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December 6, 2010

VIA U.S. MAIL AND EMAIL

Ms. Karen Delince
Corporate Secretary
New York Power Authority
123 Main Street, 11-P
White Plains, New York 10601

Re: NYPA's 2011 Base Production Rates

Dear Ms. Delince:

Enclosed please find the Comments of the City of New York on the New York Power Authority's proposed base production rates for 2011 for its New York City Governmental Customers. These comments are submitted in response to the notice issued in the State Register on October 20, 2010.

As discussed in the Comments, the City respectfully requests that the New York Power Authority reduce the fixed cost component of the rates by $17.9 million.

If you have any questions regarding these comments, please feel free to contact me.

Sincerely,

COUCH WHITE, LLP

Kevin M. Lang

KML/glm
Enclosure
cc: Edna Wells Handy, Commissioner, DCAS
Ariella Maron, Deputy Commissioner, DCAS Division of Energy Management
Donald Brosen, Deputy Commissioner, DCAS Division of Fiscal Management
Susan Cohen, Assistant Commissioner, DCAS Division of Energy Management
Sergej Mahnovski, Senior Advisor and Director, DEP Office of Strategic Planning
James Pasquale
Helle Maide
Amy Levine, Esq.

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POWER AUTHORITY
OF THE STATE OF NEW YORK

Process to Address the 2011 Cost of Service Under the 2005 Long Term Agreement Between NYPA and the City of New York

SAPA No. PAS-42-10-00001-P

<u>COMMENTS OF THE CITY OF NEW YORK</u>

December 6, 2010

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PRELIMINARY STATEMENT

On June 29, 2010, the New York Power Authority ("NYPA") distributed a "Preliminary Staff Report – New York City Governmental Customers Annual Planning and Pricing Process Analysis, Including Preliminary 2011 Cost-of-Service" ("2011 Rate Plan") to its New York City Governmental Customers ("NYC Customers"). On October 20, 2010, NYPA published notice of the 2011 Rate Plan in the State Register. Pursuant to that notice, comments on NYPA's proposal will be accepted through December 6, 2010.[1]

The City of New York ("City") is one of the NYC Customers that will be affected by the proposed rate revisions. It contends that the proposed 2011 rates are overstated and excessive. Therefore, in accordance with the notice and Section 202 of the State Administrative Procedure Act, the City hereby submits these comments on NYPA's proposed rate revisions for the 2011 Rate Year.

NYPA procures and provides full requirements electric supply service to the City and other NYC Customers. In total, NYPA expects to procure approximately 9.7 million MWh of energy at a cost of $922.2 million in 2011. The City asserts that this total cost includes elements for which it and the other NYC Customers should not be responsible. More generally, the City asserts that the total amount of fixed costs included in the 2011 Rate Plan is excessive, and NYPA must do more to control and reduce its expenses. Accordingly, the City respectfully urges the NYPA Board of Trustees to accept and adopt the changes set forth herein.

[1] An erratum notice was published in the November 10, 2010 edition of the State Register. On December 2, 2010, the NYC Customers were advised by NYPA that because of the issuance of this erratum notice, the due date was extended to December 29, 2010.

BACKGROUND

In 1976, NYPA assumed the responsibility to provide electric service to the NYC Customers. Although the NYC Customers would be physically connected to Consolidated Edison Company of New York, Inc.'s ("Con Edison") electric system, they would be customers of NYPA and pay rates set by NYPA (NYPA would in turn be a customer of Con Edison and pay Con Edison's Public Service Commission-approved electric rates). From the outset, Con Edison provided delivery service, while NYPA provided supply service from NYPA's fleet of generating facilities located within New York City and in other parts of the State.

Each NYC Customer entered into a contract with NYPA which set forth the terms and conditions of the parties' relationship. Those contracts were supplemented and amended from time to time for almost 20 years. On or about March 18, 2005, NYPA and each NYC Customer entered into a Long Term Agreement ("LTA") which supplanted the previous contract. The LTA prescribes the manner in which NYPA will develop its rates, or cost of service, each year, as well as the manner in which the NYC Customers may comment on, and seek adjustments of, those rates.

The LTA requires that all costs be based on NYPA's actual cost of providing service (*see, e.g.*, LTA Section II.B.1.a). The LTA designates different treatment for fixed costs and variable costs, as those terms are defined therein. Fixed costs must be set consistent with accepted cost-causation principles and regulatory cost-of-service methodologies (*see* LTA Sections II.B.1.a and II.B.2). Variable costs will change with market prices for electricity products (energy, capacity, and ancillary services) and the cost of reasonable, appropriate, and permissible hedging activities. These comments pertain only to the fixed costs proposed in the 2011 Rate Plan.

