

New York Power Authority

Report of the Chief Financial Officer

For the Ten Months Ended October 31, 2010

**Report of the Chief Financial Officer
For the Ten Months Ended October 31, 2010
Executive Summary**

Results of Operations

Net income for the ten months ended October 31, 2010, was \$168.5 million which was \$80.8 million lower than the budget and \$58.9 million below the comparable period last year. Through October, negative variances attributable to lower margins on sales (\$91.3 million) and a higher than anticipated voluntary contribution to New York State (\$40 million) were partially offset by positive variances in O&M (\$21.5 million), non-operating income (\$22.7 million) and other operating expenses (\$9.1 million). The net margin on sales was \$64.9 million lower at Niagara due to lower production (5%) and lower prices on market-based sales (10%). Negative variances in margins were also significant at St. Lawrence (\$12.4 million, lower prices) and Blenheim-Gilboa (\$16.9 million, lower volumes sold and lower capacity prices). O&M expenses were lower primarily due to timing differences related to maintenance work at Niagara, St. Lawrence, and the Transmission facilities. Non-operating income was higher due to a mark-to-market gain on the Authority's investment portfolio and lower costs on variable rate debt both resulting from a decrease in market interest rates. The positive variance in other operating expenses is primarily attributable to: (1) a reduction in anticipated Power for Jobs program obligations accrued in prior years based on current expectations (\$12.0 million); and (2) lower than anticipated 2010 Power For Jobs rebates (\$8.5 million) due to lower market energy prices; partially offset by (3) an increase in the provision for retiree health benefits (\$5.9 million) based on an updated actuarial valuation; and (4) the recognition of the cost of the early retirement incentive program (\$4.0 million).

Net income through October 2010 was \$58.9 million lower than the comparable period in 2009 (\$227.4 million) primarily due to higher voluntary contributions to New York State during the period (\$77 million) partially offset by higher investment income (\$10.4 million) due to mark-to-market gains.

Year-end Projection

The year-end net income is projected to be \$179 million, which is \$2 million lower than September's projection and \$129 million below the official budget. The month-to-month change is mainly attributable to lower net margins at the hydroelectric projects due to lower sales volumes and prices, partially offset by a reduction in anticipated Power for Jobs program obligations accrued in prior years based on current expectations.

The primary drivers of the year-end variance to the official budget continue to be lower hydro flows; lower market prices for both energy and capacity; and an additional \$40 million

Voluntary Contribution to New York State. Hydro generation, at approximately 19.6 TWh, remains about 1 TWh below forecast and has a negative impact of approximately \$37 million on 2010 net income. The impact of lower energy prices and lower capacity prices results in a further annual net income reduction of approximately \$54 million. Other factors negatively affecting net income for 2010 are the accelerated transfer of transmission assets to National Grid (\$6.7 million), the continuation of the hydro rate freeze (\$7.5 million) and the Flynn outage (\$5.3 million). These factors were partially offset by: \$27 million in higher non-operating income due to mark to market valuation and lower interest on variable debt; lower O&M expenses; and lower renewable program spending.

Cash & Liquidity

The Authority ended the month of October with total operating funds of \$1.074 billion as compared to \$907 million at the end of 2009. The increase of \$167 million was primarily attributed to positive net cash provided by Operating Activities and the Value Sharing payment of \$72 million received from Entergy on January 15th partially offset by voluntary contributions to New York State totaling \$159.5 million and scheduled debt service payments. Looking forward, we are anticipating the operating fund balance to generally track the lower net income results. The year-end operating fund balance is currently projected to be \$1.046 billion, an increase of \$139 million during the year, but approximately \$90 million below budgeted level.

Energy Risk

At October 31, 2010, the fair market value of outstanding energy derivatives was an unrealized loss of \$301 million for financial contracts extending through 2017. Year to date, financial energy derivative settlements resulted in a realized net loss of \$56 million. The amount of these losses is subject to virtually full cost recovery, whereby the resulting hedge settlements are incorporated into and recovered through customer rates.

Net Income
Ten Months ended October 31, 2010
(\$ in millions)

	Actual	Budget	Variance
Niagara	\$87.4	\$147.2	(\$59.8)
St. Lawrence	40.6	46.4	(5.8)
Blenheim-Gilboa	(2.5)	14.8	(17.3)
SENY	46.4	43.2	3.2
SCPP	28.4	28.8	(0.4)
Market Supply Power	(35.2)	(46.3)	11.1
Flynn	10.8	13.6	(2.8)
Transmission	19.9	20.8	(0.9)
Non-facility*	(27.3)	(19.2)	(8.1)
Total	\$168.5	\$249.3	(\$80.8)

Major Factors

(Worse)

Niagara

(\$59.8)

Lower net margins on sales (\$64.9) partially offset by lower O&M (\$5.4). Lower margins primarily due to lower generation volumes (5%) and lower average energy prices for sales into the market (10% below budgeted - \$42/mwh actual vs. \$47/mwh budgeted).

St. Lawrence

(5.8)

Lower net margins (\$12.4) resulting from lower prices on sales into the market partially offset by lower O&M and other expenses (\$7.3 in non-recurring projects and the North Country Stimulus program).

Blenheim-Gilboa

(17.3)

Lower net margin due to lower energy sales (limited price differential between peak and off-peak energy prices) and lower capacity prices.

Market Supply Power

11.1

Includes positive variance due to lower Power for Jobs rebates (based on lower market prices).

Transmission

(0.9)

A positive variance in O&M (\$5.8) due to timing differences in maintenance, and lower interest costs (\$1.0) were offset by the accelerated recognition of the non-cash write-off related to the Tri-Lakes transmission line (\$6.7).

