NEW YORK POWER AUTHORITY

Financial Report

December 31, 2017 and 2016

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Table of Contents

	Page
Management Report (Unaudited)	1
Management's Discussion and Analysis (Unaudited)	2
Independent Auditors' Report	24
Consolidated Statements of Net Position	26
Consolidated Statements of Revenues, Expenses and Changes in Net Position	28
Consolidated Statements of Cash Flows	29
Notes to the Consolidated Financial Statements	30
Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*	77
Required Supplementary Information (Unaudited)	79
Schedule of Funding Progress for the Retiree Health Plan	80
Schedules Relating to the Employees' Retirement System Pension Plan	81

Management Report

Management is responsible for the preparation, integrity and objectivity of the consolidated financial statements of the Authority, as well as all other information contained in the Annual Report. The consolidated financial statements have been prepared in conformity with U.S. generally accepted accounting principles (U.S.GAAP) 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 U.S. generally accepted accounting principles and that the assets of the Authority are properly safeguarded. The system of internal controls is documented, evaluated and tested on a continuing basis. No internal control system can provide absolute assurance that errors and irregularities will not occur due to the inherent limitations of the effectiveness of internal controls; however, management strives to maintain a balance, recognizing that the cost of such system should not exceed the benefits derived.

The Authority maintains an internal auditing program to independently assess the effectiveness of internal controls and to report findings and recommend possible improvements to management. This program includes a comprehensive assessment of internal controls to ensure that the system is functioning as intended. Additionally, as part of its audit of the Authority's consolidated financial statements, KPMG LLP, the Authority's independent auditors, considers internal controls 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 controls over financial reporting. Management has considered the recommendations of its internal auditors, the Office of the State Comptroller (OSC), 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. Based on its structure and related processes, management believes that, as of December 31, 2017, 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 members of the Authority's Board of Trustees (the Authority's Trustees), appointed by the Governor, by and with the advice and consent of the Senate, are not employees of the Authority. The Authority's Trustees' Audit Committee meets with the Authority's management, its Sr. Vice President of Internal Audit and its independent auditors periodically, throughout the year, to discuss internal controls and accounting matters, the Authority's financial statements, the scope and results of the audit by the independent auditors and the periodic audits by the OSC, and the audit programs of the Authority's internal auditing department. The independent auditors, the Sr. Vice President of Internal Audit and the Vice President & Chief Ethics and Compliance Officer have direct access to the Audit Committee.

Robert F. Lurie
Executive Vice President and Chief Financial Officer

March 20, 2018

Overview of the Consolidated Financial Statements

The New York Power Authority (the "Power Authority") is considered a special-purpose government entity engaged in business-type activities and follows financial reporting for enterprise funds. Effective January 1, 2017, the New York State Canal Corporation (the "Canal Corporation") became a subsidiary of the Power Authority, and the Power Authority assumed certain powers and duties relating to the Canal System (as defined below) to be exercised through the Canal Corporation. The Canal Corporation is responsible for a 524-mile canal system consisting of the Erie, Champlain, Oswego, and Cayuga-Seneca canals (the "Canal System"). The Power Authority and its subsidiary (collectively "the Authority") follow financial reporting for enterprise funds. The consolidated financial statements of the Authority are prepared in accordance with U.S. generally accepted accounting principles (U.S. GAAP) as prescribed by the Governmental Accounting Standards Board (GASB). Under the criteria set forth in GASB Statement No. 14, *The Financial Reporting Entity*, as amended by Governmental Accounting Standard (GAS) No. 39, *Determining Whether Certain Organizations Are Component Units* and GAS No. 61, *The Financial Reporting Entity: Omnibus--an amendment of GASB Statements No. 14 and No. 34*, the Authority considers its relationship to the State to be that of a related organization. The Power Authority and its subsidiary the Canal Corporation are referred to collectively as the "Authority" in the consolidated financial statements, [except where noted].

This consolidated report consists of three parts: management's discussion and analysis, the basic consolidated financial statements, and the notes to the consolidated financial statements.

The consolidated financial statements provide summary information about the Authority's overall financial condition. The notes provide explanation and more details about the contents of the consolidated financial statements.

Forward Looking Statements

The statements in this management's discussion and analysis (MD&A) that are not purely historical facts are forward-looking statements based on current expectations of future events. Such forward-looking statements are necessarily based on various assumptions and estimates and are inherently subject to various risks and uncertainties, including, but not limited to, risks and uncertainties relating to the possible invalidity of the underlying assumptions and estimates and possible changes to or development in various important factors. Accordingly, actual results may vary from those we presently expect and such variations may be material. We therefore caution against placing undue reliance on the forward-looking statements contained in this MD&A. All forward-looking statements included in this MD&A are made only as of the date of this MD&A and we assume no obligation to update any such forward-looking statements as a result of new information, future events or other factors.