SUMMARY OF POSITION

In establishing the appropriate level of fixed costs for 2011, the Board of Trustees must assure its NYC Customers that the fixed costs reflect the substantial changes that occurred in 2010. Specifically, NYPA retired its Charles A. Poletti Generating Station ("Poletti"), an 885 MW power plant located in New York City. As a result of this retirement, NYPA's complement of employees, administrative and overhead expenses, and other fixed costs should have gone down, compared to prior years' levels. As shown in the 2011 Rate Plan, however, they did not.

The 2011 Rate Plan proposes to increase the fixed costs by $1.3 million compared to the 2010 levels. For the reasons set forth below, the City contends that certain elements of the preliminary fixed cost estimate are overstated and other elements should be eliminated. Additionally, in recognition of the economic difficulties being experienced by the City and other NYC Customers, the Board of Trustees should generally reduce NYPA's overall spending in 2011 in much the same way that NYPA advocated for spending reductions by Con Edison in that utility's most recent electric rate case.[2]

Accordingly, the City requests that the fixed cost component of the 2011 Rate Plan be reduced by approximately $18 million as indicated in Table 1 below, and as more fully shown in Appendix 1, attached hereto.

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[2] *See* Case 09-E-0428, Consolidated Edison Company of New York, Inc. – Electric Rates, Direct Testimony of Dr. John Chamberlain and Brian K. Hedman on behalf of NYPA, dated August 28, 2009.

Table 1 2011 Fixed Cost Revenue Adjustments	
Item	**Amount (million $)**
O & M	(1.7)
Shared Services	(3.8)
Capital Cost	(2.7)
Other Expenses	(2.2)
Global Reduction	(7.5)
Total	(17.9)

DISCUSSION

1. NYPA's Fixed Costs Improperly Continue To Rise

Because NYPA is not subject to regulatory oversight, it is critically important for NYPA's senior executives and Board of Trustees to carefully scrutinize all of its fixed costs and take affirmative action to implement cost-cutting and cost-saving policies to reduce its spending for those cost elements that it can control. For three reasons, the City respectively submits that NYPA has not done so for purposes of the 2011 Rate Plan. To address this deficiency, a global reduction of NYPA's fixed costs is warranted.

First, the City has examined NYPA's NYC Customer allocated actual fixed costs over the past five years and compared those costs levels to the proposed 2011 level of fixed costs. The trend revealed by this analysis is disturbing. Although on a total dollar basis, NYPA's fixed costs went down between 2009 and 2010, they have increased by more than 80% on a unit cost basis. Table 2 and Appendix 2 show the results of the City's analysis.

Table 2 Unit Cost Fixed Cost Comparison		
Year	**Fixed Cost ($/MWh)**	**Cumulative Increase**
2006	27.79	
2007	29.13	4.8 %
2008	35.41	27.4 %
2009	38.47	38.4 %
2010	51.04	83.6 %
2011 (projected)	50.85	82.9 %

The unit cost level is important to track because it identifies on a per MWh basis the energy market price levels that must be obtained to recover the fixed costs associated with the generating facilities operated by NYPA to serve the NYC Customers. When the variable costs associated with operating these generating facilities are taken into account, the total level of operating costs exceed the revenues from the facilities, making all of these units uneconomic. In fact, NYPA's 2010 and preliminary 2011 cost-of-service projections produced forecast net losses of $30.6 million and $25.3 million, respectively.[3] These facts are undisputable. They are also unacceptable. If NYPA were a regulated utility, its regulator would likely seriously question the prudence of its actions.

3 As shown in Appendix 3, none of the generating facilities serving the NYC Customers are expected to be economic in 2011. The net losses in 2011 are projected to be $19.2 million for the 500 MW unit and $6.1 million for the small hydroelectric units (note that the small hydroelectric units do not have any variable costs, their allocated fixed costs exceed their forecast revenues). Under NYPA's proposed allocation, discussed in more detail below, the now-retired Poletti facility shows a net loss of $23.9 million in 2011. Further, these figures do not include the projected $15 million net loss (after capacity is included) associated with the new Astoria Energy II facility. If all of the facilities are included, the total net loss would be approximately $64.2 million.

