing option.

Under the Agreement, the Authority will modify rates annually through a formal rate case where there is a change in fixed costs to serve the NYC Governmental Customers. Except for the minimum volatility price option, changes in variable costs, which include fuel and purchased power, will be captured through contractual pricing adjustment mechanisms. Under these mechanisms, actual and projected variable costs will be reconciled and either charged or credited to the NYC Governmental Customers. Beginning in 2006, if the NYC Governmental Customers choose a market-risk hedging price option, designated a "sharing option", the NYC Governmental Customers and the Authority would share equally in actual cost variations (up to $60 million) above a projected amount for the year. Cost variations in excess of $60 million would be borne by the Authority. In addition, if actual costs are below the projected amount, the NYC Governmental Customers and the Authority would share equally in such savings after the NYC Governmental Customers receive the first $10 million in savings, in aggregate over the term of the Agreement. The NYC Governmental Customers would be committed to pay for any supply secured for them by the Authority which resulted from a collaborative effort. With the customers' guidance and approval, the Authority would continue to offer up to $100 million annually in financing for energy efficiency projects and initiatives at governmental customers' facilities in NYC and Westchester County, with the costs of such projects to be recovered from such customers.

The revenues from the five major NYC Governmental Customers indicated above were approximately 35% and 32% of the Authority's 2005 and 2004 Operating Revenues (including wheeling charges), respectively.

(3) Power for Jobs

In 1997, 1998, 2000, and 2002, legislation was enacted into New York law which authorized the PFJ Program to make available low-cost electric power to businesses, small businesses, and not-for-profit organizations. Under the PFJ Program, the New York State Economic Development Power Allocation Board (EDPAB) recommends for Authority approval allocations to eligible recipients of power from power purchased by the Authority through a competitive procurement process and power from other sources. In the first three phases of the PFJ Program, 450 MW of power were made available, phased in over three years which ended in July 2000. In the fourth and fifth phases of the PFJ Program, 483 MW of power were made available beginning September 2000 and phased in over three years with the allocation of power in the fifth phase completed in July 2003. The Phase Five power was made available for allocation to Phase Two and Phase Three PFJ Program recipients. Any remaining power after these allocations was 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 PFJ Program. If the Authority decides to not make power available to an entity whose allocation has been recommended by EDPAB, the Authority must explain the reasons for such denial. The PFJ Program power is sold to the local utilities of the eligible recipients pursuant to sale for resale agreements at rates which are based on the cost of the competitive procurement (or alternative acquisition) power plus a charge for the transmission of such power.

In 2004, legislation was enacted into New York Law which amended the PFJ Program in regard to contracts of Phase Four and Phase Five PFJ Program customers. Under the amendment, those Phase Four and Phase Five customer contracts terminating in 2004 and 2005 could be extended by the affected customer, or the customer may opt for "Power for Jobs electricity savings reimbursements" (PFJ Reimbursements) from termination until December 31, 2005. Generally, the amount of such PFJ Reimbursements for a particular Phase Four or Phase Five customer will be based on a comparison of the current cost of electricity to such customer with the cost of electricity under the prior Power for Jobs contract during a comparable period. In April 2005, the PFJ Program, with its contract extensions and PFJ Reimbursements aspects, was extended until December 31, 2006, as part of the New York State budget approved for New York Fiscal Year 2005-2006. As of December 31, 2005, 400 PFJ Program customers have opted to extend their contracts and 161 PFJ Program customers have opted to receive PFJ Reimbursements. (See Note M (9), "New York State Budget Matters and Other Issues" for information on voluntary contributions to the State.)

(4) Legal and Related Matters

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

Settlement discussions have produced a land claim settlement, which would include, among other things, the payment by the Authority of $2 million a year for 35 years to the tribal plaintiffs, the provision of up to 9 MW of low cost Authority power for use on the reservation, the transfer of two Authority-owned islands; Long Sault and Croil, and a 215-acre parcel on Massena Point to the tribal plaintiffs, and the tribal plaintiffs withdrawing any judicial challenges to the Authority's new license, as well as any claims to annual fees from the St. Lawrence-FDR project. Members of all three tribal entities have voted to approve the settlement, which was executed by them, the Governor, and the Authority on February 1, 2005. The settlement will also require, among other things, Federal and State legislation to become effective. The Court-appointed magistrate, at the request of all parties, has agreed to stay the litigation and postpone discovery until February 15, 2006, to permit time for passage of such legislation. The Authority has accrued an estimated liability based upon the provisions of the settlement.

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 of a certain type in the matters discussed above could adversely affect Authority operations and revenues.

b. 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.