Other facilities

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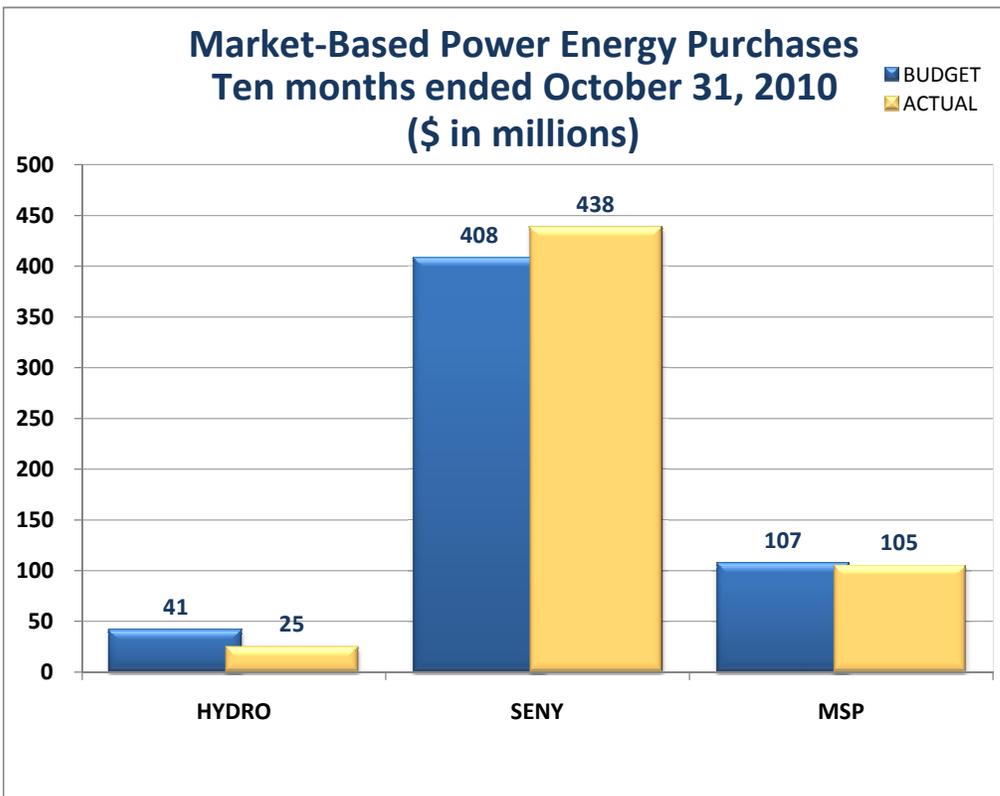
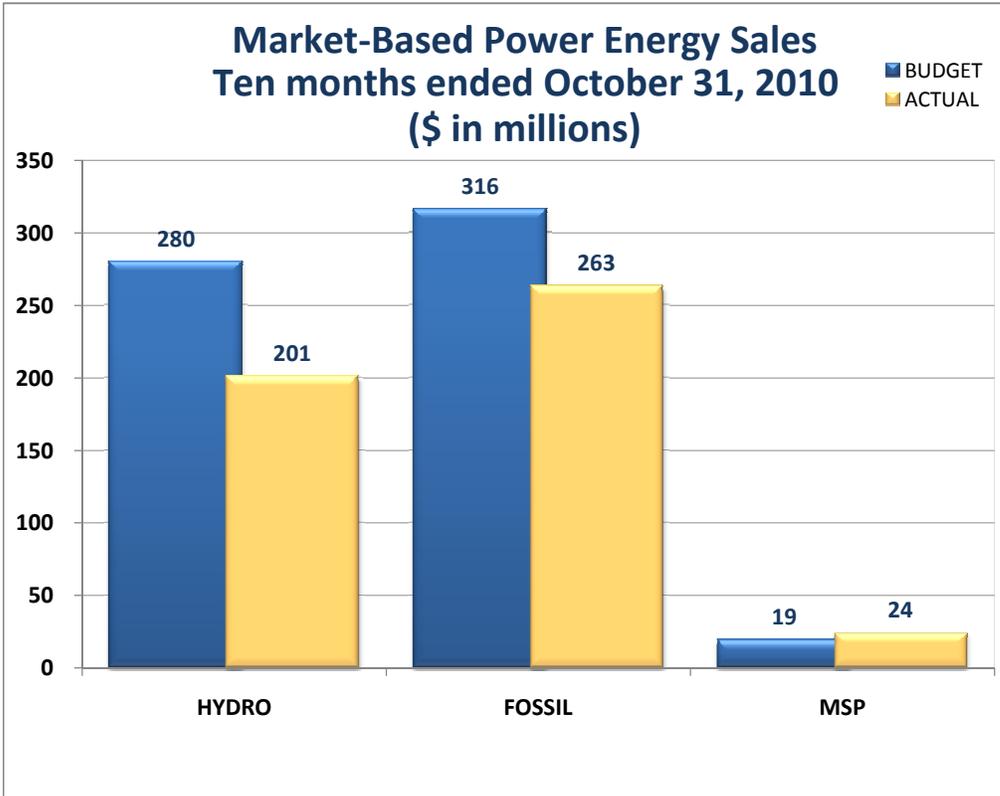
Non-facility (including investment income)

(8.1)

Additional \$40 voluntary contribution to NY State in August and retirement incentive accrual (\$4) partially offset by a positive variance related to a mark-to-market gain (\$22.2) on Authority's investment portfolio, and a reduction in anticipated PFJ obligations accrued in prior years (\$12).

Total

(\$80.8)