Second, on January 31, 2010, NYPA retired its largest fossil-fueled generating facility. However, its proposed 2011 costs do not reflect any material savings resulting from that retirement. Rather, NYPA has simply shifted costs formerly allocated to Poletti to either the 500 MW unit or among all of its remaining generating units. The City submits that NYPA does not need the same complement of employees as it did before Poletti was closed. This issue is discussed in greater detail in Point 3, below.

Further, the closure of Poletti should have reduced a number of other expenses. As equipment ages, it becomes more expensive to operate and maintain. In contrast, new equipment should require less maintenance and need fewer repairs. Accordingly, the closure of Poletti and primary reliance on the 500 MW unit, which is only five years old, should have translated to lower operations and maintenance ("O&M") expenses and capital costs. However, the 2011 projected costs in both of these categories are higher than the 2010 expenses.

For these reasons, the City submits that NYPA should have reduced its operational and overhead costs associated with its generation fleet. Its failure to do so raises questions as to NYPA management's focus on controlling costs and warrants corrective action.

Third, in 2009, the City and State of New York, as well as the rest of the nation, experienced a severe economic recession. In 2010, the economy has improved a little, but the City and State continue to experience the effects of the recession. In particular, the City has laid off employees and recently announced plans to lay off thousands more. The State has announced and moved forward with similar intentions. Both the City and the State have curtailed some services and may curtail others. In other words, the City and its residents, as well as the State and all New Yorkers, are forced to make do with less. The same approach should be applied within the utility sector, and as noted above, NYPA submitted testimony in Con Edison's recent electric rate case advocating for Con Edison to be required to reduce its spending.

However, in developing its own rates for 2011, NYPA has not placed tighter controls on its costs, particularly with respect to its growing total Headquarters budget, which has increased by more than $15 million in the past two years. NYPA's "business as usual" approach is inappropriate, unjust, and unreasonable. NYPA's management must exert more effort into controlling NYPA's costs, and it must be more attentive to the economic difficulties of its customers. In the same manner that the Public Service Commission is forcing each regulated utility's management to be more cost conscious, and to implement measures to reduce costs, NYPA's management must voluntarily commit to taking similar actions. Further, NYPA's Board of Trustees must demand and require more accountability and more attention to such actions from NYPA's management. At a minimum, substantial reductions to NYPA's 2011 fixed costs are needed to reflect NYPA's substantially smaller asset base and the additional non-asset-related belt-tightening that all responsible public entities should be doing.

It is particularly incumbent on NYPA to reduce costs given the revenue constraint it has committed itself to in the widely-reported rate freeze that was approved in March 2009 for hydropower customers, including businesses in Western and Northern New York and municipal electric utilities and cooperatives. NYPA reported that this freeze would save the affected customers approximately $20 million through August 2010, making that revenue unavailable to NYPA to cover authority-wide costs.

Because the foregoing concerns are endemic to NYPA's operations, it is not possible to identify specific adjustments to specific line items. Further, because the responsibility to manage NYPA's business, operate NYPA's facilities, and serve the needs of the NYC Customers rests with NYPA's management, not its customers, it is not the role of the City to tell NYPA where the balance must be struck. However, to address the foregoing concerns, the City urges NYPA and its Board of Trustees to generally reduce its spending by a minimum of 5%, or $7.5 million, after deducting for the specific adjustments described below.

2. <u>Poletti-Related Costs</u>

Since the commencement of plant operations in 1977, and until January 31, 2010, Poletti was an essential component of the NYC Customers' supply portfolio. For 34 years, the City and other NYC Customers funded the capital and O&M costs of Poletti, as well as NYPA's overheads and administrative costs of operating the plant. For at least the last five years, and, assuming that NYPA engaged in prudent management practices prior to executing the LTA, for many years before 2006, part of those payments constituted contributions to an asset retirement fund, a pool of money to be used once the plant ceased operations.

On January 31, 2010, NYPA officially ended operations at Poletti, and, for all intents and purposes, it should now be treated as retired.[4] Accordingly, certain costs should no longer be allocated to that facility, and those Poletti-related costs which are legitimately incurred by NYPA should come from a pre-established asset retirement fund. However, the

[4] NYPA has not provided any justification or rationale for treating Poletti as anything other than a retired asset. It is no longer permitted to operate, does not have valid air or other environmental permits, and cannot participate in the wholesale electricity markets.

detailed breakdown of the 2011 fixed costs shows nine line items in which NYPA inappropriately proposes to recover Poletti-related costs directly from the City and other NYC Customers rather than from the pre-established asset retirement fund. Table 3 sets forth a summary of the Poletti-related adjustments, and Appendix 1 sets forth the line item detail of the proposed 2011 fixed costs as proposed by NYPA and as adjusted by the City.