(5) Construction Contracts and Net Operating Leases

Estimated costs to be incurred on outstanding contracts in connection with the Authority's construction programs aggregated approximately $ 129 million at December 31, 2005.

Non-cancelable operating leases primarily include leases on real property (office and warehousing facilities and land) utilized in the Authority's operations. Commitments under non-cancelable operating leases are as follows:

(*in Millions*)	Total	2006	2007	2008	2009	2010	2011 to 2014
Gross Operating Leases	$27.2	$8.0	$7.4	$7.2	$2.0	$1.4	$1.2
Less: Subleases/Assignments	20.6	6.3	5.9	6.4	1.5	.5	-
Net Operating Leases	$6.6	$1.7	$1.5	$0.8	$0.5	$0.9	$1.2

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

(6) Small, Clean Power Plants

To meet capacity deficiencies and ongoing local requirements in the New York City metropolitan area, which could also adversely affect the statewide electric pool, the Authority placed in operation, in the Summer of 2001, eleven 44-MW natural-gas-fueled SCPPs at various sites in New York City and one site in the service territory of LIPA.

The Authority has committed to fund community grant projects related to the SCPPs totaling $19 million. As of December 31, 2005, $14 million has been financed, with the remaining $5 million expected to be financed during the next twelve months.

In December 2001, litigation relating to the SCPPs located at the Vernon Boulevard, Long Island City, site in Queens was settled, with the Authority agreeing under the settlement agreement to cease operations at the Vernon Boulevard site, which houses two units, as early as the commercial operation date of either the 500-MW Project (which occurred on December 31, 2005) or another specified plant being constructed in the New York City area, if the Mayor of New York City directs such cessation. No such cessation has occurred.

The Authority believes that cessation of operations and removal of the Vernon Boulevard units, if that should occur, will not have a material adverse impact on the Authority's financial condition or operations.

The Authority applied to the New York State Department of Environmental Conservation (DEC) for new 5-year operating air permits for the SCPPs to succeed the existing construction and operating air permits for the projects issued in January and February, 2001. DEC issued the final air permits on October 15, 2005.

(7) 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 has constructed 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 resolution of issues relating to the construction of the Authority's 500-MW Project has resulted in a commercial operation date of the Project on December 31, 2005 at a cost of approximately $740 million.

The Authority also intends to enter into a long-term service agreement (LTSA) for the 500-MW Project, which will cover scheduled major maintenance, including parts and labor, on the turbine generators and specified related controls on a fixed price basis for a term of approximately twelve to fourteen years depending on the maintenance intervals. The cost of the LTSA is estimated to be at least $70 million, and may be higher depending on the outcome of ongoing negotiations, with payments to be made over the term of the LTSA.

In connection with the licensing of the 500-MW 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 the existing Poletti Project each year.

The Authority believes that the restrictions on fuel use and capacity factor relating to the existing Poletti Project set forth in the Stipulation Agreement and the closure of the existing Poletti Project under the terms of the Stipulation Agreement will not have a material adverse effect on the Authority's financial condition or operations.

When the existing Poletti Project ceases operation, the Authority will utilize other Authority resources, including the 500-MW Project, to meet the energy and capacity needs of its customers in the metropolitan New York City area.

The Authority expects that by February 15, 2008, all debt associated with the Poletti project will have been retired.

(8) Sound Cable Repair

The Iroquois Gas Transmission System, L.P. (Iroquois) contracted with Horizon Offshore Contractors, Inc. (Horizon) for the construction of a 24-inch diameter gas pipeline between Northport, Long Island, and Hunts Point, New York. It appears that on February 27, 2003, while working on the project, a barge being used by Horizon damaged one of the four underwater lines of the Authority's Sound Cable (the Cable) by dragging an anchor of the barge over the Cable line. The damaged portion of the Cable was located about two miles from New Rochelle, New York, in about 90 feet of water. The Cable was out of service from February 28 to March 8, 2003. The power flow to Long Island has been operating at normal levels since March 8, 2003.

Under the terms of the Authority's contract with LIPA, the Authority was obligated to repair the Cable. The repair has been completed. The total costs of repair were $22.4 million. The Authority will rely on the indemnification provisions of the contract with Iroquois to seek compensation from Iroquois and may also seek compensation from Horizon and from other Iroquois contractors and subcontractors and their insurers. In addition, the Authority has insurance in the amount of $10 million, all of which has been paid to the Authority to offset the costs of repair.