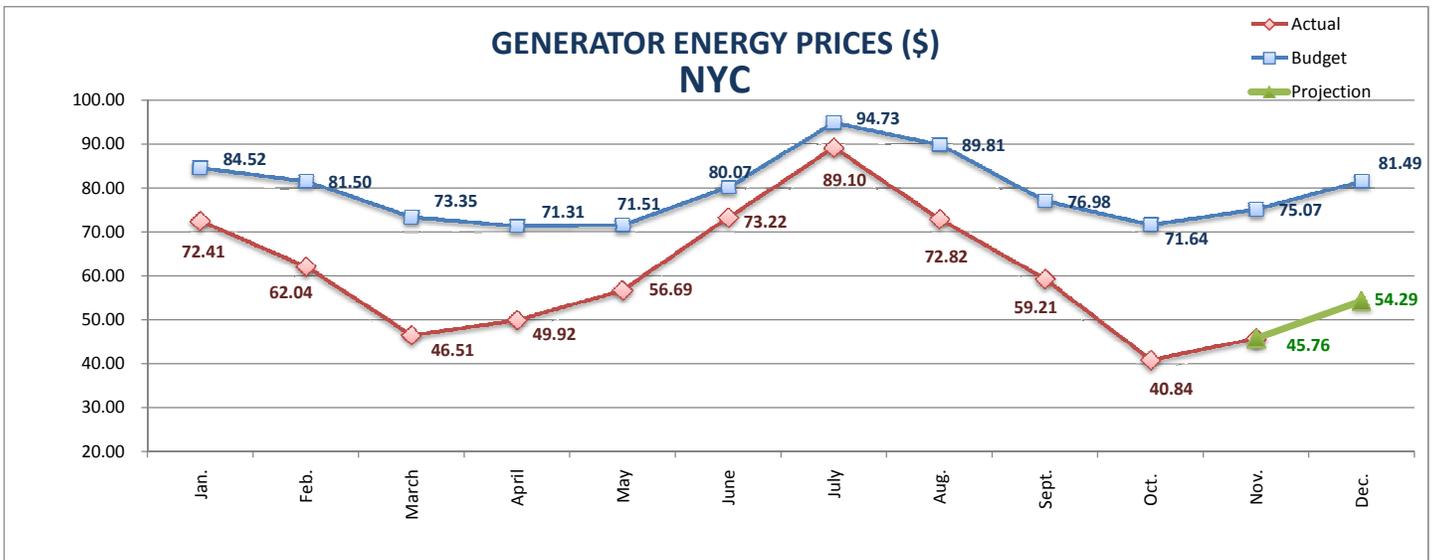
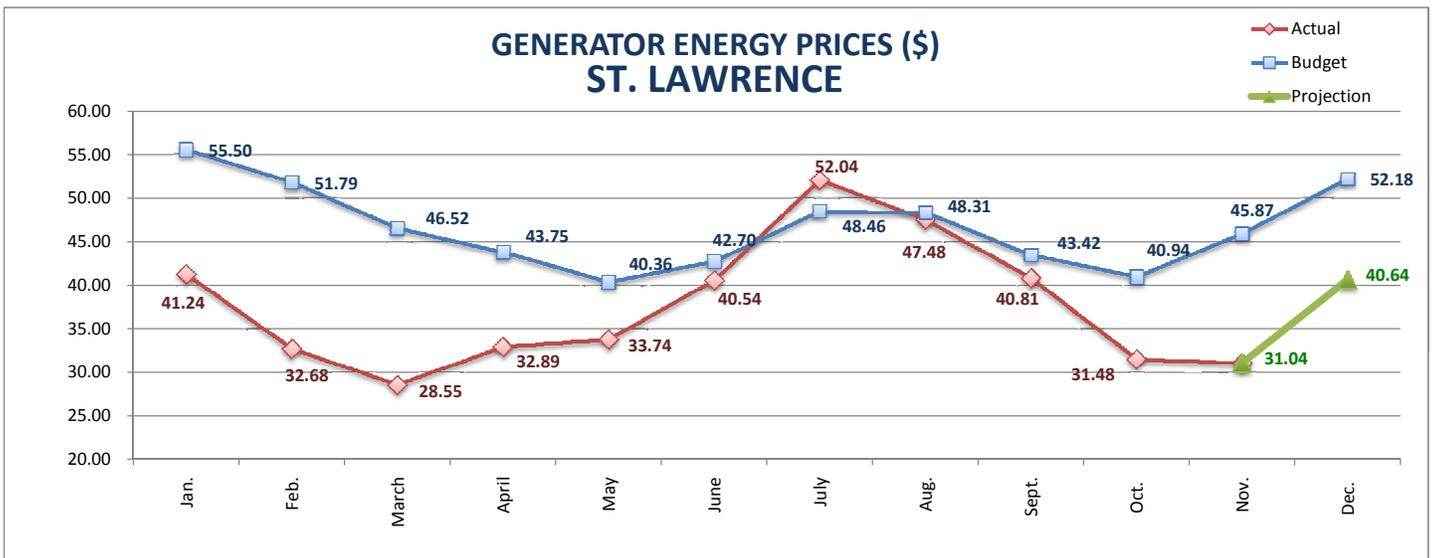
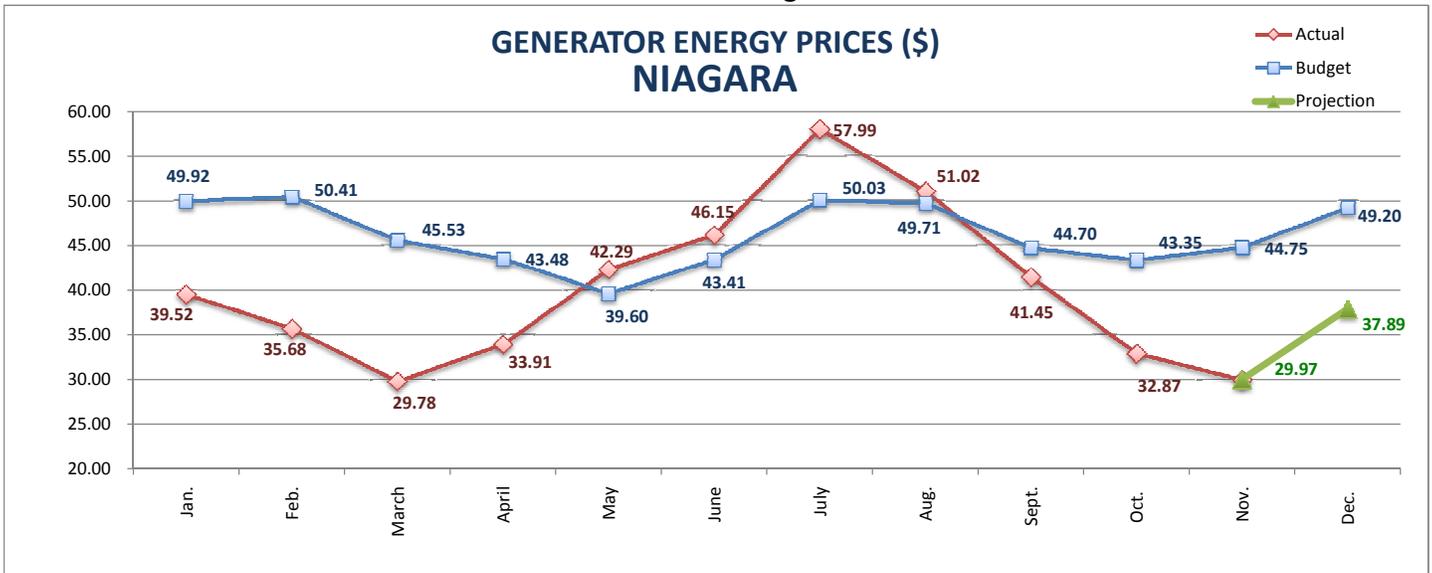
REVENUES		
SALES (MWH)		
	BUDGET	ACTUAL
Hydro*	4,717,858	4,051,594
Fossil	3,313,059	3,305,280
MSP	454,781	576,792
TOTAL	8,485,698	7,933,666
PRICES (\$/MWH)		
Hydro*	\$59.34	\$49.72
Fossil	\$95.16	\$79.57
MSP	\$42.72	\$41.44
AVERAGE	\$72.46	\$61.55