Table 3 **2011 Poletti-Related Revenue Adjustments**	
Item	**Amount (million $)**
O & M	(1.7)
Shared Services	(1.3)
Capital Cost	(1.5)
Total	(4.5)

The first set of disputed costs relate to the category called O&M Expenses. During the discovery phase of this matter, the City sought information about the basis of the O&M expenses related to Poletti. One such expense related to roof repairs, another related to insurance, and a third related to workers compensation. Continuing to maintain a retired facility does not appear to be a reasonable expense, and NYPA has not offered any justification for this project. The other expenses should be recovered from the asset retirement fund given Poletti's removal from service and the fact that it is no longer used or useful.

The second set of objectionable costs relate to the categories called Shared Services Expenses and Capital Costs. NYPA has offered no explanation as to why it continues to allocate shared services to this retired facility. Moreover, the City is not aware of any generally accepted accounting rule or principle that would support allocating costs to a retired asset. For the same reasons, it is inappropriate to assign carrying costs from capital projects or materials and supplies inventory to Poletti. Further, in discovery NYPA explained that the oil inventory charge relates to 2009 oil costs. This charge is impermissible because there is no provision in the LTA that permits NYPA to recover the difference between the fixed costs set for any rate year and the actual fixed costs incurred during that year.

To the extent that these oil costs are actually variable costs, the LTA expressly provides that the difference between the forecast and actual costs must be recovered over the next 12 billing periods after the data for the subject rate year (*i.e.*, the 2009 Rate Year) is available. Upon information and belief, that data became available early in 2010, so delaying recovery until 2011 is not permitted. Moreover, if the oil costs were variable costs, there is no provision in the LTA that would allow NYPA to convert such costs to fixed costs.

In summary, all nine of the Poletti related items highlighted on Appendix 1 should be removed from the 2011 fixed costs. As appropriate, and consistent with the above discussion, NYPA should instead recover the allowed costs from the pre-established Poletti asset retirement fund.

3. Headquarters Direct Support Costs

Table 4 summarizes, and Appendix 1 shows, an item under the Shared Services Expense category for which an adjustment is required.

Table 4
Headquarter Direct Support Adjustment

Item	**Amount (million $)**
Headquarters Support	(2.5)
Total	(2.5)

Within the Shared Services Expense category, NYPA proposes to directly allocate to the NYC Customers a total of $9.6 million for headquarters direct support expense.[5] This amount is significantly higher than the similar 2010 allocated expense level of $7.1 million. In fact, between 2008 and 2010 the annual allocated expense level associated with this cost item averaged $6.6 million. One of the primary reasons for this increase is NYPA's proposal to increase its overall Headquarters and Research and Development budget by $3.4 million compared to 2010 levels.

As mentioned above, the City and State, generally, have curtailed services and have laid off or will lay off a portion of their respective work forces. NYPA should not be immune from this cost conscious behavior. It is unacceptable that NYPA has made virtually no effort to reduce expenses, or even to evaluate and confirm that its level of expenses is consistent with industry standards. The lack of such analysis, combined with the fact that the size of NYPA's operations has shrunk considerably due to the closure of Poletti, makes it impossible to conclude that the proposed level of expenses for headquarters and headquarters-related purposes is just and reasonable. At a minimum, the Board of Trustees should reduce these expenses to an amount consistent with historical levels.

Further, as highlighted above, the closure of Poletti should have translated to a reduction in certain administrative or back-office resources, including, but not, limited to accounting, fuel procurement and other purchasing, warehousing, marketing or billing. Thus, NYPA should have reduced its overall headquarters budget in 2011. Instead, as NYPA explained in discovery, it simply reallocated its costs to the remaining facilities. The

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[5] This amount does not include the portion of shared services expense that the NYC Customers are allocated due to the operations of the in-city and small hydro generating facilities.

total number of plant employees has remained the same, and the total number of back office, support, and administrative personnel has also remained the same.

It is difficult to comprehend that NYPA needs the same complement of workers to perform essentially half the amount of work. It does not appear from the information provided by NYPA that NYPA made an effort to evaluate its continuing needs to determine where it could reduce costs. For example, when asked whether it had conducted any benchmarking studies to compare the size of its workforce with that of other generating companies, NYPA responded that it conducted no such analysis.