(9) New York State Budget Matters and Other Issues

Section 1011 of the Power Authority Act (Act) constitutes a pledge of the State to holders of Authority obligations not to limit or alter the rights vested in the Authority by the Act until such obligations together with the interest thereon are fully met and discharged or unless adequate provision is made by law for the protection of the holders thereof. Several bills have been introduced into the State Legislature, some of which propose to limit or restrict the powers, rights and exemption from regulation which the Authority currently possesses under the Act and other applicable law or otherwise would affect the Authority's financial condition or its ability to conduct its business, activities, or operations, in the manner presently conducted or contemplated by the Authority. It is not possible to predict whether any of such bills or other bills of a similar type which may be introduced in the future will be enacted.

In addition, from time to time, legislation is enacted into New York law which purports to impose financial and other obligations on the Authority, either individually or along with other public authorities or governmental entities. The applicability of such provisions to the Authority would depend upon, among other things, the nature of the obligations imposed and the applicability of the pledge of the State set forth in Section 1011 of the Act to such provisions. There can be no assurance that in the case of each such provision, the Authority will be immune from the financial obligations imposed by such provision.

Legislation enacted into law, as part of the 2000-2001 State budget, as amended in 2002, 2003, 2004, and 2005, provides that the Authority "as deemed feasible and advisable by the Trustees, is authorized to make an additional annual voluntary contribution into the state treasury to the credit of the general fund," in connection with PFJ Program in an aggregate amount not to exceed $394 million. The PFJ Program was also extended to December 31, 2006. The Authority has made voluntary contributions totaling $219 million (including $50 million and $ 50 million in April 2005 and December 2004, respectively, in addition to the PFJ Reimbursement payments to customers (see Note M(3), "Power for Jobs"). PFJ Reimbursements payments are made only if such monies are not needed for other Authority purposes. The Authority does not expect PFJ Reimbursements payments for 2005 to exceed $37 million in the aggregate.

The Authority's staff will consider recommending to the Authority's trustees that voluntary contributions be made to the State in the first quarter of 2006 in the amount of $75 million if such funds are not needed for other Authority purposes. Such amount would be in addition to PFJ Reimbursement payments to customers in 2005 and any additional PFJ Reimbursement payments which may be made in 2006 as a result of the extension of the PFJ Program. The Authority's trustees would only provide such additional financial assistance if and to the extent that monies are available to the Authority for such purpose and are not needed for Authority purposes.

The proposed Executive Budget for State Fiscal Year 2006-2007 includes a provision authorizing an additional voluntary contribution from the Authority but does not propose an increase in the aggregate $394 million cumulative cap on such contributions.

The Authority has also agreed to provide $10 million to the OPRHP to fund the development of energy efficiency measures and clean energy technologies at the Rivers and Estuaries Center in Beacon, New York of which approximately $2 million is expected to be provided in 2006.

On February 3, 2005, the Governor issued an Executive Order to establish the New York State Commission on Public Authority Reform. The 13-member commission is reviewing operations at State and local authorities across New York, including the Authority, and develop reforms and recommendations designed to improve the effectiveness and accountability of all public authorities. The members include members appointed upon the recommendations of legislative leaders, the State Comptroller, and the State Attorney General. The Commission is focusing on a comprehensive array of matters pertaining to public authorities and is undertaking a broad list of tasks, including:

- Reviewing and evaluating the operations and practices of public authorities and assisting authority boards in developing and adopting model governance principles to strengthen external oversight, management accountability, internal operations and public disclosure practices;
- Reviewing the potential elimination, dissolution, consolidation, reorganization or merger of authorities; and
- Recommending policies governing the public disclosure practices, financial reporting practices, and financial auditing procedures and practices of State authorities.

The commission will issue a final report to the Governor and the Legislature on its findings and recommendations and may issue interim or supplemental reports in its discretion. In issuing its reports, the Commission will consider, and may recommend, legislation to effectuate its findings or recommendations.

Legislation entitled "Public Authorities Accountability Act of 2005" ("PAAA"), which addresses public authority reform, was signed into law by the Governor in January 2006. The PAAA is effective for and applies to the Authority's 2006 calendar year. The Authority's current procedures include many of the practices and information submittals now required by PAAA including adoption of a code of ethics; filing of an annual report, independent audits by a certified public accounting firm; oversight by an audit committee; and the posting of key information on a website available to the general public. Other provisions including additional reporting requirements, accelerated filing of budgetary information; report certification by management; and the expanded role of the Board of Trustees are being addressed and the Authority expects to be in compliance with PAAA on a timely basis. The PAAA also establishes a State Inspector General's office and a public authority budget officer.

