New York Power Authority

Report of the Chief Financial Officer

For the Year Ended December 31, 2009

Report of the Chief Financial Officer
For the Year Ended December 31, 2009
Executive Summary

Results of Operations

Net income for the year ended December 31, 2009 was $253 million, which was $55 million below budget and $6 million below the projection provided in December. The primary drivers of the unfavorable budget variance for the year included lower net margins on sales ($32 million) primarily due to lower prices on market-based sales, an additional voluntary contribution to NY State relating to the Power For Jobs program ($12 million) and the accrual of a potential additional Power for Jobs obligation ($12 million) based on an October 2009 court decision. Net sales margins were a combined $85 million lower than budgeted for the Niagara, Blenheim-Gilboa and Small Clean Power Plants. These negatives were partially offset by higher than budgeted margins at St. Lawrence ($20 million) due to higher production and Market Supply Power ($36 million) due to lower purchased power prices. The primary driver behind for the unfavorable variance from the net income projection provided in December was an unrealized loss ($13 million) on the Authority's investment portfolio due to an increase in market interest rates. Looking forward to 2010, we are projecting that net income will increase to $308 million assuming generation levels at the two hydroelectric projects are slightly above the long-term average of 20.2 TWH.

Cash & Liquidity

The Authority ended the year with a total operating fund balance of $907 million as compared to $933 million at the end of 2008. Net cash generated by operations for the year ($426 million) was more than offset by voluntary contributions ($119 million) and temporary asset transfers to NY State ($318 million). Year-end fund levels were $22 million better than the budget of $885 million, which principally reflected the under-spending of anticipated capital additions ($56 million) offset by lower net income levels ($55 million minus the non-cash accruals noted above related to Power for Jobs of $24.5 million).

Looking forward to 2010, we are projecting that operating funds will increase by $229 million by year-end mostly due to deposits to the Capital Project Reserve. Fund levels are expected to increase in January and February, then decrease in March when we are anticipating the final payment to NY State related to the February 2009 Memorandum of Understanding. Such final payment is subject to reaffirmation by the Board that the payment remains feasable and advisable. Following this payment, generally steady growth in fund balances are expected during the remainder of the year.

Enterprise Risk

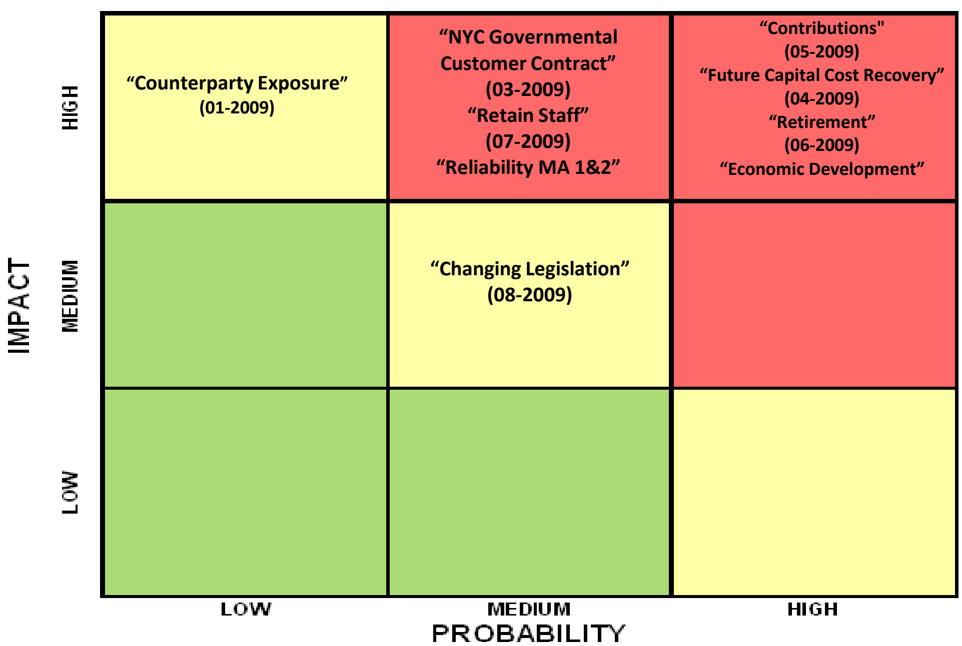
The Enterprise Risk ("ER") Management program and associated implementation of supporting ER policies were approved at the May 19, 2009 Trustee meeting. Nine critical risks were identified through meetings with senior management. The Enterprise Risk Committee was established with the overall objective to provide oversight for the management and mitigation of NYPA's critical risks. The inaugural Enterprise Risk Committee ("ERC") meeting, held on September 18th, 2009, successfully verified the assessment (probability x impact) for each critical risk and prioritized the critical risks that require immediate focus (see Figure 1).

Report of the Chief Financial Officer
For the Year Ended December 31, 2009
Executive Summary