Summary of Revenues, Expenses and Changes in Net Position

The following is a summary of the Authority's financial information for 2017, 2016, and 2015:

	2017	2016	2015	2017 vs. 2016 favorable (unfavorable)	2016 vs. 2015 favorable (unfavorable)
	(In millions, except percentages)				
Operating revenues	$ 2,573	$ 2,421	$ 2,625	6%	(8)%
Operating expenses:					
Purchased power	557	514	689	(8)	25
Fuel oil & gas	165	152	236	(9)	36
Wheeling	618	609	599	(1)	(2)
Operations and maintenance	680	619	569	(10)	(9)
Depreciation	242	231	237	(5)	3
Impairment loss	73	—	—	(100)	—
Total operating expenses	2,335	2,125	2,330	(10)	9
Operating income	238	296	295	(20)	—
Nonoperating revenues	29	25	25	16	—
Nonoperating expenses	148	299	246	51	(22)
Net income and change in net position	119	22	74	441	(70)
Net position – beginning	4,081	4,059	—		
Canal Corporation, net position- beginning	539	—	—		
Cumulative effect of change in accounting principle	—	—	(6)		
Net position – beginning, as restated	4,620	4,059	3,985		
Net position – ending	$ 4,739	$ 4,081	$ 4,059		

The following summarizes the Authority's consolidated financial performance for the years 2017 and 2016:

The Authority had net income of $119 million for the year ended December 31, 2017 compared to $22 million in 2016, an increase of $97 million. The increase in net income was primarily due to lower nonoperating expenses of $151 million and higher non-operating income of $4 million, partially offset by lower operating income of $58 million. Non-operating expenses were lower in 2017, primarily due to expenditures in 2016 for contributions to New York State and for payments of Canal Corporation related expenses under a reimbursement agreement with the New York State Thruway Authority prior to the transfer of the Canal Corporation to the Power Authority. Operating income decreased by $58 million compared to last year primarily due to higher operating and maintenance expenses of $61 million, higher depreciation of $11 million and an impairment loss of $73 million, partially offset by a higher margin on sales of $86 million. The higher operations and maintenance expenses were primarily attributable to the inclusion of the Canal Corporation related expenses incurred in 2017. The 2017 impairment loss is related to the replacement of certain combustion turbine equipment with technically superior upgraded components.

The change in net position was attributable to the positive 2017 net income of $119 million.

The Authority had net income of $22 million for the year ended December 31, 2016 compared to $74 million in 2015, a decrease of $52 million. The decrease was primarily due to the reimbursement charges, included in nonoperating expenses, of $62 million of Canals Corporation expenditures incurred in 2016 under a funding agreement with the New York State Thruway Authority pursuant to the State Fiscal Year 2016-2017 Budget legislation. Operating income increased by $1 million compared to 2015 as lower fuel and purchased power costs substantially offset lower revenues and higher operations & maintenance expenses. Purchased power and fuel expenses decreased a total of $259 million for the year ended December 31, 2016, compared to the prior year as a result of lower prices. Operations and maintenance expenses increased by $50 million primarily due to costs related to the Canal Corporation integration and pension expense. Revenues were $204 million lower reflecting the pass-through of lower energy costs to customers, partially offset by higher transmission and hydro facility revenues.

The change in net position was attributable to the positive 2016 net income of $22 million.

Operating Revenues

Operating revenues of $2,573 million in 2017 were $152 million, or 6%, higher than the $2,421 million in 2016, primarily due to higher market-based energy sales resulting from higher hydro production and the pass-through of higher purchased power costs to customers.

Purchased Power and Fuel

Purchased power costs increased by 8% in 2017 to $557 million from $514 million in 2016, primarily due to the imposition of ZEC costs in 2017 (see note 13 (k)-"Commitments and Contingencies-Other Developments" of notes to the consolidated financial statements). Higher prices on market purchases were substantially offset by lower volumes purchased. Fuel costs were $13 million (9%) higher during 2017, primarily due to higher fuel prices ($36 million) offset by lower generation volume ($23 million).

Operations and Maintenance (O&M)

O&M expenses increased by $61 million, or 10%, in 2017 to $680 million, primarily due to the inclusion of Canal Corporation operating expenses.

Nonoperating Revenues

For 2017, nonoperating revenues increased by $4 million, or 1%, to $29 million from $25 million in 2016, primarily due to $8 million related to the transfer of the nuclear decommissioning fund to Entergy on January 30, 2017, partially offset by unrealized losses on investments.

Nonoperating Expenses

For 2017, nonoperating expenses decreased by $151 million, or 51%, primarily due to expenditures in 2016 for contributions to New York State and for payments of Canal Corporation related expenses under a reimbursement agreement with the New York State Thruway Authority prior to the transfer of the Canal Corporation to the Power Authority on January 1, 2017.

Cash Flows

Net cash flows provided by operating activities increased by $6 million in 2017 compared to 2016, due to the timing of payments and receipts.

Net Generation

Net generation was 29.9 million megawatt-hours (MWh) in 2017, a 2% increase compared to 2016 (29.3 million MWh). Net generation from the Niagara and St. Lawrence hydroelectric plants in 2017 (23.8 million MWh) was 8% higher than 2016 (22.1 million MWh) due to increased water levels on Lakes Erie and Ontario resulting in higher water flow to the Niagara and St. Lawrence hydroelectric plants. For 2017, net hydro generation was approximately 118% of long-term average and above 2016, which was 110%. Combined net generation of the fossil fuel plants for 2017 was 6.1 million MWh, or 15% lower than 2016 (7.2 million MWh).