In addition, on November 16, 2005, the Office of the State Comptroller (OSC) issued for public comment draft regulations that would be applicable in whole or in part to many public authorities in New York State, including the Authority. Among other things, the regulations (if adopted) would require public authorities, including the Authority, to adhere to prescribed budgeting and financial plan procedures, certain financial reporting and certification requirements, and detailed investment guidelines and procedures, including obtaining the approval of the OSC before adoption of certain changes in accounting principles. The timing and nature of the OSC's determination regarding approval of the proposed regulations is uncertain.

In February 2006, the OSC informed the Authority that it had "scheduled an audit of the financial impacts of" the Authority's "operation of hydroelectric power generation facilities." The "audit will include an analysis of the revenues and expenses associated with" the Authority's "operation of the Niagara Power Project."

Legislation was enacted into law in July 2005 (Chapter 313, 2005 Laws of New York) (the ''2005 Act'') which amends the Act and the New York Economic Development Law (''EDL'') in regard to several of the Authority's economic development power programs and the creation of new energy cost savings benefits to be provided to certain Authority customers. A summary of the 2005 Act is set forth below.

(a) Industrial Power Programs

The 2005 Act amends the Act and the EDL to authorize the Authority to serve economic development power programs including the Economic Development Power program, which supplies electricity to businesses across New York State, the High Load Factor Power program, which provides electricity to energy-intensive industries throughout New York State, and the Municipal Development Agency Power program, which supplies electricity for certain municipal distribution agencies (also known as municipal utility service agencies (''MUSAs'') to serve businesses in their territories. Power supplied under these programs is referred to as ''Industrial Power.''

(b) Replacement Power

The 2005 Act creates a state law basis for continuation of the ''Replacement Power'' program to ensure the continued availability of low-cost hydroelectric power from the Niagara Project to serve businesses in western New York State. Replacement Power was established by the NRA in 1957 and provided up to 445 MW of hydroelectric power to industries in the Niagara Mohawk Power Corporation (now named National Grid) service territory within a 30-mile radius of the Niagara Project switchyard. The federal mandate for the Replacement Power program expired at the end of 2005. Most existing Replacement Power contracts run through August 2007, the end of the Niagara Project license, with many of the agreements with the largest customers allowing for extension through 2013 if the Niagara Project is relicensed and legislation is enacted to extend the Replacement Power program.

(c) Preservation Power

The 2005 Act also creates the Preservation Power program, which will allow businesses in northern New York State to continue to be served with low-cost hydroelectric power from the St. Lawrence-FDR Project. The new Preservation Power program will govern the future allocation of up to 490 MW of firm and interruptible power from the St. Lawrence-FDR Project to industry in Jefferson, St. Lawrence and Franklin Counties.

Applications for Replacement Power and Preservation Power

The 2005 Act treats new applications for and/or renewals for Replacement Power and Preservation Power under the same criteria as apply to the Authority's ''Expansion Power'' program, established under the Act. Allocations will be awarded on a competitive basis to businesses that commit to create jobs, increase electric load, build new or expanded facilities, and have at least 100 kilowatts (''kW'') of demand. The Expansion Power program, which provides up to 250 MW of hydroelectric power to businesses within a 30-mile radius of the Niagara Project, remains unchanged and is not addressed by the 2005 Act.

(d) Energy Cost Savings Benefits

The 2005 Act revises the Act and the EDL to allow up to 70 MW of relinquished Replacement Power, up to 38.6 MW of Preservation Power that might be relinquished or withdrawn in the future, and up to an additional 20 MW of unallocated St. Lawrence-FDR Project power to be sold by the Authority into the market and to use the net earnings, along with other funds of the Authority, as deemed feasible and advisable by the Authority's Trustees, for the purpose of providing Energy Cost Savings Benefits (''ECS Benefits''). The ECS Benefits will be administered by EDPAB and awarded based on criteria designed to promote economic development, maintain and develop jobs, and encourage new capital investment throughout New York State. Initially, and through December 31, 2006, the ECS Benefits will be available only for business customers served under the Authority's High Load Factor, Economic Development Power and Municipal Distribution Agency programs which would, in the absence of the ECS Benefits, face rate increases beginning November 1, 2005. To implement the 2005 Act, the Governor and Legislative leaders agreed that the businesses eligible to receive ECS Benefits should receive no overall rate increases (for delivery and commodity) until February 1, 2006 at which time rates would be increased so that total billed charges to all customers would increase by approximately 5%. In August 2006, an additional 6% increase would be implemented. The Authority estimates that the ECS Benefits to be paid by the Authority in 2005 and 2006 from internal funds, in addition to funds derived from the sale of hydroelectric power, as discussed above, would, in the aggregate, amount to $8 million. It is uncertain whether any ECS Benefits would be paid from Authority internal funds in the period after 2006.