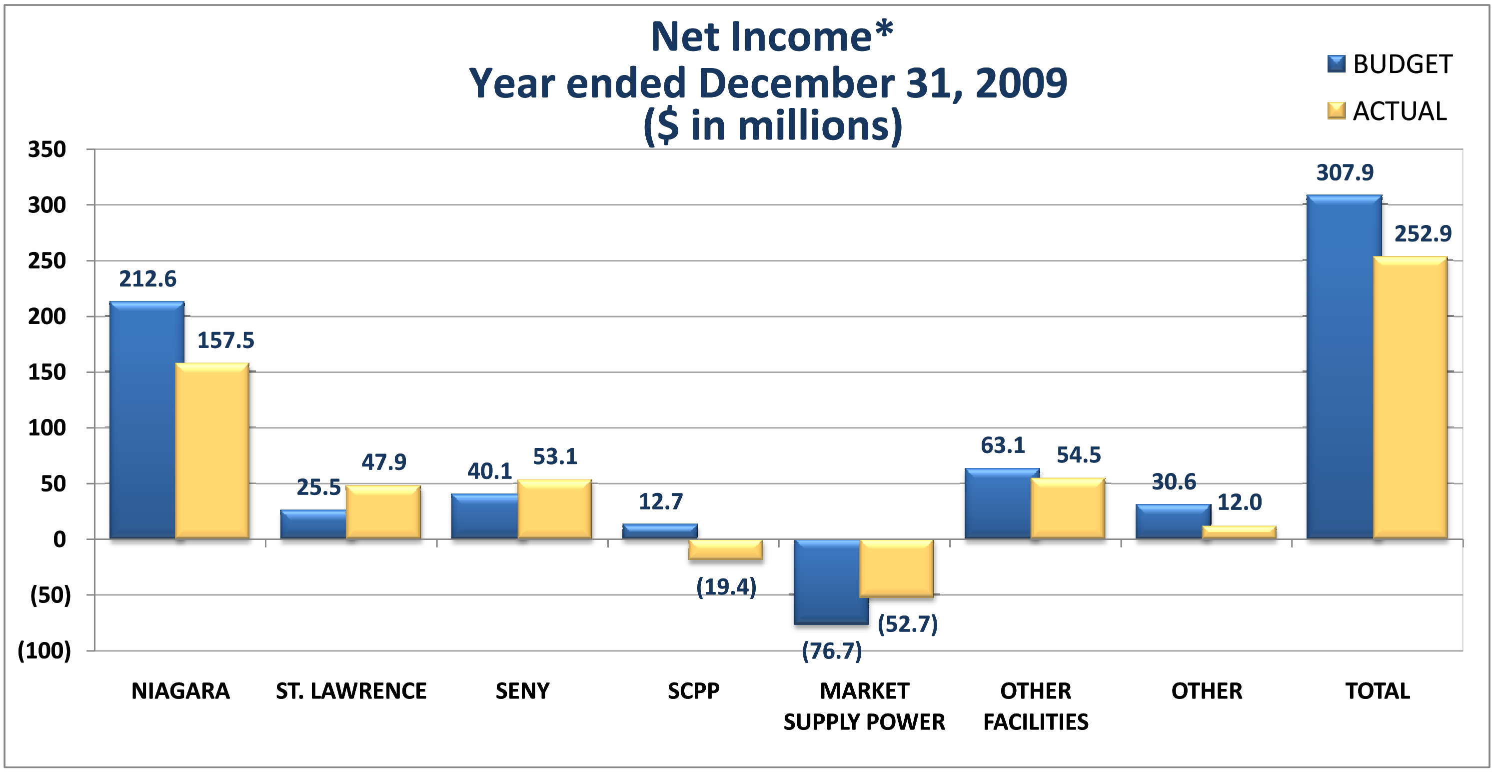
At the November 30, 2009 ERC meeting, the ERC charter was approved, risk mitigation plans and ERC presentation/approval schedules for the five prioritized critical risks were verified. The Enterprise Risk Team is currently working with Risk Owners and Supporting Risk Owners to complete mitigation plans for the five prioritized critical risks.

In Q4 2009 the Enterprise Risk Team conducted a successful initial rollout of the ER Program partnering with Compliance, Risk Reporting and Strategic Planning. The team has solicited feedback from the rollout participants in an effort to ensure that the ER Program focuses on continuous improvement.

Figure 1: Critical Risk Assessment Matrix (Heat Map)