Summary of Consolidated Statements of Net Position

The following is a summary of the Authority's consolidated statements of net position for 2017, 2016, and 2015:

	2017	2016	2015	2017 vs. 2016	2016 vs. 2015
		(In millions, except percentages)			
Current assets	$ 1,580	$ 3,082	$ 1,754	(49) %	76 %
Capital assets	5,442	4,825	4,778	13	1
Other noncurrent assets	1,638	1,529	3,003	7	(49)
Deferred outflows	66	107	40	(38)	168
Total assets and deferred outflows	$ 8,726	$ 9,543	$ 9,575	(9)	—
Current liabilities	$ 984	$ 2,439	$ 1,096	(60)	123
Noncurrent liabilities	2,655	2,668	4,110	-	(35)
Total liabilities	3,639	5,107	5,206	(29)	(2)
Deferred inflows	348	355	310	(2)	15
Net position	4,739	4,081	4,059	16	1
Total liabilities, deferred inflows and net position	$ 8,726	$ 9,543	$ 9,575	(9)	—

The following summarizes the Authority's consolidated statements of net position variances for the years 2017 and 2016:

In 2017, current assets and current liabilities decreased mainly due to the transfer of the Decommissioning Trust Fund to Entergy on January 30, 2017 (see note12(c) "Nuclear Plant Divestiture and Related Matters –Nuclear Plant Decommissioning" of notes to the consolidated financial statements). Excluding Decommissioning Trust Fund investment of $1,504 million in 2016, current assets were relatively flat year over year. Capital assets increased by $617 million (13%) to $5,442 million, compared to last year, primarily due to the transfer of Canal Corporation to the Power Authority effective January 1, 2017. Other noncurrent assets, increased by $109 million

(7%). Deferred outflows decreased by $41 million due to changes in deferral of pension resources. Current liabilities, excluding the Decommissioning Trust Fund investment of $1,504 million in 2016, increased by $49 million (5%), to $984 million compared to last year. This increase is attributable to higher accrued liabilities. Noncurrent liabilities, were relatively flat year over year. Deferred inflows decreased by $7 million (2%) compared to last year due to changes in fair value and settlements of derivative instruments, $17 million increase in the costs of removal obligation and a decrease in the deferral of pension related resource. The changes in net position for 2017 and 2016 are discussed in the summary of revenues, expenses and changes in net position in this Management's Discussion and Analysis.

In 2016, current assets and current liabilities increased mainly due to the reclassification of the Decommissioning Trust Fund from noncurrent assets and liabilities resulting from the transfer of the fund to Entergy on January 30, 2017 (see note12(c) "Nuclear Plant Divestiture and Related Matters –Nuclear Plant Decommissioning" of notes to the consolidated financial statements). Excluding Decommissioning Trust Fund investment of $1,504 million in 2016, current assets decreased by $176 million (10%) to $1,578 million primarily due to a decrease in investments resulting from sales of securities for repayment of debt in the first quarter of 2016. Capital assets increased by $47 million (1%) to $4,825 million, compared to 2015, as a result of continuing investments in generating assets at existing facilities and transmission upgrades, necessary to maintain reliability. Other noncurrent assets, excluding Decommissioning Trust Fund investment of $1,430 million in 2015, decreased by $44 million (3%) primarily due to decrease in receivable from New York State related to Transfer of Assets – see Note 13(e) "Commitments and Contingencies – New York State Budget and Other Matters". Deferred outflows increased by $67 million primarily due to changes in the deferral of pension related resources. Current liabilities, excluding the Decommissioning Trust Fund investment of $1,504 million in 2016, decreased by $161 million (15%), to $935 million compared to 2015. This decrease is attributable to the decrease in long-term debt due within one year resulting from scheduled maturities, and the Authority's repayment, on an accelerated basis, of the Adjustable Rate Tender Notes (ART Notes) and a portion of the Extendible Municipal Commercial Paper (EMCP) in the first quarter of 2016. Noncurrent liabilities, excluding Decommissioning Trust Fund investment of $1,430 million in 2015, were lower by $12 million, primarily due to decreases in long-term debt resulting from the scheduled maturities, and payments on capital lease obligations offset primarily by the increase in pension liability ($76 million). Deferred inflows increased by $45 million (15%) compared to 2015 due to changes in fair value and settlements of derivative instruments, $14 million increase in the costs of removal obligation and the deferral of pension related resource. The changes in net position for 2016 and 2015 are discussed in the summary of revenues, expenses and changes in net position in this Management's Discussion and Analysis.

Capital Asset and Long-Term Debt Activity

The Authority currently estimates that it will expend approximately $1.6 billion for various capital improvements over the five-year period 2018-2022. 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 commercial paper notes and/or the issuance of long-term fixed rate debt.

Projected capital requirements during this period include (in millions):

Moses Adirondack Line Replacement	$	336
Transmission Life Extension & Modernization Projects		228
Lewiston Pump Generating Plant (LPGP) LEM		211
Life Extension & Modernization LEM (RMNPP)		169
Communication Backbone		37
New Security & Warehouse Facility (St. Lawrence)		28
Sensor Deployment		26
Major Outage (Flynn)		22
Replacement Of Superstructure Bridges (RMNPP)		19
Rotor Modification-Stress Redistribution		15
R-22 Inlet Chiller System Replacement		15
New Visitor Center		13
Energy Control Center Redundancy		12
ISOC Implementation		10
IT Initiatives		10
VF Dam Crest Gate Installation		9
Ma1 And Ma2 Structure Replacements Phase II (St. Lawrence)		9
Canal Corporation		200
All Other (Projects below $9.0 million)		273
	$	**1,642**

In addition, the Authority's capital plan includes the provision of approximately $1.5 billion in financing for Energy Services and Technology projects to be undertaken by the Authority's governmental customers and other public entities in the State. It should also be noted that due to projects currently under review as well as energy initiatives announced in the Governor's State of the State address, there is a potential for significant increases in the capital expenditures indicated in the table above. Such additional capital expenditures would be subject to evaluation and Trustee approval.