4. Capital Cost Adjustments

Table 5 summarizes, and Appendix 1 shows, two items under the Capital Cost category for which adjustments are required, separate and apart from the Poletti costs discussed above.

Table 5
2011 Capital Cost Revenue Adjustments

Item	**Amount (million $)**
NYMEX Margin Costs	(0.2)
500 MW Turbine Repair	(1.0)
Total	(1.2)

The first item is listed on line 27, entitled "NYMEX Margin Carrying Cost." NYPA did not purchase any natural gas hedges in 2010 for the City. Therefore, there is no basis for this cost. Moreover, to the extent this is actually a variable cost, the above discussion regarding the Poletti oil costs applies. Indeed, Section II.B.1.b of the LTA defines "variable costs" as including "the expected cost of fuel … and Hedging Costs incurred by NYPA to serve the NYC Governmental Customers." Section II.A.4 of the LTA defines "hedging costs" as "the costs … associated with fuel, … including, but not limited to, … options, caps, collars, Over the Counter ("OTC") gas and basis swaps or NYMEX futures contracts." Thus, NYMEX-related charges are not properly classified as fixed costs and must be removed.

The second item is listed on line 32, entitled "500 MW 7A & 7B Turbine Repair." According to information provided by NYPA in discovery, "[t]he O&M Reserve was drawn down to provide funding relating to the 500 MW CCU 2008 outage." (NYPA response to NYC-14a, O&M Reserve worksheet). Because NYPA has already recovered the costs represented by this line item, it must be removed.

5. Other Expenses

Table 6 summarizes, and Appendix 1 shows, three items under the Other Expenses category for which adjustments are required.

Table 6

2011 Other Expenses Revenue Adjustments

Item	**Amount (million $)**
GE Litigation	(0.2)
Hudson Transmission Project	(1.2)
Special Studies	(0.8)
Total	(2.2)

The first is listed on line 41, entitled "GE Litigation – 500 MW (7-Year Write off)." During discovery, both the City and the Metropolitan Transportation Authority requested supporting documentation regarding this charge. In response, NYPA stated that it had commenced litigation against General Electric and five subcontractors related to the design, engineering, and construction of the 500 MW combined cycle unit. The case was settled within approximately a year, with NYPA incurring $2.6 million in legal fees and costs that it now seeks to recover from the City and other NYC Customers. However, the City and other NYC Customers are allegedly prohibited from knowing the terms or value of the settlement or the amount of time and effort spent by NYPA's outside counsel on this case.

Because of the dearth of information, it is impossible for the City to determine the validity or magnitude of NYPA's claims and General Electric's counterclaims, the reasonableness of the settlement, or whether the legal fees and costs were reasonable and prudently incurred. On their face, the legal fees and costs appear to be excessive. From the limited description provided by NYPA, and the City's general familiarity with prosecuting lawsuits of this type, it appears that NYPA commenced the lawsuit, responded to the counterclaim, perhaps engaged in some discovery, and then entered into settlement negotiations. At an assumed billing rate of $500 per hour (the actual rate charged was unnecessarily withheld by NYPA), $2.6 million translates to 5,200 hours, or 100 hours of work per week for 52 consecutive weeks (at $750 per hour, the result is over 66 hours per week). It is inconceivable that NYPA's outside counsel spent so many hours on the activities listed above.

While NYPA has the freedom to select counsel of its choice, and discretion regarding litigation matters, it does not have the ability to charge the City for any and all costs it incurs. Under Section II.A.1 of the LTA, NYPA is required to establish fixed costs based on cost of service principles. Inherent within cost of service principles is the fundamental principle of ratemaking that rates be just and reasonable.[6] In this case, an expenditure of $2.6 million over the course of one year for what appears to be a typical construction- and contract-related lawsuit is neither just nor reasonable, and therefore is not consistent with cost of service principles. Accordingly, the City has made a downward adjustment to this item.

The second item is listed on line 43, entitled "Hudson Transmission Project." In 2005, the City and other NYC Customers agreed with NYPA that a request for proposals seeking new supply resources to serve the Customers' needs should be released. Hudson Transmission Partners, LLC ("HTP") responded to that solicitation with a proposal for a direct current transmission line from New Jersey to New York City. Although NYPA and the NYC Customers selected that project from the proposals submitted, NYPA and HTP were unable to reach agreement on terms and no contract was executed within a timely period thereafter. A subsequent request for proposals was released, and Astoria Energy II, LLC was selected to provide energy and capacity to serve the NYC Customers' needs.