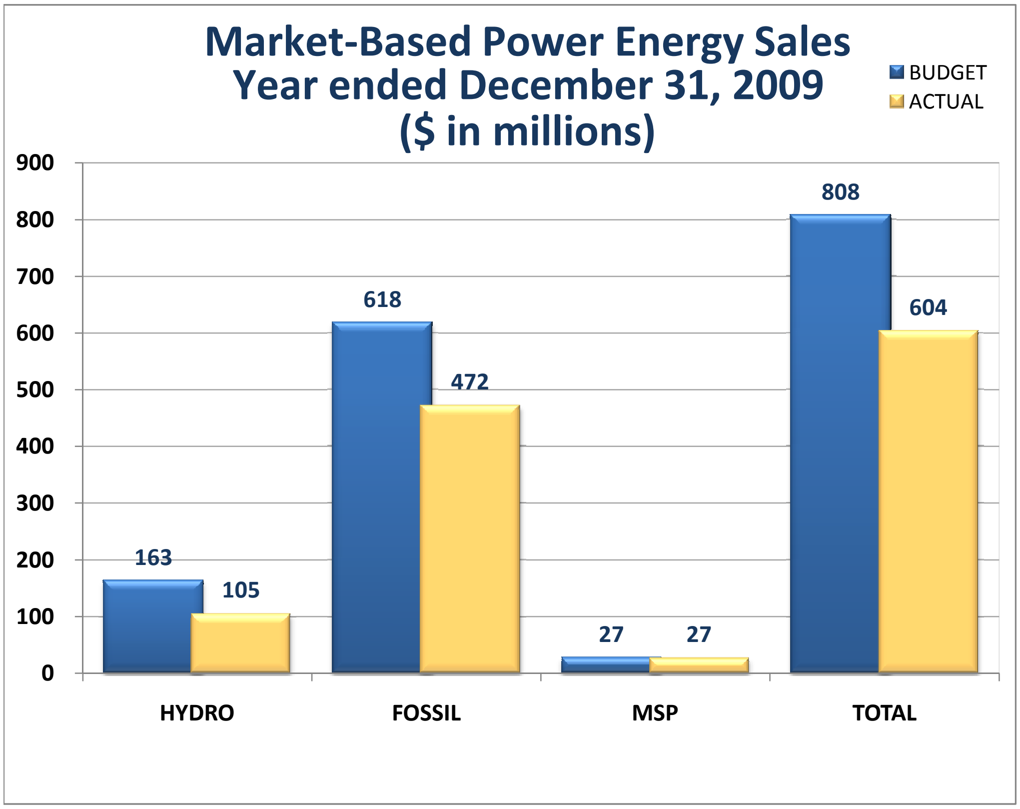
RESULTS OF OPERATIONS

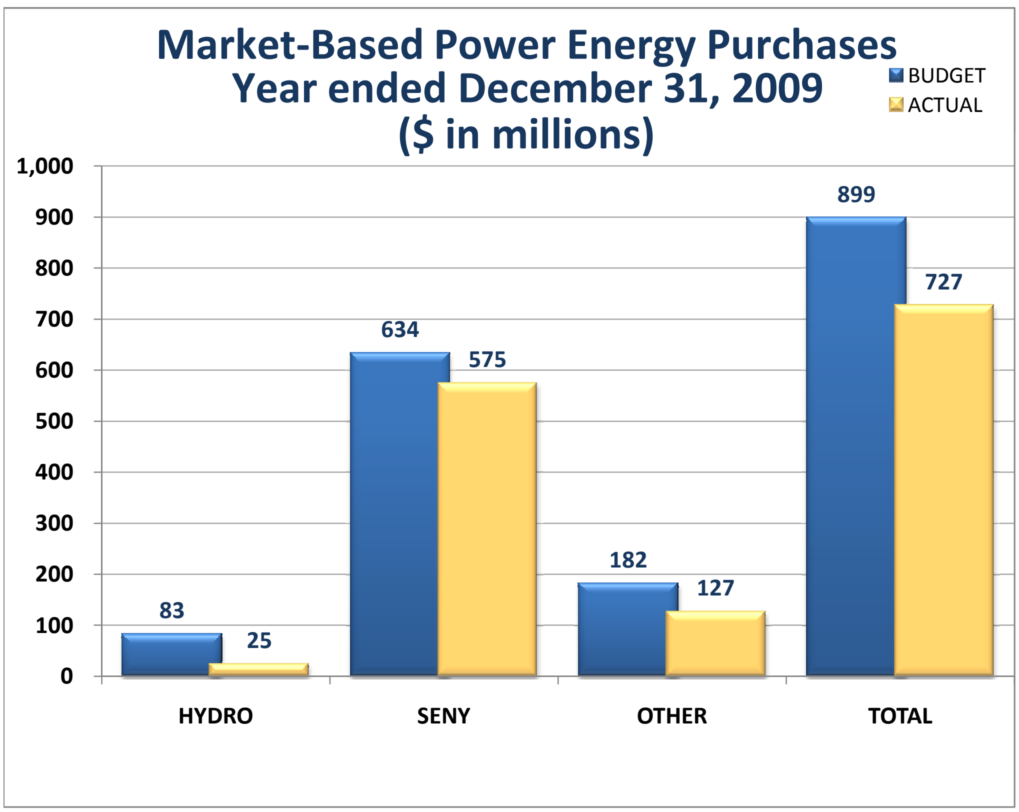


* Preliminary amounts subject to adjustment based on the true-up of estimated sales and accruals.

Major Factors	Better (Worse)
Niagara	($55.1)
Primarily lower revenues on market based sales ($35) due to lower prices and lower regulation revenues ($14). Average energy prices for sales into the market were approximately 40% lower than budgeted ($32.5/mwh actual vs $55.3/mwh budgeted). Capacity prices were also 35% below the budget. Regulation revenues were below budget primarily due to lower prices.	
St. Lawrence	22.4
Higher sales margin due to higher revenues ($9.1) and lower purchased power costs ($11). Revenues were higher primarily due to increased production (15%) and higher average prices on sales. Average sales prices were higher primarily due to the availability of additional energy to be sold into the market due to the curtailment in sales to Alcoa.	
SENY	13.0
Includes insurance recovery related to 2008 500 mw compressor outage ($4.7), lower operation and maintenance expenses ($1.4) and a lower interest expense ($1.5, lower rates).	
SCPP's	(32.1)
Lower net margin on sales ($26) combined with higher O&M ($3.0). Production was approximately 70% (512,000 mwh) below budget since the need for the units was less than anticipated in the budget due to market conditions. Spark spreads were $45/mwh when the plants operated (slightly above budget).	
Market Supply Power	24.0
Higher net margin on sales ($36) partially offset by accrual of potential additional Power for Jobs obligation ($12) based on October 2009 court decision. Higher net margin of sales reflects lower purchased power costs ($80) due to lower prices partially offset by higher revenues ($46) primarily due to the pass-through a portion of this amount to customers based on contractual agreements.	
Other facilities	(8.6)
Primary lower net revenues at B-G due to lower volumes sold. Production was significantly lower than budgeted due to the limited price differential between off peak and on peak energy prices.	
Other	(18.6)
Primarily accrual of additional PFJ voluntary contribution ($12.5) and higher mark-to-market loss on the investment portfolio.	
TOTAL	**($55.0)**

RESULTS OF OPERATIONS





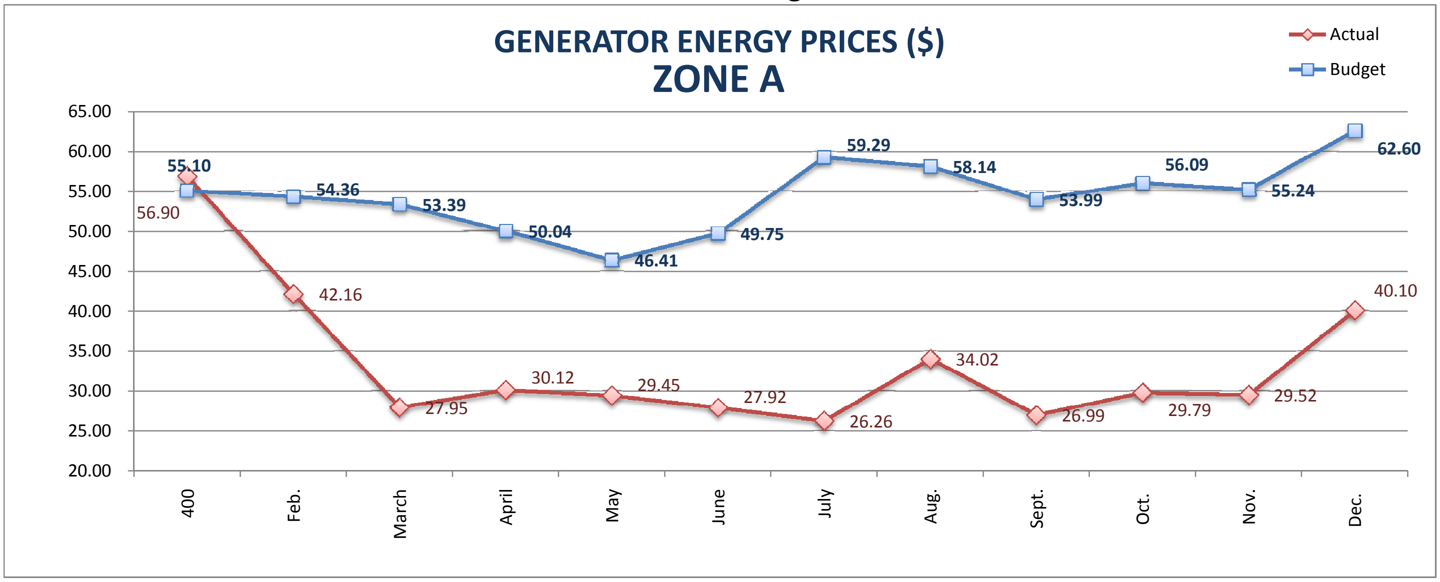
REVENUES		
SALES (MWH)		
	BUDGET	**ACTUAL**
Hydro*	2,522,765	2,964,992
Fossil	4,986,732	5,419,712
MSP	538,826	811,484
TOTAL	8,048,323	9,196,188
PRICES ($/MWH)		
Hydro*	$64.43	$35.34
Fossil	$124.00	$87.01
MSP	$50.22	$33.82
AVERAGE	$100.39	$64.54