The Authority is moving forward with its plans to replace a major section of the Moses Adirondack Line, one of the Authority's backbone transmission facilities. The replacement project covers 78 miles of 230 kV transmission line from Massena to the town of Croghan in Lewis County. In July 2017, the Authority received authorization under the NYISO tariff to include the costs of this replacement project in its NYPA Transmission Adjustment Charge mechanism for cost recovery of the Authority's transmission system costs, which means that the costs will be allocated to all ratepayers in the State. The project includes the replacement of obsolete wood pole structures with higher, steel pole structures, as well as replacement of failing conductor with new conductor and insulation. The line will operate at its current 230 kV level, but the conductor and insulation design will accommodate future 345 kV operation. The Authority anticipates that the Moses Adirondack line will support the transmission of growing levels of renewable generation located in upstate New York and Canada, such as wind and hydroelectricity, and assist in meeting the State's renewable energy goals. The rebuilt line is also expected to enhance grid reliability by supporting the NYISO's black start plan. The Authority plans to file its application for Article VII approval with the PSC in the first quarter of 2018. The Authority estimates a project cost of $440 million. Construction is expected to take four years and begin in 2019.

In 2012, the Authority's Trustees approved a $726 million Transmission Life Extension and Modernization Program (Transmission LEM Program) on the Authority's Transmission system through 2025. The Transmission LEM Program encompasses transmission assets in the Central, Northern and Western regions of New York and will include work to be done such as upgrades, refurbishments and replacements associated with

switchyards and substations, transmission line structures or towers and associated hardware and replacement of the submarine cable on the PV-20 line. Reinvestment in this strategic component of the Authority's overall mission supports the repair, upgrade and/or expansion of the transmission infrastructure. The Authority intends to finance the Transmission LEM Program with internal funds and proceeds from debt obligations to be issued by the Authority. The work on the Transmission LEM Program is underway and is expected to continue through 2025.

The Authority's Trustees approved a $460 million Life Extension and Modernization Program at the Niagara project's Lewiston Pump-Generating Plant, (Lewiston LEM Program) of which $300 million of expenditures have been authorized and $252 million spent as of December 31, 2017. The work to be done includes a major overhaul of the plant's 12 pump turbine generator units. The Lewiston LEM Program will increase pump and turbine efficiency, operating efficiency, and the peaking capacity of the overall Niagara project. The Authority filed an application with the Federal Energy Regulatory Commission (FERC) for a non-capacity license amendment in connection with the program. The amendment was approved with a FERC order issued in 2012. The Authority intends to finance this LEM Program with internal funds and proceeds from debt obligations to be issued by the Authority. The unit work began in late 2012 and is on-going, with the final unit expected to be completed in 2020.

By order issued March 15, 2007, FERC issued the Authority a new 50-year license for the Niagara Project effective September 1, 2007. In doing so, FERC approved six relicensing settlement agreements entered into by the Authority with various public and private entities. In 2007, the Authority estimated that the capital cost associated with the relicensing of the Niagara project would be approximately $495 million. This estimate does not include the value of the power allocations and operation and maintenance expenses associated with several habitat and recreational elements of the settlement agreements. As of December 31, 2017 and 2016, the balance in the liability associated with the relicensing on the statement of net position is $274 million ($24 million in current and $250 million in other noncurrent liabilities) and $295 million ($25 million in current and $270 million in other noncurrent liabilities), respectively.

In 2003, FERC approved a Comprehensive Relicensing Settlement Agreement ("Relicensing Agreement") reached by the Authority and numerous parties and issued the Authority a new 50-year license for the St. Lawrence-FDR Project ("St. Lawrence-FDR License"). The Relicensing Agreement between the Authority and the Local Government Task Force ("LGTF") provided for a review of the Relicensing Agreement every ten years to address issues not contemplated at the time of relicensing in 2003. Following the review that began in 2013, the Authority and the LGTF entered into an agreement effective May 4, 2015 (the "LGTF Ten-Year Review Agreement") in which the Authority agreed to certain actions, including to: (1) fund an economic development strategic marketing study; (2) temporarily reduce electricity costs for certain farms and businesses; (3) initiate an energy efficiency and renewable energy program for the LGTF communities; and (4) enhance certain recreational facilities in the LGTF communities. On March 26, 2015, the Authority's Trustees authorized expenditures of up to $45.1 million for the purpose of implementing the commitments in the LGTF 10-Year Review Agreement.

More detailed information about the Authority's capital assets is presented in Note 2 "Summary of Significant Accounting Policies" and Note 5 "Capital Assets" of the notes to the consolidated financial statements.

Capital Structure

	2017	2016	2015
		(In millions)	
Long-term debt, net of current maturities:			
Senior:			
Revenue bonds	$ 720	$ 784	$ 845
Subordinated:			
Subordinated Notes, Series 2017 and 2012 (1)	44	21	21
Commercial paper	5	5	5
Total long-term debt, net of current maturities	769	810	871
Net position	4,739	4,081	4,059
Total capitalization	$ 5,508	$ 4,891	$ 4,930

(1) The Subordinated Notes, Series 2017 and 2012, which were issued in 2017 and 2012, respectively, are subordinate to the Series 2003 A Revenue Bonds, the Series 2007 A, B, and C Revenue Bonds, the Series 2011 A Revenue Bonds and the Series 2015 A Revenue Bonds.