The City understands that in 2009, NYPA, acting on its own volition, renewed its interest in HTP's project and began dedicating resources and funds to consummating a transaction with HTP and assisting HTP in obtaining all requisite regulatory approvals. NYPA did not consult with, or seek the approval of, the City to engage in these efforts. NYPA commenced those efforts without the express consent of the City or any other NYC Customer, as required by Section XI of the LTA. Therefore, NYPA has no legal basis to seek recovery of any HTP-related charges in the 2011 fixed costs, and these costs must be

[6] "[F]ew analysts seriously question the standard that service should be provided at cost….[I]t remains the primary criterion for the reasonableness of rates." National Association of Regulatory Utility Commissioners, Electric Utility Cost Allocation Manual, January 1992, p. 12.

removed. A separate reason for removing these expenses is the one stated above with respect to the 2009 oil costs. There is no provision in the LTA that permits NYPA to "true-up" its fixed cost expenses in subsequent years.

The third item is listed on line 46, entitled "Special Studies Expense." NYPA has not provided any justification for this item, and the City has not requested that NYPA perform any "special studies" in 2011. Therefore, these costs must be removed. If NYPA declines to do so, then it should place the funds in a segregated, interest-bearing account. To the extent the City requests any "special studies", the costs of the studies should be deducted from this account. The account would continue to operate, and accrue interest, until the funds are completely depleted. If the funds are not depleted at the end of 2011, the balance should either be returned to the City or used to offset the 2012 fixed costs. In no event should these funds be used for any other purpose.

CONCLUSION

The City respectfully requests that NYPA reduce the fixed costs included in the 2011 Rate Plan in accordance with the discussion and recommendations set forth herein.

Dated: December 6, 2010
Albany, New York

Respectfully submitted,

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New York Power Authority
2011 NYC Govt. Customers Fixed Costs