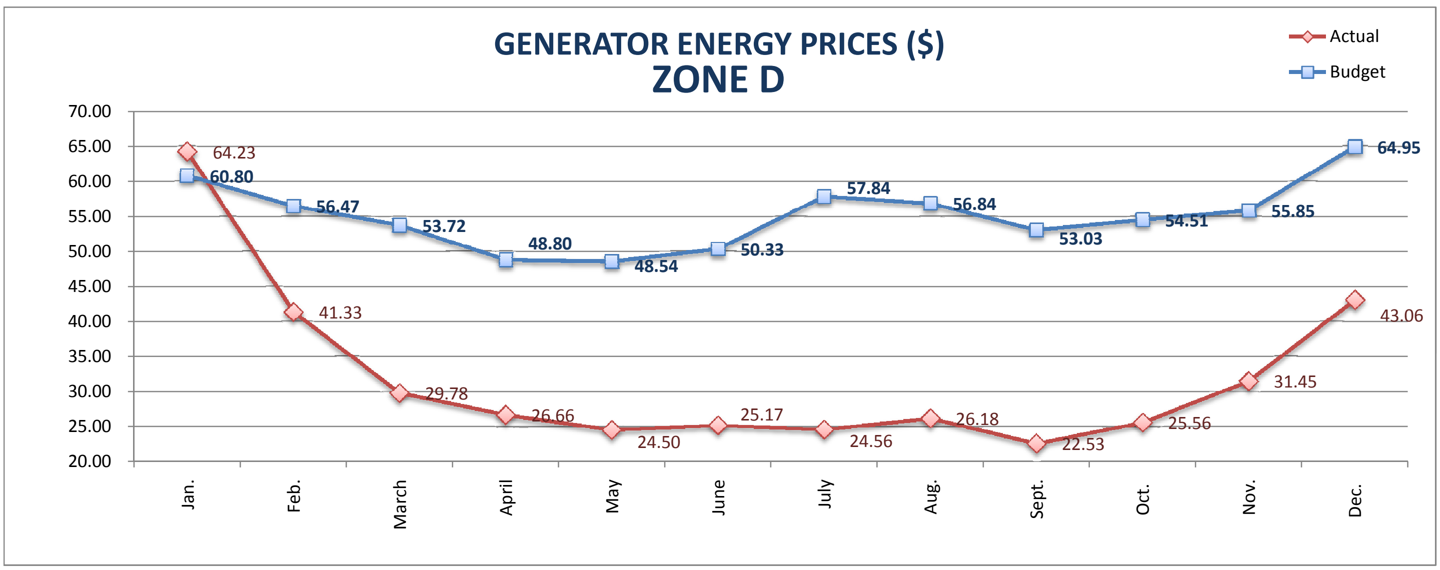
** Includes Niagara, St. Lawrence, B-G, and Small Hydro.*

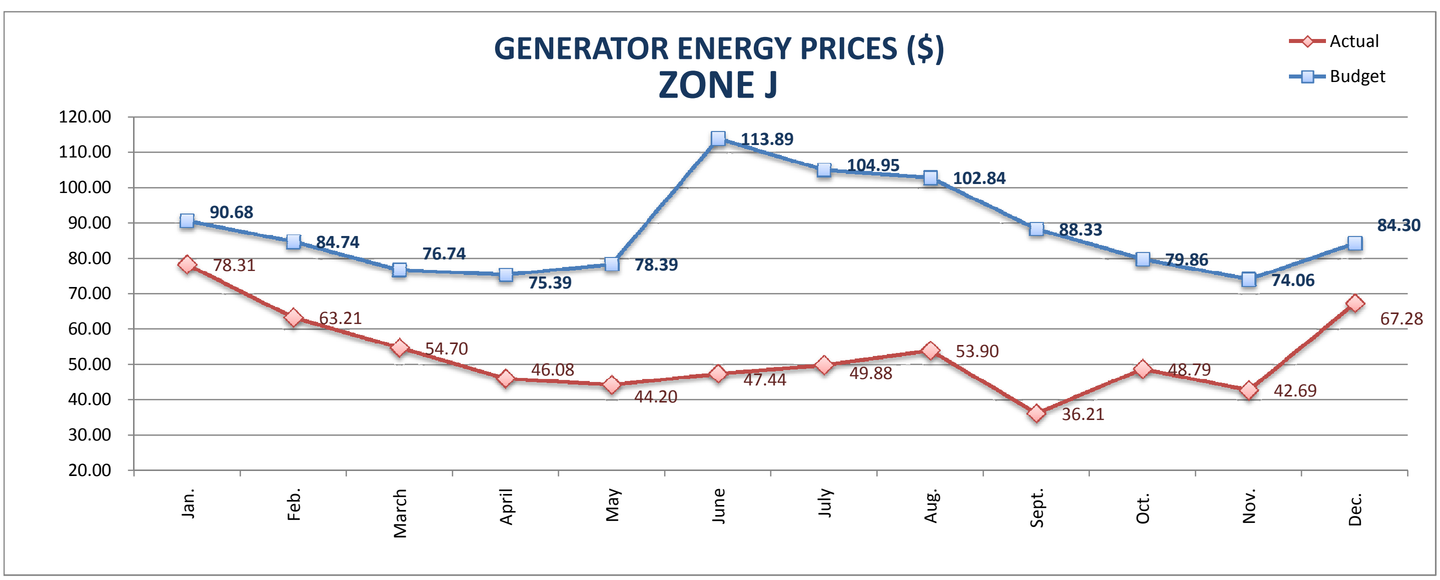
REVENUES		
SALES (MWH)		
	BUDGET	**ACTUAL**
Niagara	1,312,021	1,361,308
St. Law.	233,332	1,153,027
PRICES ($/MWH)		
Niagara	$56.94	$35.08
St. Law.	$53.24	$28.18