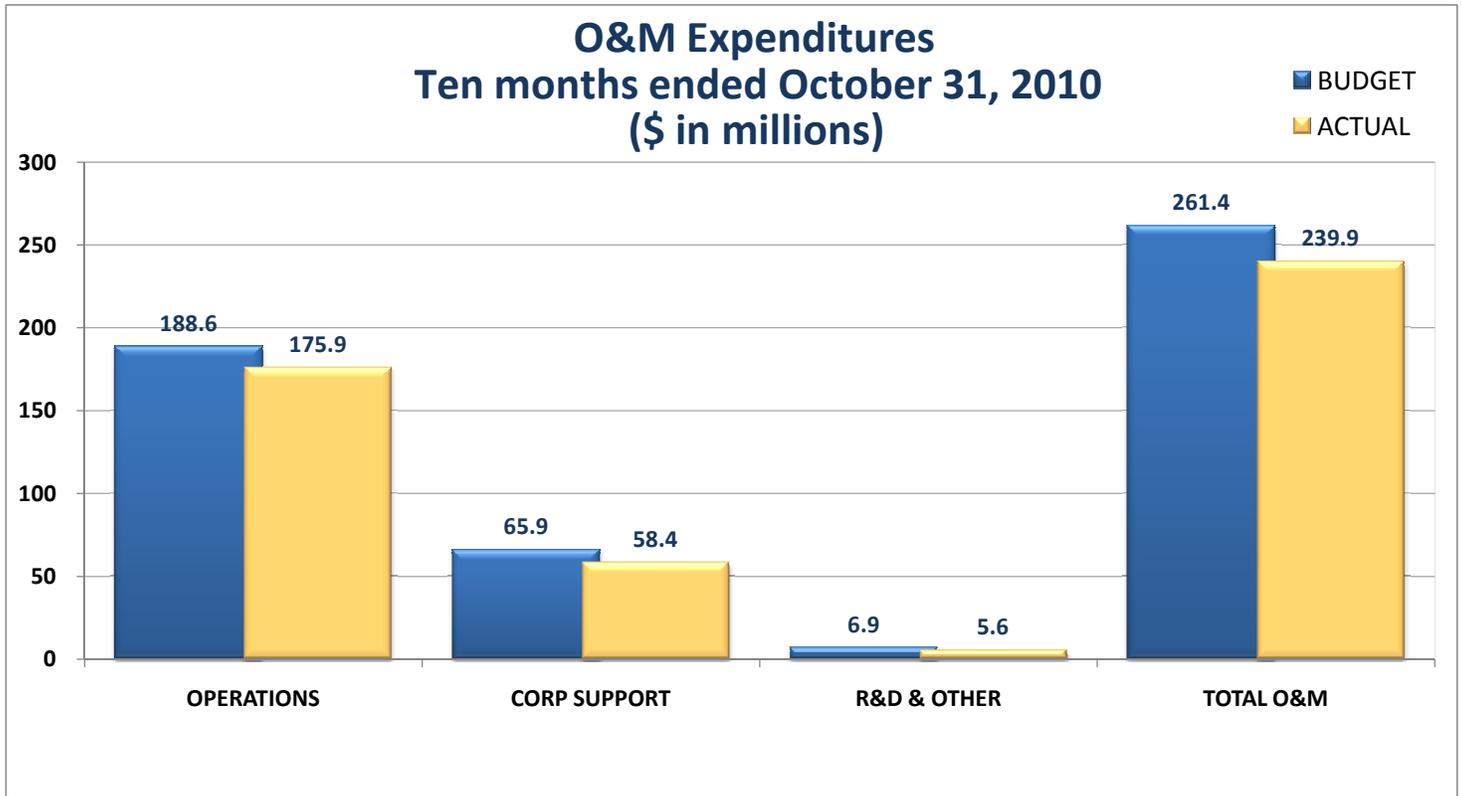
* Includes Niagara, St. Lawrence, B-G, and Small Hydro.

REVENUES		
SALES (MWH)		
	BUDGET	ACTUAL
Niagara	1,933,880	1,652,089
St. Law.	2,019,109	2,002,680
PRICES (\$/MWH)		
Niagara	\$47.06	\$41.53
St. Law.	\$43.88	\$39.27

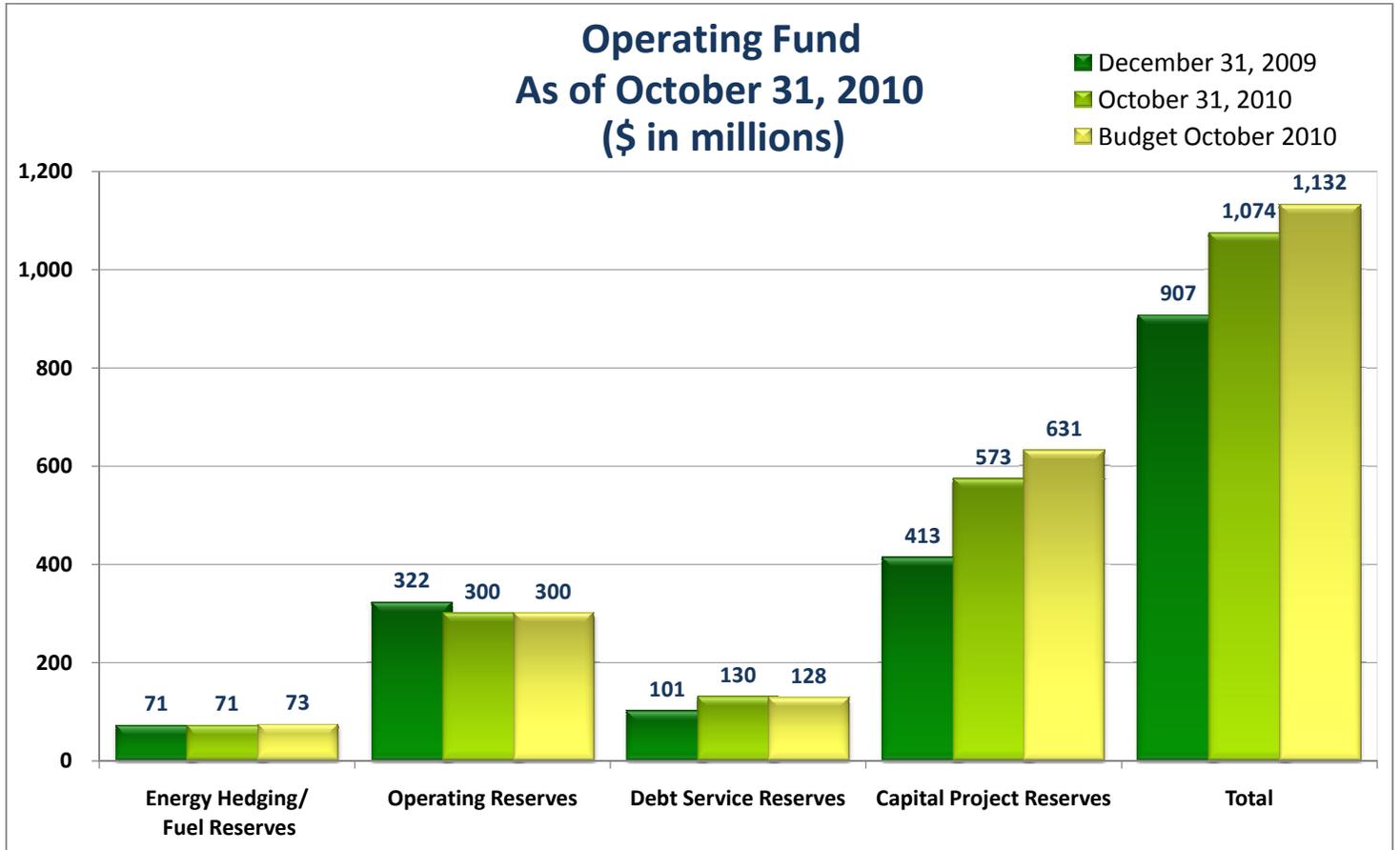
COSTS		
PURCHASES (MWH)		
	BUDGET	ACTUAL
Hydro	1,415,346	1,066,090
SENY	7,681,575	8,213,108
MSP	2,361,768	2,382,821
TOTAL	11,458,689	11,662,019
COSTS (\$/MWH)		
Hydro	\$28.86	\$23.54
SENY	\$53.20	\$53.29
MSP	\$45.21	\$44.01
AVERAGE	\$48.54	\$48.68