Line	Description	NYPA Projected Poletti	NYPA Projected 500 MW	NYPA Projected Small Hydro	NYPA Projected Other	NYPA Projected Total	NYC Adjusted Poletti	NYC Adjusted 500 MW	NYC Adjusted Small Hydro	NYC Adjusted Other	NYC Adjusted Total	Total Reduction
	O&M Expense (Figure 2)											
1	Total Site Payroll	$ 0.1	$ 10.9	$ 3.0	$ -	$ 13.9	$ -	$ 10.9	$ 3.0	$ -	$ 13.8	
2	Direct Purchases	-	2.2	0.2	-	2.4	-	2.2	0.2	-	2.4	
3	Store Issues	-	0.5	0.1	-	0.6	-	0.5	0.1	-	0.6	
4	Fees & Dues	-	0.2	-	-	0.2	-	0.2	-	-	0.2	
5	Office & Station Expense	-	1.0	0.2	-	1.2	-	1.0	0.2	-	1.2	
6	Contracted Services	1.2	5.5	0.7	-	7.5	-	5.5	0.7	-	6.3	
7	Consultants	0.4	0.2	0.5	-	1.1	-	0.2	0.5	-	0.7	
8	Other Expenses	-	-	-	-	-	-	-	-	-	-	
9	Amortized LT Service Agreement	-	6.7	-	-	6.7	-	6.7	-	-	6.7	
10	Total	$ 1.7	$ 27.2	$ 4.7	$ -	$ 33.6	$ -	$ 27.2	$ 4.7	$ -	$ 31.9	$ (1.7)
	Shared Services Expense (Figure 3)											
11	Allocation to Headquarters	$ 1.4	$ 7.5	$ 2.0	$ -	$ 10.9	$ -	$ 7.5	$ 2.0	$ -	$ 9.5	
12	Research & Development	0.1	0.6	0.2	-	0.9	-	0.6	0.2	-	0.7	
13	Allocation to Capital	(0.2)	(0.8)	(0.2)	-	(1.2)	-	(0.8)	(0.2)	-	(1.0)	
14	Headquarters Direct Support	-	-	-	9.6	9.6	-	-	-	7.1	7.1	
15	Total	$ 1.4	$ 7.2	$ 2.0	$ 9.6	$ 20.1	$ -	$ 7.2	$ 2.0	$ 7.1	$ 16.3	$ (3.8)
	Capital Cost (Figure 4)											
16	Fixed Debt	$ 3.3	$ 43.6	$ 0.1	$ -	$ 46.9	$ 3.3	$ 43.6	$ 0.1	$ -	$ 46.9	
17	Variable Debt	-	22.0	5.0	-	26.9	-	22.0	5.0	-	26.9	
18	Bond Deferral	12.1	-	2.3	-	14.4	12.1	-	2.3	-	14.4	
19	Greene County Overhead Debt	-	-	-	0.4	0.4	-	-	-	0.4	0.4	
20	Arthur Kill Overhead Debt	-	-	-	0.0	0.0	-	-	-	0.0	0.0	
21	White Plains Office HQ	-	-	-	-	-	-	-	-	-	-	
22	Project Studies Debt	-	-	-	0.1	0.1	-	-	-	0.1	0.1	
23	Y2K (Year 2000 Project)	-	-	-	0.1	0.1	-	-	-	0.1	0.1	
24	Small Hydro Interest Rate SWAP Exp.	-	-	0.4	-	0.4	-	-	0.4	-	0.4	
25	Poletti & 500 MW Inv. Carrying Cost	0.1	0.1	-	-	0.2	-	0.1	-	-	0.1	
26	Oil Inventory Carrying Cost	0.1	-	-	-	0.1	-	-	-	-	-	
27	NYMEX Margin Carrying Cost	-	0.2	-	-	0.2	-	-	-	-	-	
28	Poletti M&S Inv. Write Off - 7 Year Amort.	1.3	-	-	-	1.3	-	-	-	-	-	
29	Capital Additions	-	-	-	0.5	0.5	-	-	-	0.5	0.5	
30	Minor Capital Additions	-	-	-	0.2	0.2	-	-	-	0.2	0.2	
31	Spare Transformer	-	-	-	0.3	0.3	-	-	-	0.3	0.3	
32	500 MW 7A & 7B Turbine Repair	-	1.0	-	-	1.0	-	-	-	-	-	
33	Total	$ 16.9	$ 66.8	$ 7.7	$ 1.6	$ 93.0	$ 15.4	$ 65.6	$ 7.7	$ 1.6	$ 90.3	$ (2.7)
	Other Expenses											
34	Demand Side Management	$ -	$ -	$ -	$ 0.4	$ 0.4	$ -	$ -	$ -	$ 0.4	$ 0.4	
35	2008 IRP Study	-	-	-	-	-	-	-	-	-	-	
36	Govt. Customer Load Research Study	-	-	-	-	-	-	-	-	-	-	
37	CRA Risk Audit Report	-	-	-	-	-	-	-	-	-	-	
38	RFP#5 Actual Expense	-	-	-	0.2	0.2	-	-	-	0.2	0.2	
39	2009 Govt. Cust. Load Research Study	-	-	-	0.3	0.3	-	-	-	0.3	0.3	
40	2009 Rate Design Study	-	-	-	0.2	0.2	-	-	-	0.2	0.2	
41	GE Litigation - 500 MW (7-Year Write off)	-	-	-	0.4	0.4	-	-	-	0.2	0.2	
42	2008 500 MW UCAP	-	-	-	-	-	-	-	-	-	-	
43	Hudson Transmission Project	-	-	-	1.2	1.2	-	-	-	-	-	
44	Other Post Employ. Benefits (OPEB)	-	-	-	3.7	3.7	-	-	-	3.7	3.7	
45	Asset Retirement Charge	3.9	3.8	-	0.1	7.8	3.9	3.8	-	0.1	7.8	
46	Special Studies Expense	-	-	-	0.8	0.8	-	-	-	-	-	
47	Keep Cool Program	-	-	-	0.1	0.1	-	-	-	0.1	0.1	
48	Fish Studies	-	-	-	-	-	-	-	-	-	-	
49	NYS Cost Recovery Fee	-	-	-	-	-	-	-	-	-	-	
50	Total	$ 3.9	$ 3.8	$ -	$ 7.4	$ 15.1	$ 3.9	$ 3.8	$ -	$ 5.3	$ 13.0	$ (2.2)
51	Investment & Other Income (Credits)	$ -	$ -	$ -	$ (0.0)	$ (0.0)	$ -	$ -	$ -	$ (0.0)	$ (0.0)	$ -
52	Global Reduction									$ (7.5)	$ (7.5)	$ (7.5)
53	TOTAL FIXED COSTS	$ 23.9	$ 105.0	$ 14.4	$ 18.5	$ 161.8	$ 19.3	$ 103.8	$ 14.4	$ 6.4	$ 143.9	$ (17.9)
54	Actual/Projected Poletti Generation (MWh)					-					-	
55	Actual/Projected 500 MW Sales (MWh)					3,024,185					3,024,185	
56	Actual/Projected Small Hydro Sales (MWh)					157,560					157,560	
57	ACTUAL/PROJECTED SALES (MWh)					3,181,745					3,181,745	
58	PER UNIT COSTS					$ 50.85					$ 45.23	