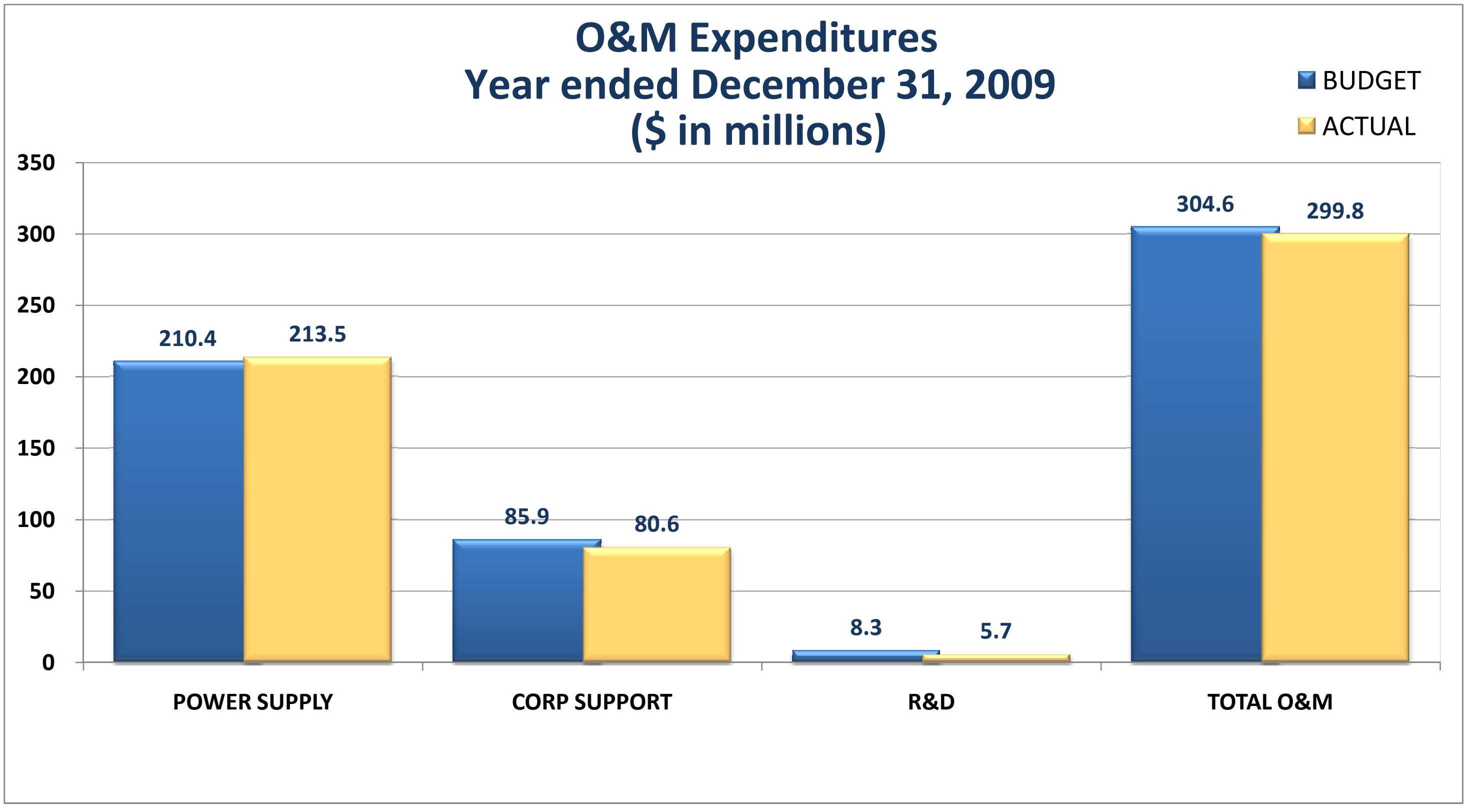
COSTS		
PURCHASES (MWH)		
	BUDGET	**ACTUAL**
Hydro	2,271,906	1,125,348
SENY	9,183,916	9,597,180
Other	3,257,005	3,128,906
TOTAL	14,712,827	13,851,434
COSTS ($/MWH)		
Hydro	$36.41	$22.10
SENY	$69.07	$59.89
Other	$55.99	$40.70
AVERAGE	$61.13	$52.48

RESULTS OF OPERATIONS
Energy Prices
Actual vs Budget





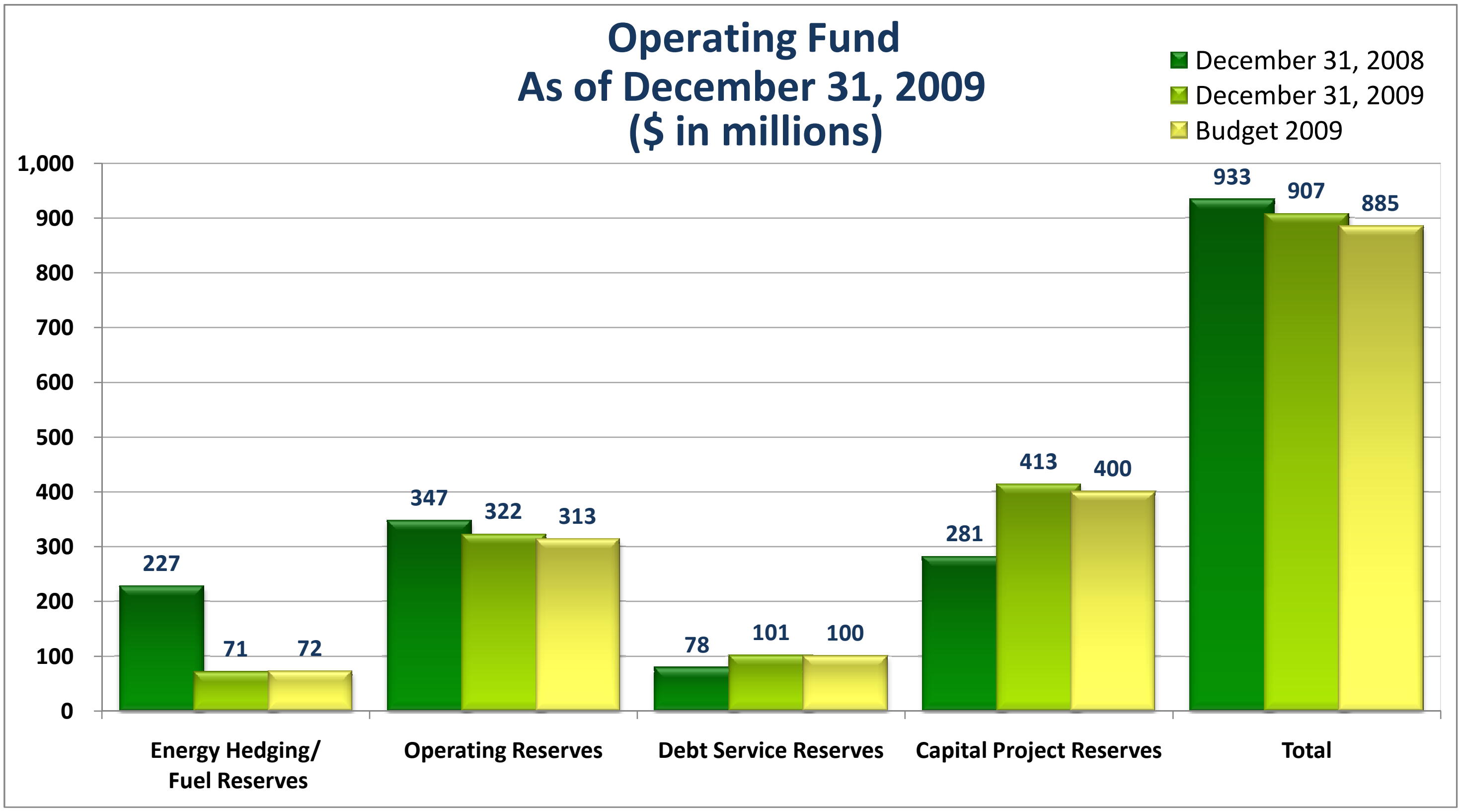




- For 2009, O&M expenses were $4.8 lower than the budget.
- Corporate Support expenses were under budget by $5.3 due mostly to under spending for outside consultants, Energy Efficiency Program Evaluation and HR outside service programs in addition to greater than expected HQ building rental income.
- Power supply expenditures were $3.1 higher than budgeted due to higher expenditures at the SCPP's (unplanned outage at Harlem River #2) and Poletti (emergent contractor costs).
- R&D expenses were under budget due to lower than expected spending for power generation technology improvements and transmission technology programs.