During 2017, long-term debt, net of current maturities, decreased by $41 million, primarily due to scheduled maturities, cash funding of capital expenditures, partially offset by issuance of the Subordinated Notes, Series 2017 (see below). In March 2016, the Authority redeemed the then outstanding ART Notes.

In November 2016, the Authority's Trustees authorized the issuance of Subordinated Notes, Series 2017 (Subordinated Notes Series 2017) in a principal amount not to exceed $30 million to accelerate additional funding for the State Parks Greenway Fund, which was established pursuant to the Niagara Relicensing Settlement entered into by the Authority and the New York State Office of Parks, Recreation & Historic Preservation in connection with the Niagara Project's relicensing. The Authority issued the subordinate notes on February 24, 2017 in the amount of $25.2 million.

Total debt to equity ratio as of December 31, 2017, was at .28-to-1 when compared to .34-to-1 as of December 31, 2016. Total debt as of December 31, 2017 is at its lowest level since December 31, 1974.

Debt Ratings

	Moody's	Standard & Poor's	Fitch
NYPA's underlying credit ratings:			
Senior debt:			
Long-term debt (a)	Aa1	AA	AA
Subordinate debt:			
Subordinate Notes, Series 2017	N/A	AA-	N/A
Subordinate Notes, Series 2012	N/A	N/A	AA
Commercial paper	P-1	A-1+	F1+

(a) Long term debt includes certain bonds - Series 2007 A, B and C Revenue Bonds and Series 2003 A Revenue Bonds – the principal and interest when due is guaranteed under insurance policies issued by MBIA Insurance Corporation and Assured Guaranty Municipal Corporation, respectively. The credit ratings of MBIA Insurance Corporation and Assured Guaranty Municipal Corporation are currently at or below the Authority's underlying credit ratings.

In January 2017, Standard & Poor's Ratings Service assigned a AA- rating to the Authority's Subordinated Notes, Series 2017 and in January 2018 also affirmed the Authority's senior and subordinate debt ratings. In December 2017, Moody's Investors Service affirmed the Authority's commercial paper rating (they did not reconfirm their rating for the Authority's senior debt or review the Authority's Subordinated Notes, Series 2017 or Series 2012). In December 2017, Fitch Ratings affirmed the Authority's commercial paper rating (they did not reaffirm their rating for the Authority's senior debt or Subordinated Notes, Series 2012 or review the Authority's Subordinated Notes, Series 2017).

The Authority has a line of credit under a 2015 revolving credit agreement, as amended (the amended 2015 RCA), with a syndicate of banks, to provide liquidity support for the Series 1-3 CP Notes, under which the Authority may borrow up to $600 million in aggregate principal amount outstanding at any time for certain purposes, including the repayment of the Series 1–3 CP Notes. The amended 2015 RCA terminates January 18, 2019. There are no outstanding borrowings under the amended 2015 RCA.

Economic Conditions

Competitive Environment

The Authority's mission is to power the economic growth and competitiveness of New York State by providing customers with low-cost, clean, reliable power and the innovative energy infrastructure and services they value. The Authority's financial performance goals are 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) a newly renegotiated long-term supplemental electricity supply agreements with its governmental customers located in Southeastern New York (NYC Governmental Customers); (c) construction and operation of the 500 MW combined cycle electric generating plant located at the Authority's Poletti plant site; (d) a long-term electricity supply contract with Astoria Generating LLC for the purchase of the output of a 550-MW power plant in Astoria, Queens, ("AEII"); (e) a firm transmission capacity purchase agreement with Hudson Transmission Partners, LLC ("HTP") for a portion of the output of the 660 MW, seven mile, underground and underwater transmission line connecting into the PJM ISO (f) refinancing outstanding bonds to lower the

overall cost of debt; and (g) implementation of an enterprise-wide and energy/fuel risk management program. As a component of Authority's strategic plan, efforts to modernize the Authority's generation and transmission infrastructure are being developed and implemented to increase flexibility and resiliency, and to serve customers' needs in an increasingly dynamic energy marketplace.

To achieve its goal of promoting clean energy and efficiency, the Authority implements energy services for the benefit of its power supply customers and for various other public entities throughout the States. The Authority finances the installation of energy saving measures and equipment which are owned by the customers and public entities to focus on the reduction of the demand for electricity and the efficient use of energy.

The Authority operates in a competitive and sometimes volatile energy market environment. Through its participation in the NYISO and other commodity markets, the Authority is subject to electric energy price, fuel price and electric capacity price risks that impact the revenue and purchased power streams of its facilities and customer market areas. Such volatility can potentially have adverse effects on the Authority's financial condition. To mitigate downside effects, many of the Authority's customer contracts, provide for the complete or partial pass-through of these costs.

To moderate cost impacts to the Authority and its customers, the Authority, at times, hedges market risks through the use of financial instruments and physical contracts. Hedges are transacted by the Authority to mitigate volatility in the cost of energy or related products needed to meet customer needs; to mitigate risk related to the price of energy and related products sold by the Authority; to mitigate risk related to margins (electric sales versus fuel use) where the Authority owns generation or other capacity; and mitigation of geographic cost differentials of energy procured or sold for transmission or transportation to an ultimate location. Commodities to be hedged include, but are not limited to, natural gas, natural gas basis, electric energy, capacity and congestion costs associated with the transmission of electricity. Any such actions are taken pursuant to policies and procedures approved by the Authority's Trustees and under the oversight of an Executive Risk Management Committee.

The Authority can give no assurance that, even with these measures, it will retain its competitive status in the marketplace 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.