New York Power Authority

Identification of Historical/Current Per Unit Fixed Cost Levels

Line	Description	Actual 2006	Actual 2007	Actual 2008	Actual 2009	Actual 2010 [1]	NYPA Projected 2011
1	O&M	$ 29.9	$ 31.9	$ 39.8	$ 42.2	$ 31.9	$ 33.6
2	Shared Services	15.7	18.4	20.3	20.3	19.9	20.1
3	Capital Cost	83.4	88.6	96.4	95.4	91.3	93.0
4	Other	12.5	15.6	18.0	16.3	17.4	15.1
5	Investment & Other Credits	(1.3)	(1.3)	(0.5)	(0.3)	(0.0)	(0.0)
6	Total Fixed Costs	**$ 140.2**	**$ 153.1**	**$ 173.9**	**$ 173.9**	**$ 160.5**	**$ 161.8**
7	Actual/Projected Sales of Generating Units (MWh) [2]	**5,043,336**	**5,256,891**	**4,910,569**	**4,520,248**	**3,145,404**	**3,181,745**
8	Per Unit Fixed Costs ($/MWh)	**$ 27.79**	**$ 29.13**	**$ 35.41**	**$ 38.47**	**$ 51.04**	**$ 50.85**
9	Per Unit % Change - year-over-year		**4.8%**	**21.6%**	**8.6%**	**32.7%**	**-0.4%**
10	Per Unit % Change Cumulative		**4.8%**	**27.4%**	**38.4%**	**83.6%**	**82.9%**

Notes:

[1] Actual through August 2010 and projection for remaining four months. Based on information from NYPA's September Risk Template.

[2] Includes actual/projected energy sales levels associated with Poletti, 500 MW and Small Hydro facilities.

New York Power Authority

Analysis of Projected Costs/Benefits Associated with NYC Govt. Plant Allocation

Line	Description	Projected 2011 - $Millions 500 MW	Projected 2011 Small Hydro	Projected 2011 Total [1]	Final Projected 2010 - $Millions Retired Poletti	Final Projected 2010 500 MW	Final Projected 2010 Small Hydro	Final Projected 2010 Total
1	NYISO Revenue Excl Hedges	$ (197.0)	$ (7.8)	$ (204.8)	$ (5.5)	$ (202.6)	$ (9.4)	$ (217.5)
2	Ancillary Service Revenue	(4.1)	(0.0)	(4.1)	(0.3)	(4.8)	(0.0)	(5.2)
3	Emission Credit Allowance	(0.6)	-	(0.6)	-	(1.0)	-	(1.0)
4	Capacity Value @ Market [2]	(46.0)	(0.4)	(46.3)	(2.7)	(55.1)	(0.6)	(58.4)
5	Total Benefit	**(247.6)**	**(8.3)**	**(255.9)**	**(8.6)**	**(263.5)**	**(10.0)**	**(282.1)**
6	Fuel Expense Excl Hedges	$ 158.7	$ -	$ 158.7	$ 5.8	$ 158.7	$ -	$ 164.5
7	RGGI Expense	3.1	-	3.1	0.1	5.4	-	5.6
8	Fixed Expense	105.0	14.4	143.3	28.4	102.4	11.9	142.6
9	Capacity Costs	-	-	-	-	-	-	-
10	Transmission Costs	-	-	-	-	-	-	-
11	Total Costs	**$ 266.8**	**$ 14.4**	**$ 305.1**	**$ 34.3**	**$ 266.5**	**$ 11.9**	**$ 312.7**
12	Net (Benefit)/Cost of Asset	**$ 19.2**	**$ 6.1**	**$ 25.3**	**$ 25.7**	**$ 3.0**	**$ 1.8**	**$ 30.6**

Notes:

[1] Does not include projected financial loss of $23.9 million associated with retired Poletti and approximate $15 million financial loss associated with new Astoria Energy II.

[2] Based on NYPA's projected capacity prices from COS report.