Other significant variances

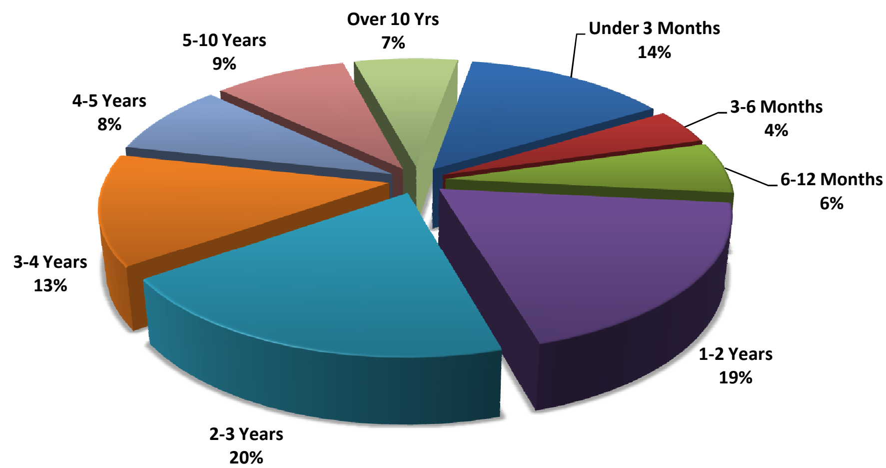
The $5.3 favorable variance in non-operating income results primarily from lower interest expense partially offset by a higher than anticipated mark-to-market loss on the authority's investment portfolio. The under-run in 2009 interest expense versus budget was the result of lower than anticipated interest costs associated with NYPA's $800 million variable rate debt program. As a result of continued weak economic conditions, including limited credit and liquidity, the Fed has supported the markets with accommodative monetary policy by leaving the Fed Funds Target Rate between 0 - 25 basis points. Because short-term rates trade in relation to the Fed Funds Rate, NYPA's variable rate debt program experienced unusually low interest costs.



The decrease in the Energy Hedging/Fuel Reserve balance for the year resulted primarily from a $215 Temporary Asset Transfer to NY State as authorized by the Trustees on February 3, 2009. The December balance of $71 represents the unallocated portion of the Energy Reserve Hedging Fund ($70) plus the balance in the Nuclear Spent Fuel Fund ($1). In September, a $103 Temporary Asset Transfer was made from the Capital Project Reserve to NY State as authorized by the Trustees on February 3, 2009 and as reaffirmed on July 29, 2009. The total $318 temporary asset transfer to NY State is classified on the balance sheet as a long-term receivable. In addition, in January of this year, a voluntary contribution of $119 was made to NY State.

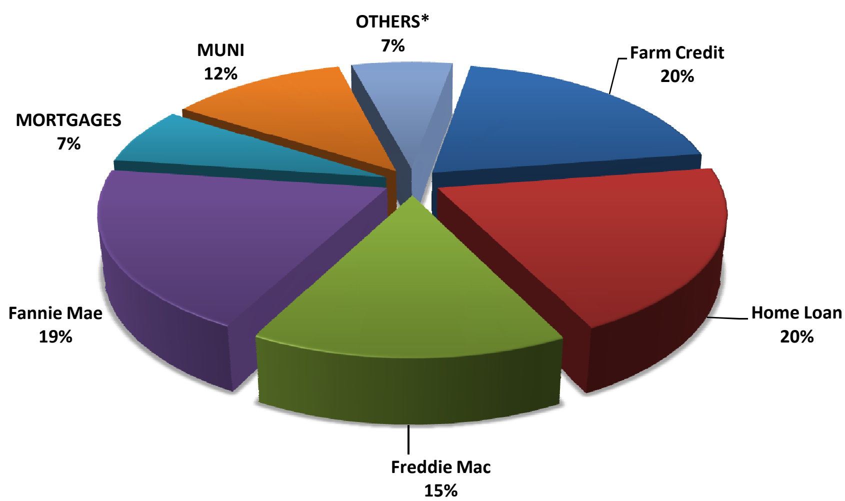
CASH AND LIQUIDITY INVESTMENT PORTFOLIO

Maturity Distribution As of December 31, 2009



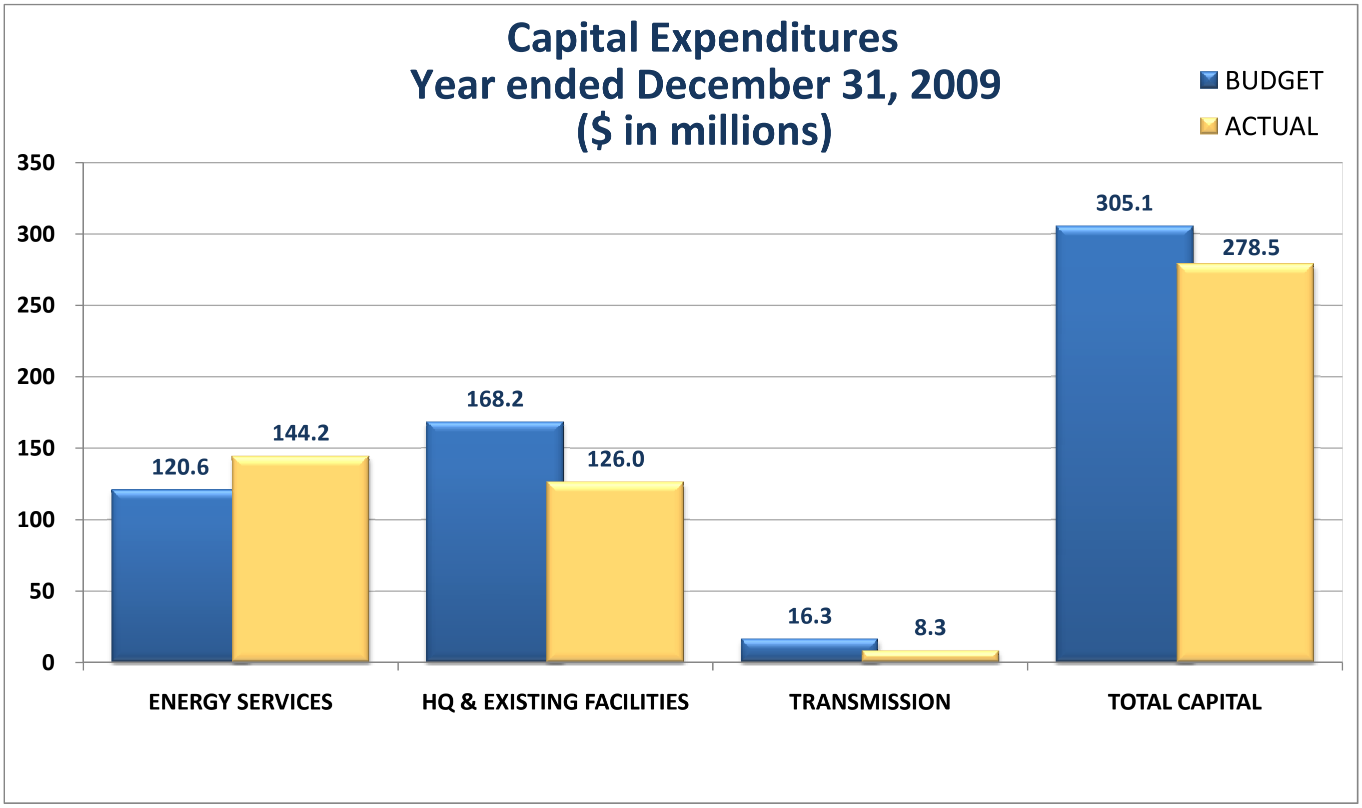
MATURITY DISTRIBUTION	
($ in millions)	
Under 3 Months	149.8
3-6 Months	46.0
6-12 Months	67.6
1-2 Years	208.9
2-3 Years	217.8
3-4 Years	146.0
4-5 Years	94.4
5-10 Years	97.8
Over 10 Yrs	76.3
Total	1,104.7