Rate Actions

Power and energy from the St. Lawrence-FDR and Niagara hydroelectric facilities are sold to municipal electric systems, rural electric cooperatives, industrial and other business customers, certain public bodies, investor-owned utilities, and out-of-state customers. The charges for firm and/or firm peaking power and associated energy sold by the Authority, as applicable, to the fifty-one municipal electric systems and rural electric cooperatives in New York State, two public transportation agencies, three investor-owned utilities for the benefit of rural and domestic customers, and seven out-of-state public customers have been established on the basis of the hydroelectric project costs. In November 2011, the Authority's Trustees approved a 41-month rate plan providing for phased-in rate increases covering the period ending April 30, 2015. The current rates, established with the last increase in May 2014, continue to be sufficient to recover the estimated costs to run the facilities for 2017, and will therefore remain in effect at current levels until further notice.

Expansion and Replacement Power industrial customers supplied from the Niagara facility and Preservation Power industrial customers supplied from the St. Lawrence-FDR facility are allocated over 35% of the combined firm contract demand of the plants. Their rates are subject to annual adjustment based on the average of three contractually agreed-upon economic indices reflecting changes in industrial energy prices. In addition, one of the customers served by the St. Lawrence-FDR facility has an energy rate partially tied to market prices of aluminum.

ReCharge New York ("RNY") is Governor Cuomo's statewide economic development electric power program, designed to retain and create jobs through the allocation of low-cost power. The RNY program allocates 455 MW of hydropower from the Authority's Niagara and St. Lawrence-FDR projects at rates similar to the Expansion and Replacement power customers, with certain adjustments. An additional 455 MW of market power can also be procured for RNY customers upon request.

The Authority has supplied electric power to its governmental customers located within New York City and Westchester County since 1976. Effective January 2018, new long term agreements were executed with a number of these customers, incorporating recent shifts in the electricity business, New York State's clean energy goals, and continuing changes in the Authority's supply portfolio, all in an effort to continue to provide value for, and serve this customer group.

In an order issued January 27, 1999, FERC approved the use of a $165.4 million transmission system revenue requirement in developing rates for use of NYPA's transmission facilities in the NYISO market. FERC also approved, among other things, the imposition of a NYPA Transmission Adjustment Charge ("NTAC") and the NYPA Transmission Service Charges ("TSC") which are the tariff elements established to achieve full recovery of the Authority's annual transmission revenue requirement ("ATRR"). In July 2012, the Authority filed for its first requested increase in the revenue requirement with FERC since the implementation of the NYISO. This filing resulted in FERC's October 4, 2013 order accepting an uncontested settlement agreement establishing a new $175.5 million revenue requirement. In January 2016, the Authority filed to convert from a Stated Rate to a Formula Rate to more efficiently recover its revenue requirement based upon operating and maintenance expenses as well as the capital spending necessary to maintain the reliability of its transmission system, such as the Life Extension and Modernization program. The Authority filed an unopposed Offer of Settlement on September 30, 2016 that fully resolved the issues raised by interested parties in settlement negotiations concerning the formula rate. The settlement was approved by FERC on January 19, 2017. Separately, the ATRR under the formula of $190 million initially made effective April 1, 2016 was updated on July 1, 2016 to $198.2 million pursuant to the formula rate annual update process. The ATRR effective July 1, 2017 is $212.2 million including the revenue requirement for the Marcy South Series Compensation Project.

Recharge New York Power Program

Chapter 60 (Part CC) of the Laws of 2011 (Chapter 60) established the "Recharge New York Power Program" (RNYPP), administered by the Authority, which has as its central benefit up to 910 MW of low cost power comprised of up to 455 MW of hydropower from the Niagara and St. Lawrence-FDR Projects and up to 455 MW of other power procured by the Authority from other sources. The 910 MW of power is available for allocation as provided by Chapter 60 to eligible new and existing businesses and not-for-profit corporations under contracts of up to seven years. RNYPP was effective beginning July 1, 2012.

The RNYPP replaced two other programs, the Power for Jobs (PFJ) and Energy Cost Savings Benefit (ECSB) Programs, which had extended benefits of low-cost power to certain businesses, small businesses and not-for-profit organizations. Those PFJ and ECSB Program customers who were in substantial compliance with contractual commitments under the PFJ and ECSB Programs and who applied but did not receive RNYPP allocations are eligible to apply for transitional electricity discounts, as provided for in Chapter 60. This transitional electricity discounts program provides for declining levels of discounts through June 30, 2016 when the program terminates, if payment of such discounts is deemed feasible and advisable by the Authority's Trustees. As of December 31, 2017, the Authority's Trustees have authorized transitional electricity discount payments of up to $20 million for the period from July 1, 2012 and June 30, 2016. As of December 31, 2017, approximately $12 million of such discounts have been paid with approximately an additional $2 million in payments remaining to be made.

The hydropower used for the RNYPP was power formerly used to provide low-cost electricity to domestic and rural customers of the three private utilities that serve upstate New York. To mitigate the impacts from the redeployment of this hydropower for the RNYPP, Chapter 60 created a "Residential Consumer Discount Program" (RCDP). The RCDP authorizes the Authority, as deemed feasible and advisable by its Trustees, to provide annual funding of $100 million for the first three years following withdrawal of the hydropower from the residential and farm customers, $70 million for the fourth year, $50 million for the fifth year, and $30 million each year thereafter, for the purpose of funding a residential consumer discount program for those customers that had formerly received the hydropower that is utilized in the RNYPP. Chapter 60 further authorizes the Authority, as deemed feasible and advisable by the Trustees, to use revenues from the sales of hydroelectric power, and such other funds of the Authority, as deemed feasible and advisable by the Trustees, to fund the RCDP. The Authority's Trustees have authorized the release of a total $504 million through December 2017 in support of the RCDP. The Authority supplemented the market revenues through the use of internal funds, from the August 2011 start of the program through December 31, 2017, totaling cumulatively $90 million. Operations and maintenance expenses included $30 million and $43 million of residential consumer discounts in the years ended December 31, 2017 and 2016, respectively.