RESULTS OF OPERATIONS
Market Energy Prices
Actual vs Budget

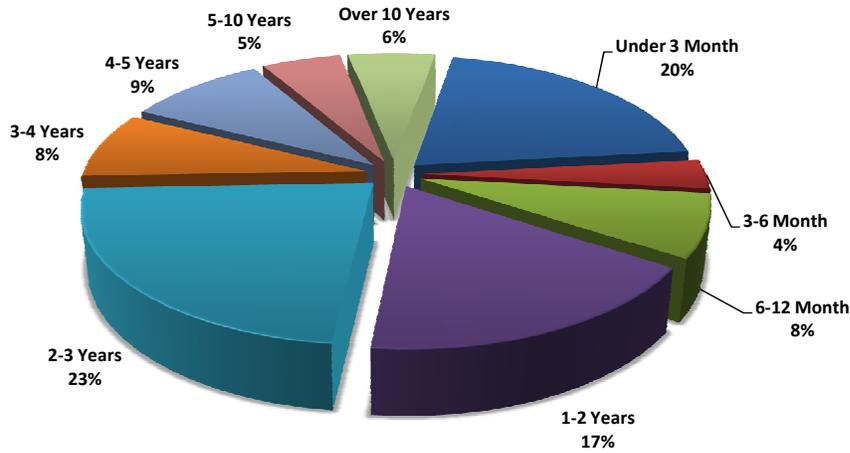




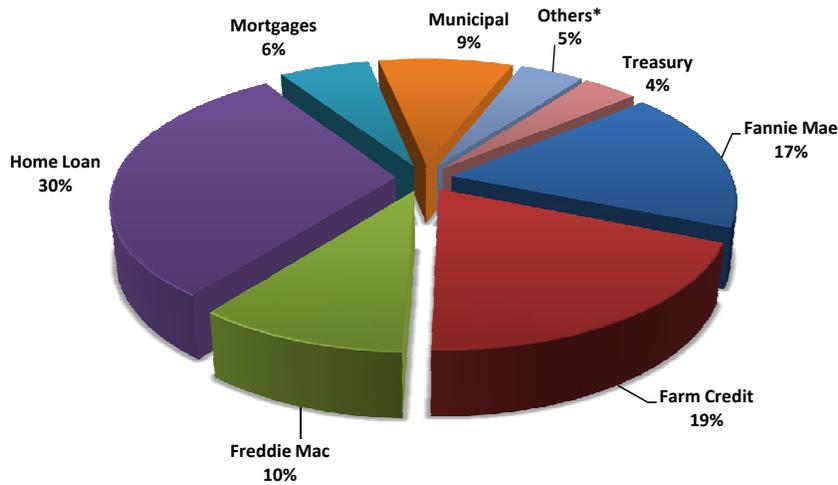
- Through October, O&M expenses were \$21.5 lower than the budget.
- Operations expenditures were \$12.7 lower than budgeted due primarily to lower than expected expenditures for non-recurring work at Niagara and St. Lawrence and timing differences related to recurring maintenance at the Transmission facilities and the 500 MW facility.
- Corporate Support expenses were under budget by \$7.5 due mostly to lower payroll as a result of unfilled vacancies, under spending for fuel cell maintenance, legal consultants, telecommunication equipment and computer software, as well as higher than anticipated rental income.



The year-to-date increase of \$167 in the Operating Fund (from \$907 to \$1,074) was primarily attributable to positive net cash provided by operating activities, the Value Sharing payment of \$72 received from Entergy in January and the Entergy payment of \$10 in September related to the IP2 purchase agreement substantially offset by \$159.5 in voluntary contributions to New York State and scheduled debt service payments. The variance from budget is a result of lower net income for the period.