Asset Allocation As of December 31, 2009



ASSET ALLOCATION	
($ in millions)	
Farm Credit	218.7
Home Loan	222.2
Freddie Mac	165.2
Fannie Mae	215.9
MORTGAGES	76.8
MUNI	130.7
OTHERS*	75.3
	1,104.7

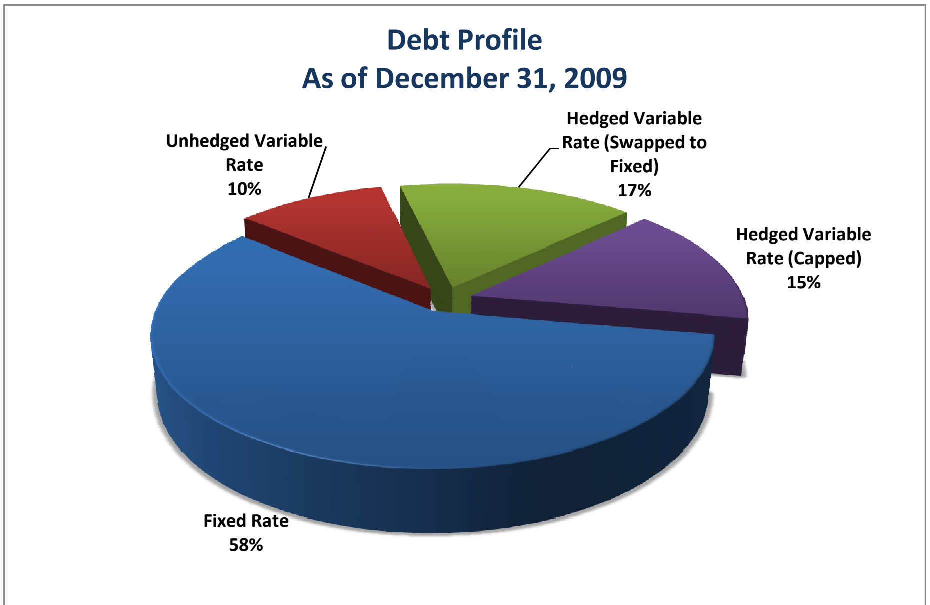
*Includes CDs and Repos



- Lower capital expenditures at HQ and Existing Facilities were primarily due to delays in various projects such as the St. Lawrence LEM and Relicensing, and timing underruns in the Niagara unit 4 standardization.
- Energy Services expenditures exceeded the budget due to accelerated construction activity related to NYCHA's Castle Hill Boiler and CUNY & Brooklyn College Steel Trap Replacement Project.
- Under the Expenditure Authorization Procedure, the President has authorized new expenditures on budgeted capital projects of $20.5 for 2009. There were no new expenditures authorized this month.

Debt activity for the year ended December 31, 2009
($ in millions)

	Beginning Balance	New Issues	Scheduled Retirements	Additional Retirements	Ending Balance
Fixed Rate Debt	$1,210.8	-	$37.4	-	1,173.4
Variable Rate Debt	594.8	69.3	132.6	.2	531.3
Variable Rate Energy Srvcs Debt	290.7	125.2	-	107.1	308.8
Sub-total Variable Rate Debt	885.5	194.5	132.6	107.3	840.1
Total	**$2,096.3**	**$194.5**	**$170.0**	**$107.3**	**$2,013.5**



DEBT PROFILE	
($ in millions)	
Fixed Rate	1,173.4
Unhedged Variable Rate	208.4
Hedged Variable Rate (Swapped)	331.7
Hedged Variable Rate (Capped)	300.0
Total	2,013.5

Interest Rate Derivatives

The Authority periodically enters into Interest Rate Swaps and Caps to manage interest rate volatility associated with variable rate debt and to hedge future debt issuance. Each transaction is individually approved by the Board of Trustees and is governed by an ISDA Master Agreement and Schedule to the Agreement with authorized Counterparties. The SVP – Corporate Planning & Finance and the Treasury department, in consultation with the Authority's financial advisor Public Financial Management, continually monitor market conditions for potential hedging strategies that may benefit the Authority and its customers. All transactions are competitively bid by the swap advisory unit of Public Financial Management.

Open Positions

The 1998B transaction is an interest rate swap that was bid March 13, 1998 with an effective date of November 15, 2002. The swap had the effect of fixing the rate on tax-exempt commercial paper at 5.123% on a forward starting basis. It was one component of the 1998 debt refinancing that reduced debt service costs by $740 million and allowed the Authority to adopt a new *General Resolution authorizing Revenue Obligations* in preparation for the competitive marketplace.

The ARTN transaction is an interest rate swap that was bid July 27, 2006 with an effective date of September 1, 2006. It allowed the Authority to lock in a 3.7585% synthetic fixed rate on the Adjustable Rate Tender Notes ("ARTN's"). The synthetic fixed rate was below the historical average rate on the ARTN's and assured full recovery of financing costs through NYPA's transmission tariff.