Western New York Power Proceeds Allocation Act

Effective March 30, 2012, Chapter 58 (Part GG) of the Laws of 2012 (Chapter 58) created the Western New York Power Proceeds Act (WNYPPA). The WNYPPA authorizes the Authority, as deemed feasible and advisable by the Trustees, to deposit net earnings from the sale of unallocated Expansion Power and Replacement Power from the Authority's Niagara project into an account administered by the Authority known as the Western New York Economic Development Fund (WNYED Fund). Net earnings are defined as any excess revenues earned from such power sold into the wholesale market over the revenues that would have been received had the power been sold at the Expansion Power and Replacement Power rates. Proceeds from the Fund may be used to support eligible projects undertaken within a 30-mile radius of the Niagara power project that satisfy applicable criteria. Chapter 58 also establishes a five-member Western New York Power Allocations Board, which is appointed by the Governor. Chapter 58 also repealed Chapter 436 of the Laws of 2010 which had created a similar program that could not be effectively implemented.

The Authority's Trustees have approved the release of up to $62 million in net earnings, calculated for the period August 30, 2010 through December 31, 2017 as provided in the legislation, for deposit into the Fund. As of December 31, 2017, $42 million has been deposited into the Fund. As of December 31, 2017, the Authority has approved awards of Fund money totaling approximately $35 million to businesses that have proposed eligible projects and has made payments totaling $29 million to such businesses. Payment of these awards is contingent upon the execution of acceptable contracts between the Authority and individual awardees.

Northern New York Power Proceeds Allocation Act

Chapter 545 of the Laws of 2014 enacted the "Northern New York Power Proceeds Act" (NNYPPA). The NNYPPA authorizes the Authority, as deemed feasible and advisable by the Trustees, to deposit "net earnings" from the sale of unallocated St. Lawrence County Economic Development Power (SLCEDP) by the Authority in the wholesale energy market into an account the Authority would administer known as the Northern New York Economic Development Fund (NNYED Fund), and to make awards to eligible applicants that propose eligible projects that satisfy applicable criteria. The NNYPPA also establishes a five-member Northern New York Power Allocations Board appointed by the Governor to review applications seeking NNY Fund benefits and to make recommendations to the Authority concerning benefits awards.

SLCEDP consists of up to 20 MW of hydropower from the Authority's St. Lawrence-FDR Power Project which the Authority has made available for sale to the Town of Massena Electric Department ("MED") for MED to sub-

allocate for economic development purposes in accordance with a contract between the parties entered into in 2012 (Authority-MED Contract). The NNYPPA defines "net earnings" as the aggregate excess of revenues received by the Authority from the sale of energy associated with SLCEDP by the Authority in the wholesale energy market over what revenues would have been received had such energy been sold to MED on a firm basis under the terms of the Authority-MED contract. For the first 5 years after enactment, the amount of SLCEDP the Authority could use to generate net earnings may not exceed the lesser of 20 MW or the amount of SLCEDP that has not been allocated by the Authority pursuant to the Authority-MED contract. Thereafter, the amount of SLCEDP that the Authority could use for such purpose may not exceed the lesser of 10 MW or the amount of SLCEDP that has not been allocated.

As of December 31, 2017, the Authority's Trustees approved the release of funds, of up to $10 million, into the NNYED Fund representing "net earnings" from the sale of unallocated SLCEDP into the wholesale energy market for the period December 29, 2014 through December 31, 2017. As of December 31, 2017, approximately $3 million has been deposited into the Fund. Payment of approved awards of the NNYED Fund money is contingent upon the execution of acceptable contracts between the Authority and individual awardees.

On February 26, 2015, the Authority's Trustees approved the release of funds, of up to $3 million, into the NNYED Fund representing "net earnings" from the sale of unallocated SLCEDP into the wholesale energy market for the period December 29, 2014 through December 31, 2015. On January 26, 2016, the Authority's Trustees approved up to an additional $5 million in funds for the period January 1, 2016 through December 31, 2016. As of December 31, 2016, approximately $2 million has been deposited into the Fund and no awards have been made.

Governmental Customers in the New York City Metropolitan Area

In 2005, the Authority and its eleven 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, entered into long-term supplemental electricity supply agreements (2005 LTAs) with a term through December 31, 2017. Under the 2005 LTAs, the NYC Governmental Customers agreed to purchase their electricity from the Authority through December 31, 2017.

Under the 2005 LTAs, the Authority and the NYC Governmental Customers modified rates through an annual process based on cost of service principles.

In early 2018, the Authority executed new supplemental long-term electricity supply agreements (2018 LTAs) with nine of its eleven NYC Governmental Customers. Negotiations are ongoing with the remaining two NYC Governmental Customers.