(e) Power for Jobs Program
The 2005 Act amends the EDL to authorize the EDPAB to recommend contract extensions or electricity cost reimbursements to Power for Jobs recipients on the basis of revised job creation or retention commitments.

(f) World Trade Center Economic Recovery
The 2005 Act authorizes the Authority to approve renewals of contracts for periods of at least three years to business customers currently receiving allocations made under the World Trade Center Economic Recovery Power Program. The 2005 Act will allow companies that received power under this program to apply for three-year extensions of their benefits, and will ensure that allocations are made only to companies located in the Liberty and Resurgence Zones.

(10) St. Lawrence Relicensing
On October 23, 2003, the FERC issued to the Authority a new 50-year license (New License) for the St. Lawrence-FDR project, effective November 1, 2003. The Authority estimates that the total costs associated with the relicensing of the St. Lawrence-FDR project, compliance with license conditions, and compliance with settlement agreements, for a period of 50 years will be approximately $210 million, of which approximately $129 million has already been spent or will be spent in the near future. These total costs could increase in the future as a result of additional requirements that may be imposed by FERC under the New License.

(11) Niagara Relicensing
The Authority's original license for the Niagara Project expires on August 31, 2007. The Authority filed its application for a new, 50-year Niagara Project license (Application) with FERC on August 18, 2005.

The Authority currently expects that the costs associated with the relicensing of the Niagara Project for a period of 50 years will be at least $510 million (2007 dollars), which includes the value of the power allocations, as well as the capital and operation and maintenance costs, associated with the relicensing settlement agreements agreed to by the Authority. (See "Capital Asset and Long-Term Debt Activity.") This amount also includes $46.7 million in administrative costs associated with the relicensing effort, with the final amount and timing of such costs being uncertain at this point. The amount of such costs would depend upon the results of the relicensing process and any requirements imposed by FERC as a condition of such relicensing.

The Authority is in negotiations with other entities as part of the relicensing process, which may result in additional settlement agreements imposing significant additional financial obligations on the Authority. In addition to internally generated funds, the Authority will issue additional debt obligations in the future to fund Niagara relicensing costs. The Authority believes that it will be feasible to collect in its rates for the sale of Niagara power amounts necessary to fund such relicensing costs.

KEY TO ABBREVIATIONS

A-C

AAL - *Actuarial Accrued Liability*
Act - *Power Authority Act*
ARO - *Asset Retirement Obligation*
ART Notes - *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*
ECS Benefits - *Energy Cost Savings Benefits*
EDPAB - *New York State Economic Development Power Allocation Board*
EMCP - *Extendible Municipal Commercial Paper*
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*
FFCB - *Federal Farm Credit Bank*
FHLB - *Federal Home Loan Bank System*
Flynn - *Richard M. Flynn Power Plant*
GAAP - *Generally Accepted Accounting Principles*
GAS - *Governmental Accounting Standards*
GASB - *Governmental Accounting Standards Board*
GNMA - *Government National Mortgage Association, also known as Ginnie Mae*

I-L

IP3 - *Indian Point 3 Nuclear Power Plant*
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

MD&A - *Management's Discussion & Analysis*
MDC - *Maximum Dependable Capability*
MW - *Megawatt: 1,000,000 watts*
NRC - *U.S. Nuclear Regulatory Commission*
NYC Governmental Customers – *Governmental customers served by Authority that are located mainly in the City of New York that have signed long-term supplemental electricity supply agreements*
NYISO - *New York Independent System Operator*
NYPA - *New York Power Authority*
O&M - *Operations and Maintenance*
OPEB - *Other Postemployment Benefits*

P-Z

PFJ Program - Power for Jobs program
POCR Funds - *Petroleum Overcharge Restitution Funds*
Poletti - *Charles Poletti Power Project*
PSC - *New York State Public Service Commission*
RTO - *Regional Transmission Operator*
SCPPs - *Small, Clean Power Plants*

About NYPA

The New York Power Authority is the nation's largest state-owned power organization and one of New York's leading electricity suppliers. NYPA provides lower-cost power to government agencies; to municipally owned and rural-cooperative electric systems; to job-producing companies and non-profit groups; to private utilities for resale—without profit—to their customers; and to neighboring states, under federal requirements. The Power Authority is also a national leader in promoting energy efficiency and the development of clean energy technologies and electric vehicles. A non-profit, public-benefit energy corporation, NYPA does not use tax revenue or state credit. It finances its projects through bond sales to private investors.



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