The CP-1 transaction is a 5.90% interest rate cap on the Series 1 Tax-Exempt Commercial Paper. The transaction provides customers participating in the energy services program an interest rate ceiling on their financing rate. The cap is generally bid for a three year term depending on market conditions and pricing.

Summary of Derivative Positions ($ in millions)

Transaction	Counterparty	Notional Amount*	Effective Date	Type of Swap	Mark-to-Market
1998B	Goldman Sachs Mitsui Marine Derivatives	$58.2	11/15/2002	Floating-to-Fixed	($3.9)
1998B	Merrill Lynch Cap. Srvcs	97.1	11/15/2002	Floating-to-Fixed	(6.6)
1998B	Citigroup Financial Prod.	38.8	11/15/2002	Floating-to-Fixed	(2.6)
ARTN	Merrill Lynch Cap. Srvcs	137.5	9/1/2006	Floating-to-Fixed	(12.0)
CP - 1	JPMorgan Chase Bank	300.0	8/15/2007	CAP	-
Totals		**$631.6**			**($25.1)**

** The notional amount of each SWAP amortizes according to the provisions contained in the transaction documents.*

STATEMENT OF NET INCOME*
For the Year Ended December 31, 2009
($ in millions)

	Actual	Budget	Variance Favorable/ (Unfavorable)
Net Income by Facility			
Operating Revenues			
Customer	**$1,837.9**	**$2,081.9**	**($244.0)**
Market-based power sales	603.8	805.4	(201.6)
Ancillary services	41.8	62.3	(20.5)
NTAC and other	104.9	88.0	16.9
Total	**750.5**	**955.7**	**(205.2)**
Total Operating Revenues	**2,588.4**	**3,037.6**	**(449.2)**
Operating Expenses			
Purchased power	823.7	1,060.3	236.6
Fuel consumed - oil & gas	365.2	516.4	151.2
Ancillary services	77.1	95.8	18.7
Wheeling	430.0	441.6	11.6
Operations and maintenance	299.8	304.6	4.8
Depreciation and amortization	164.2	160.7	(3.5)
Other expenses	144.4	115.0	(29.4)
Allocation to capital	(9.2)	(10.4)	(1.2)
Total Operating Expenses	**2,295.2**	**2,684.0**	**388.8**
Net Operating Revenues	**293.2**	**353.6**	**(60.4)**
Nonoperating Revenues			
Post nuclear sale income	89.8	89.8	-
Investment income	53.5	43.9	9.6
Mark to market - investments	(12.9)	(3.7)	(9.2)
Total Nonoperating Revenues	**130.4**	**130.0**	**.4**
Nonoperating Expenses			
Contributions to New York State	70.0	70.0	-
Interest and other expenses	100.7	105.7	5.0
Total Nonoperating Expenses	**170.7**	**175.7**	**5.0**
Net Nonoperating Income (Loss)	**(40.3)**	**(45.7)**	**5.4**
Net Income (Loss)	**$252.9**	**$307.9**	**($55.0)**

* Preliminary amounts subject to adjustment based on the true-up of estimated sales and accruals.

COMPARATIVE BALANCE SHEETS
December 31, 2009
($ in millions)

Assets		December 2009	December 2008
Current Assets			
	Cash	$0.1	$0.1
	Investments in government securities	913.4	961.1
	Interest receivable on investments	5.9	7.1
	Accounts receivable - customers	157.7	159.0
	Materials and supplies, at average cost:		
	Plant and general	82.3	84.5
	Fuel	21.7	38.6
	Prepayments and other	108.7	188.6
	Total Current Assets	**1,289.8**	**$1,439.0**
Noncurrent Assets			
Restricted Funds	Investment in decommissioning trust fund	948.1	811.8
	Other	94.1	99.8
	Total Restricted Funds	**1,042.2**	**911.6**
Capital Funds	Investment in securities and cash	189.2	215.2
	Total Capital Funds	**189.2**	**215.2**
Net Utility Plant	Electric plant in service, less accumulated depreciation	3,347.8	3,370.6
	Construction work in progress	145.8	157.6
	Net Utility Plant	**3,493.6**	**3,528.2**
Other Noncurrent Assets	Receivable - NY State	318.0	-
	Deferred charges, long-term receivables and other	561.8	503.3
	Notes receivable - nuclear plant sale	170.1	182.2
	Total other noncurrent assets	**1,049.9**	**685.5**
	Total Noncurrent Assets	**5,774.9**	**5,340.5**
	Total Assets	**$7,064.7**	**$6,779.5**

Liabilities and Net Assets			
Current Liabilities	Accounts payable and accrued liabilities	$912.3	$924.8
	Short-term debt	287.8	272.5
	Total Current Liabilities	**1,200.1**	**1,197.3**
Long-term Debt	Revenue bonds	1,192.7	1,233.0
	Adjustable rate tender notes	137.5	144.0
	Commercial paper	414.8	469.0
	Total Long-term Debt	**1,745.0**	**1,846.0**
Other Noncurrent Liabilities	Nuclear plant decommissioning	948.1	811.8
	Disposal of spent nuclear fuel	215.8	215.5
	Deferred revenues and other	136.0	142.0
	Total Other Noncurrent Liabilities	**1,299.9**	**1,169.3**
	Total Noncurrent Liabilities	**3,044.9**	**3,015.3**
	Total Liabilities	**4,245.0**	**4,212.6**
Net Assets	Accumulated Net Revenues - January 1	2,566.8	2,268.4
	Net Income	252.9	298.5
	Total Net Assets	**2,819.7**	**2,566.9**
	Total Liabilities and Net Assets	**$7,064.7**	**$6,779.5**

SUMMARY OF OPERATING RESERVE CASH FLOWS
For the Year Ended December 31, 2009
($ in millions)

Operating Reserve	
Opening	$347.0
Closing	322.0
Increase/(Decrease)	**(25.0)**
Net Cash Generated from Operations	
Niagara	193.5
St. Lawrence	70.8
Blenheim-Gilboa	(1.5)
SENY	121.3
SCPP	(3.5)
Market Supply Power	(40.7)
Flynn	20.3
Transmission Facilities	66.2
Total Net Cash Generated from Operations	**426.4**
(Uses)/Sources	
Utility Plant Additions	(87.9)
Debt Service (Principal & Interest)	(125.8)
Investment Income	37.1
Fuel Margin Reserves	(18.4)
Entergy Payment (Value Sharing Agreements)	72.0
Entergy Payment (IP2 Purchase Agreement)	10.0
Entergy Payment (Nuclear Plant Sale)	20.0
Voluntary Contribution to NY State	(119.0)
Cost Recovery Payment to NY State	(5.6)
Capital Project Reserve	(235.0)
Other	1.2
Total (Uses)/Sources	**(451.4)**
Net Decrease in Operating Reserve	**(25.0)**