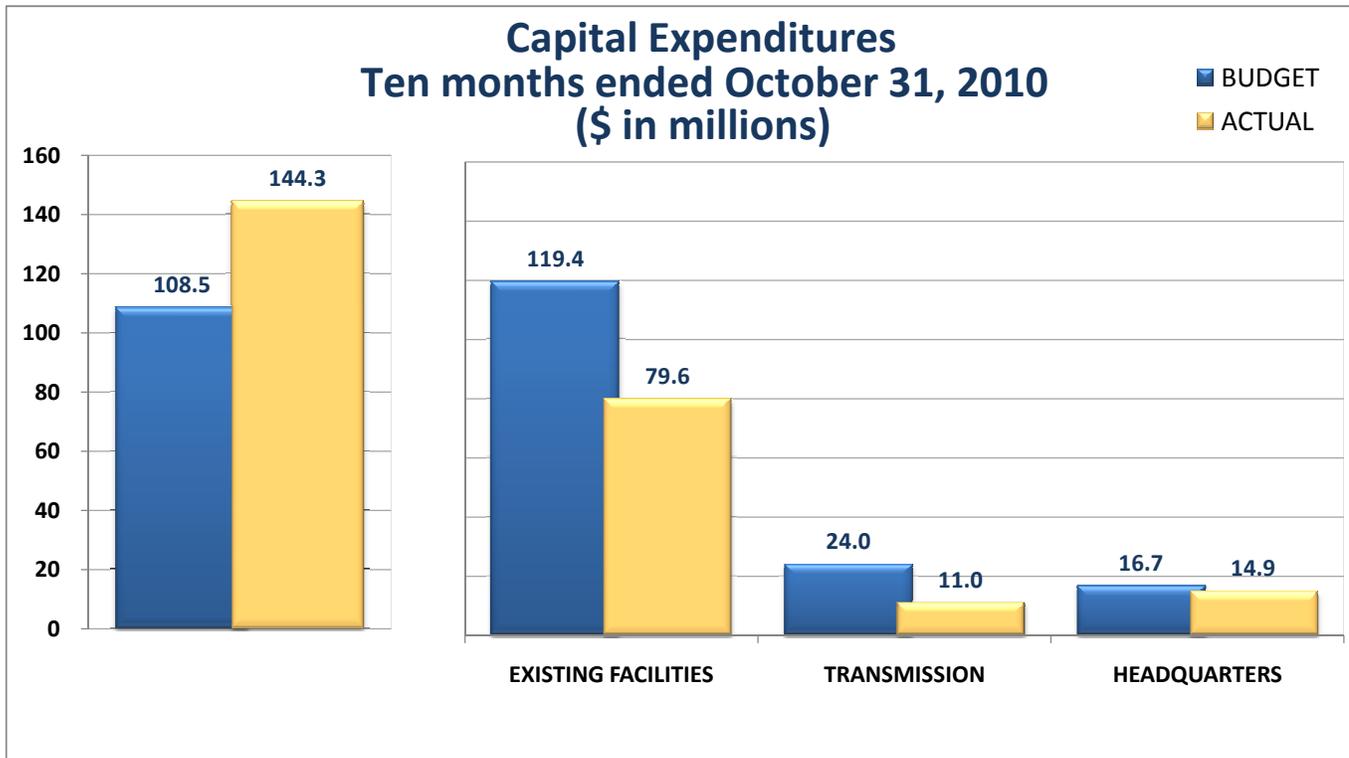
**Maturity Distribution
As of October 31, 2010**


MATURITY DISTRIBUTION	
(\$ in millions)	
Under 3 Months	\$249.8
3-6 Months	42.7
6-12 Months	93.0
1-2 Years	212.2
2-3 Years	277.0
3-4 Years	97.7
4-5 Years	112.9
5-10 Years	64.1
Over 10 Yrs	71.3
Total	\$1,220.7

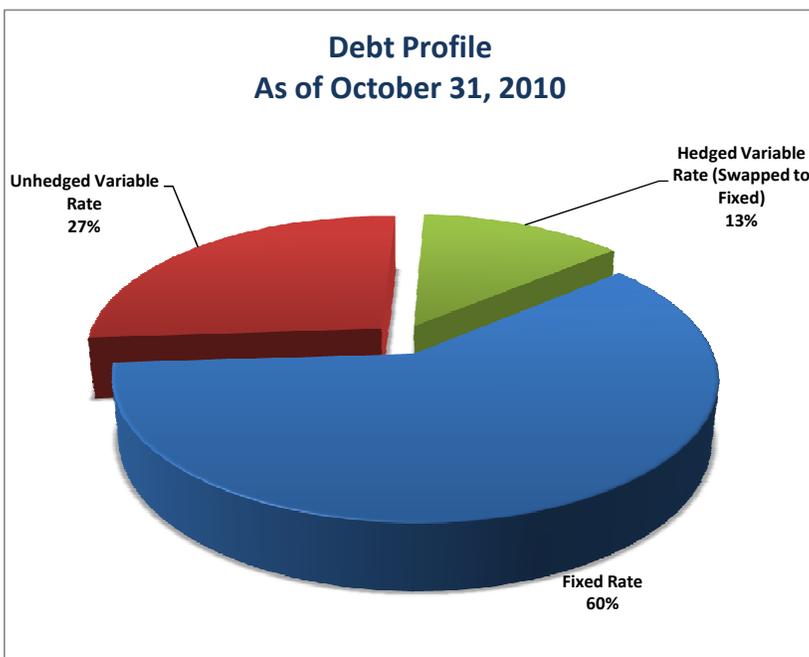
**Asset Allocation
As of October 31, 2010**


ASSET ALLOCATION	
(\$ in millions)	
Farm Credit	\$211.0
Home Loan	236.0
Mortgages	122.1
Municipal	370.1
Others*	73.5
Freddie Mac	110.2
Fannie Mae	53.0
Treasury	45.0
Total	\$1,220.7

*Includes CDs and Repos



- Energy Services expenditures exceeded the budget by \$35.8 due to accelerated construction activity related to NYCHA’s Hot Water Storage Tank Replacement and CUNY Central Heating and Cooling Project.
- Lower capital expenditures at Existing Facilities were primarily due to timing differences related to the B-G and St. Lawrence life extension and modernization projects.
- Transmission was under budget due to timing differences related to the Niagara 115 kv Oil Circuit Breaker upgrade and the St. Lawrence Relay replacement project.
- Under the Expenditure Authorization Procedure, the President has authorized new expenditures on budgeted capital projects of \$20.3 for the year to date. There were no new expenditures authorized in October.



DEBT PROFILE (\$ in millions)	
Fixed Rate	\$1,173.4
Unhedged Variable Rate (1)	\$522.4
Hedged Variable Rate (Swapped to Fixed)	\$257.1
Total	\$1,952.9

(1) On August 15, 2010, the SIFMA based interest rate cap on a \$300 notional amount of Commercial Paper Series 1 expired. Staff is evaluating replacement caps.

ENERGY DERIVATIVES

Results

Year-to-date financial energy derivative settlements resulted in a net loss of \$56.26 million that was incurred by entering into hedge positions as requested by or transacted on behalf of the Authority's Customers. The amount of losses would be subject to virtually full cost recovery, whereby the resulting hedge settlements would be incorporated into and recovered through Customer rates.

Year-to-Date 2010 Energy Derivative Settlements & Fair Market Valuation of Outstanding Positions
(\$ in Millions)

	Settlements ¹	Fair Market Value			
	YTD	2010	2011	>2011	Total
NYPA	\$ (0.05)	\$ -	\$ -	\$ -	\$ -
Customer Contracts	\$ (56.21)	\$ (21.30)	\$ (94.66)	\$ (184.58)	\$ (300.54)
Total	\$ (56.26)	\$ (21.30)	\$ (94.66)	\$ (184.58)	\$ (300.54)

¹ Based on final figures through September and preliminary settlements through October 2010.

At the end of October, the fair market value of outstanding positions was valued at an unrealized loss of \$300.54 million for positions extending through 2017.

Market Summary

Exhibit 1 shows the average price of futures contracts for the balance of 2010 (November to December 2010) and how they have traded since mid-2009, while Exhibit 2 illustrates the average price of futures contracts for 2011.

Exhibit 1: Average November to December 2010 Forward Price as Traded

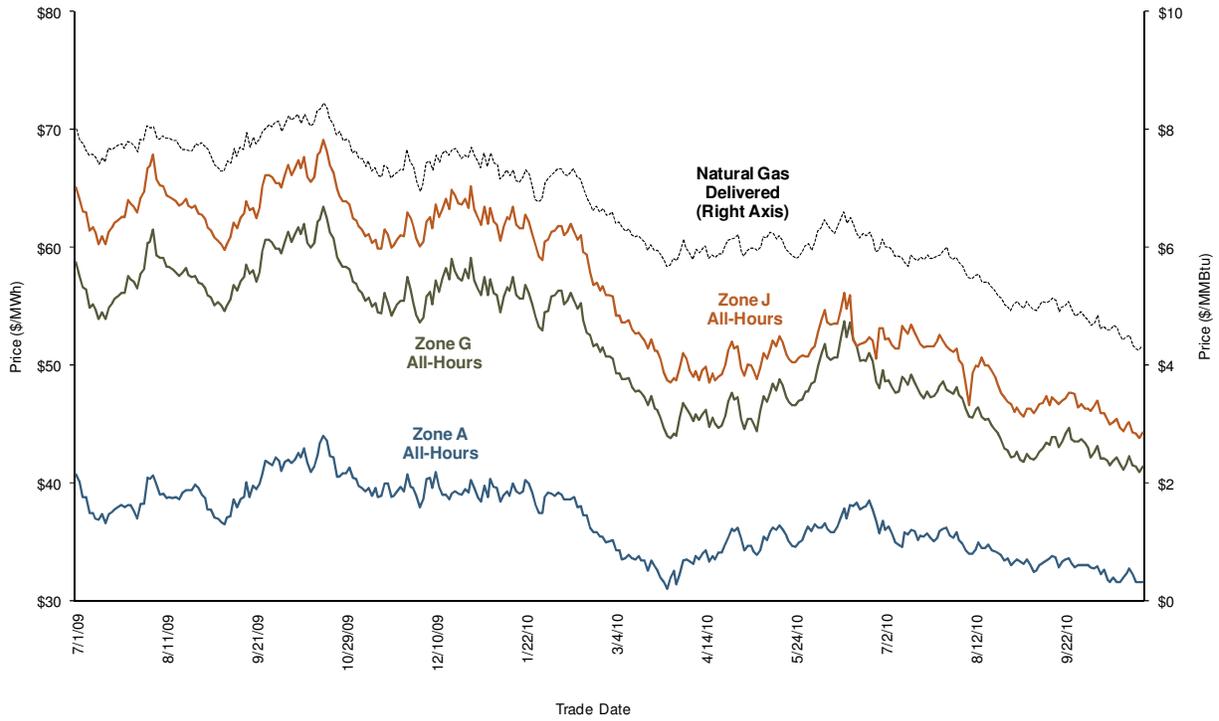
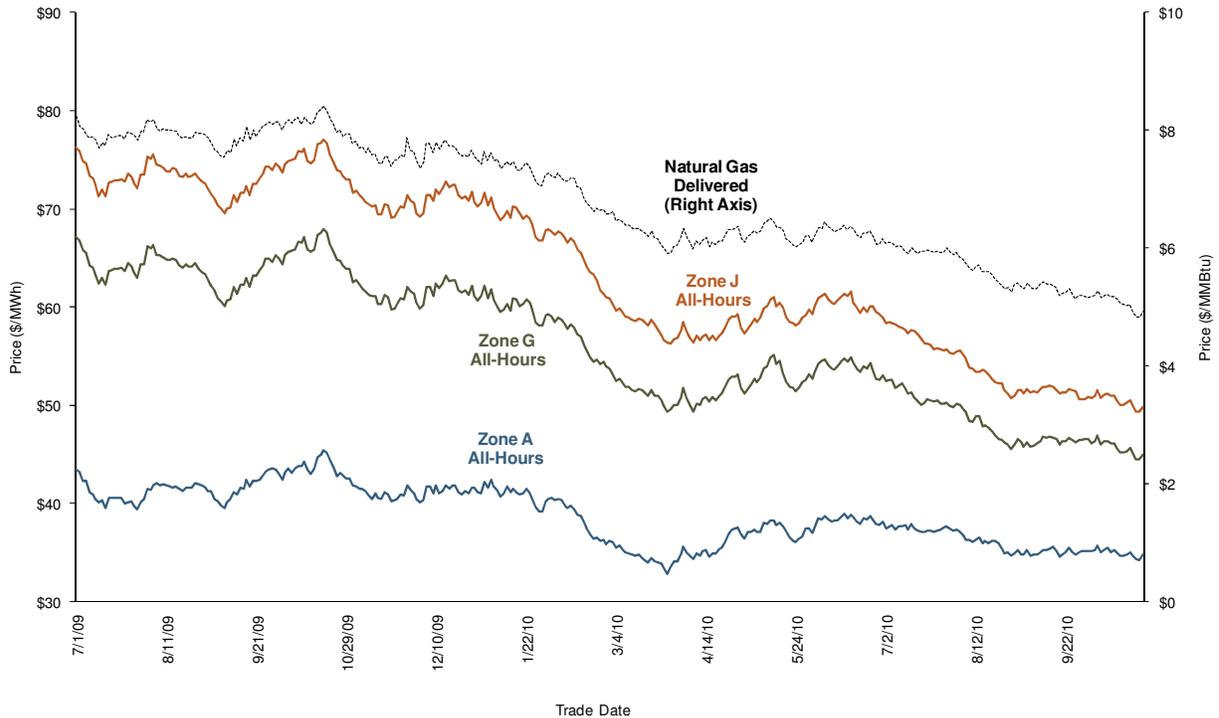


Exhibit 2: Average January to December 2011 Forward Price as Traded



STATEMENT OF NET INCOME
For the Ten Months Ended October 31, 2010
(\$ in millions)

Annual Budget		Actual	Budget	Variance Favorable/ (Unfavorable)
	Operating Revenues			
\$2,052.0	Customer	\$1,658.9	\$1,735.1	(\$76.2)
601.8	Market-based power sales	385.8	509.2	(123.4)
54.4	Ancillary services	25.3	43.4	(18.1)
102.9	NTAC and other	95.1	86.1	9.0
759.1	Total	506.2	638.7	(132.5)
2,811.1	Total Operating Revenues	2,165.1	2,373.8	(208.7)
	Operating Expenses			
864.8	Purchased power	739.7	741.0	1.3
340.8	Fuel consumed - oil & gas	181.8	284.2	102.4
91.0	Ancillary services	55.2	76.0	20.8
519.9	Wheeling	449.0	441.9	(7.1)
312.3	Operations and maintenance	239.9	261.4	21.5
160.3	Depreciation and amortization	135.2	133.6	(1.6)
141.7	Other expenses	110.8	119.9	9.1
(10.8)	Allocation to capital	(7.5)	(8.8)	(1.3)
2,420.0	Total Operating Expenses	1,904.1	2,049.2	(145.1)
391.10	Net Operating Income	261.0	324.6	(63.6)
	Nonoperating Revenues			
88.9	Post nuclear sale income	86.2	86.2	-
53.1	Investment income	33.9	44.1	(10.2)
(5.8)	Mark to market - investments	17.4	(4.9)	22.3
136.2	Total Nonoperating Revenues	137.5	125.4	12.1
	Nonoperating Expenses			
107.0	Contributions to New York State	147.0	107.0	(40.0)
112.3	Interest and other expenses	83.0	93.7	10.7
219.3	Total Nonoperating Expenses	230.0	200.7	(29.3)
(83.1)	Net Nonoperating Income (Loss)	(92.5)	(75.3)	(17.2)
\$308.0	Net Income	\$168.5	\$249.3	(\$80.8)

**New York Power Authority
Financial Reports**

**COMPARATIVE BALANCE SHEETS
October 31, 2010
(\$ in millions)**

		October 2010	October 2009	December 2009
Assets				
Current Assets				
	Cash	\$0.1	\$0.1	\$0.1
	Investments in government securities	1,108.3	930.9	913.4
	Interest receivable on investments	5.8	5.7	5.8
	Accounts receivable - customers	222.2	116.9	191.7
	Materials and supplies, at average cost:			
	Plant and general	77.4	82.6	82.3
	Fuel	17.4	30.0	21.7
	Prepayments and other	161.5	190.6	124.4
	Total Current Assets	1,592.7	1,356.8	\$1,339.4
Noncurrent Assets				
	Restricted Funds			
	Investment in decommissioning trust fund	1,017.0	924.7	942.4
	Other	88.0	95.8	94.1
	Total Restricted Funds	1,105.0	1,020.5	1,036.5
	Capital Funds			
	Investment in securities and cash	146.9	189.5	189.2
	Total Capital Funds	146.9	189.5	189.2
	Net Utility Plant			
	Electric plant in service, less accumulated depreciation	3,302.6	3,323.5	3,347.8
	Construction work in progress	147.8	155.4	144.8
	Net Utility Plant	3,450.4	3,478.9	3,492.6
	Other Noncurrent Assets			
	Receivable - NY State	318.0	318.0	318.0
	Deferred charges, long-term receivables and other	684.7	487.3	545.6
	Notes receivable - nuclear plant sale	174.3	187.2	170.1
	Total other noncurrent assets	1,177.0	992.5	1,033.7
	Total Noncurrent Assets	5,879.3	5,681.4	5,752.0
	Total Assets	\$7,472.0	\$7,038.2	\$7,091.4
Liabilities and Net Assets				
Current Liabilities				
	Accounts payable and accrued liabilities	\$902.3	\$807.8	\$809.5
	Short-term debt	304.9	281.7	289.2
	Total Current Liabilities	1,207.2	1,089.5	1,098.7
Noncurrent Liabilities				
	Long-term Debt			
	Revenue bonds	1,190.7	1,230.6	1,192.7
	Adjustable rate tender notes	130.5	137.5	137.5
	Commercial paper	344.1	421.6	413.3
	Total Long-term Debt	1,665.3	1,789.7	1,743.5
	Other Noncurrent Liabilities			
	Nuclear plant decommissioning	1,017.0	924.7	942.4
	Disposal of spent nuclear fuel	216.1	215.8	215.8
	Deferred revenues and other	377.5	224.3	270.5
	Total Other Noncurrent Liabilities	1,610.6	1,364.8	1,428.7
	Total Noncurrent Liabilities	3,275.9	3,154.5	3,172.2
	Total Liabilities	4,483.1	4,244.0	4,270.9
Net Assets				
	Accumulated Net Revenues - January 1	2,820.4	2,566.8	2,566.9
	Net Income	168.5	227.4	253.6
	Total Net Assets	2,988.9	2,794.2	2,820.5
	Total Liabilities and Net Assets	\$7,472.0	\$7,038.2	\$7,091.4

SUMMARY OF OPERATING FUND CASH FLOWS
For the Ten Months Ended October 31, 2010
(\$ in millions)

Operating Fund	
Opening	\$906.8
Closing	1,074.6
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Increase/(Decrease)	167.8
 Cash Generated	
Net Operating Income	261.0
Adjustments to Reconcile to Cash Provided from Operations	
Depreciation & Amortization	135.2
Net Change in Receivables, Payables & Inventory	(15.0)
Other	(4.8)
 Net Cash Generated from Operations	 376.4
 (Uses)/Sources	
Utility Plant Additions	(72.2)
Debt Service	
Commercial Paper 2	(67.6)
Commercial Paper 3 & Extendible Municipal Commercial Paper 1	(3.3)
ART Notes	(7.3)
Investment Income	22.4
Entergy Value Sharing Agreement	72.0
Entergy Payment (IP2 Purchase Agreement)	10.0
Voluntary Contribution to NY State	(159.5)
Other	(3.1)
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Total (Uses)/Sources	(208.6)
 Net Increase in Operating Fund	 \$167.8