Under the 2018 LTAs, effective January 1, 2018, the NYC Governmental Customers who have signed on have agreed to purchase their electricity from the Authority through December 31, 2027, with the NYC Governmental Customers having the right to (1) terminate at any time upon at least 12 months' notice or (2) terminate effective December 31, 2022 upon at least 6 months' notice. Under the 2018 LTAs, fixed costs were set for each customer and are subject to renegotiation after five years. Variable costs, including fuel, purchased power and NYISO related costs, will be passed through to each customer by an energy charge adjustment.

HTP Transmission Line

In 2011, the Trustees authorized Authority staff to enter into an agreement with Hudson Transmission Partners, LLC (HTP) for the purchase of capacity to meet the long-term requirements of the Authority's NYC Governmental Customers and to improve the transmission infrastructure serving New York City through the

transmission rights associated with HTP's transmission line (the Line) extending from Bergen County, New Jersey in the PJM Interconnection, LLC (PJM) transmission system, to Consolidated Edison Company of New York, Inc.'s (Con Edison) West 49th Street substation in the NYISO. Specifically, the Authority executed a Firm Transmission Capacity Purchase Agreement (FTCPA) with HTP which would have entitled the Authority to 75% of the Line's 660 MW capacity, or 495 MW, for 20 years. The Authority's capacity payment obligations under the FTCPA began upon the Line's commencement of commercial operation, which occurred on June 3, 2013. Also upon commercial operation, the FTCPA obligates the Authority to reimburse HTP for the cost of interconnection and transmission upgrades in New York and New Jersey associated with the Line and to pay for all remaining upgrade costs as they are incurred. Such interconnection and transmission upgrades have been completed. As of December 31, 2017, the Authority paid approximately $336 million of such costs related to the interconnection and transmission upgrades. The Authority's obligations under the FTCPA also include payment of the Regional Transmission Enhancement Plan (RTEP) charges allocated to HTP in accordance with the PJM tariff. Such RTEP costs are significant and are discussed below.

It is estimated that the revenues derived from the Authority's rights under the FTCPA will not be sufficient to fully cover the Authority's costs under the FTCPA during the 20-year term of the FTCPA. In December 2017, the Authority estimated that its under-recovery of costs under the FTCPA could be in the range of approximately $84 million to $92 million per year over the next five years. The under-recovery estimates were based on projections of the capacity payment obligations, the costs of interconnection and transmission upgrades, and energy and capacity revenues.

PJM's RTEP cost allocation methodology for certain upgrades, such as the Bergen-Linden Corridor (BLC) project built by Public Service Electric & Gas Company (PSE&G) in New Jersey, is being challenged at FERC in numerous proceedings by Con Edison, the Authority, HTP and other parties on the grounds that PJM has disproportionately allocated the costs of those projects to those parties. In a separate FERC proceeding, the Authority challenged the RTEP share of the BLC project costs allocated to HTP that were effective May 1, 2017 as a result of Con Edison's termination of its PJM firm transmission rights. The cost allocations shifted approximately $533 million in RTEP charges for the BLC project that had previously been allocated to Con Edison to HTP. Such costs are in addition to the $111 million in RTEP charges for the BLC project that had been previously allocated to HTP. RTEP costs relating to the BLC project would be paid over a number of years after construction commenced in 2017. Phase I of the BLC project June 2016, Phase II was completed in the spring of 2017 and Phase III is scheduled to be completed in June 2018.

From June 2013 through December 2017, the Authority has paid approximately $90 million in RTEP charges for the Line, including the BLC project. The Authority believes that based on the FERC Order dated December 15, 2017 permitting HTP to relinquish its firm rights on the HTP Line, coupled with corresponding PJM updates to its cost allocations for 2018, RTEP charges should not be imposed on the Authority from 2018 onward. However, the December 15, 2017 order has been challenged by various PJM transmission owners and the New Jersey Board of Public Utilities ("NJBPU"). Moreover, the NJBPU filed a complaint at FERC on December 22, 2017 regarding the regional cost allocation treatment affecting PJM and NYISO.

On March 31, 2017, the Authority and HTP executed an amendment to the FTCPA. In exchange for the Authority extending the cure period for HTP to replace underwater cables that have been subject to failure and which have resulted in the Line being out of service, under the amended FTCPA the Authority will receive: (1) rights to direct HTP to take necessary actions to withdraw, cancel or terminate the 320 MW of Firm Transmission Withdrawal Rights (FTWRs), which form the basis for the RTEP cost allocations to HTP, to eliminate future RTEP costs; (2) rights to direct HTP to later reapply for and reacquire these FTWRs on the Authority's behalf; (3) guarantee that if PJM RTEP assessments cannot be eliminated despite HTP's efforts to withdraw, cancel or terminate the FTWRs, that HTP will cancel its interconnection service agreement (ISA) to physically disconnect the Line from

the PJM transmission system, causing termination of all RTEP allocations; (4) based upon RTEP costs already paid, an immediate $40 million increase in the size of the tracking account that is used to offset the cost to purchase the Line at the end of the FTCPA term, at the Authority's option, and (5) shared rights to direct power on the Line in the opposite direction of its current flow should market conditions present revenue opportunities for selling capacity and energy from New York to New Jersey. Contingent upon the successful satisfactory reduction or complete elimination of the Authority's obligation for RTEP charges, and HTP's completion of the cable replacement (or demonstration that it is in the process of completing the cable replacement), the Authority will increase the portion leased by the Authority from 75% to 87.12% of the Line's capacity, bringing the total capacity of the line leased from 495 MW to 575 MW at a monthly capacity charge rate that represents a decrease in the unit price (on a $/MW-month basis) paid to HTP in the original FTCPA. The Authority estimates that increasing the leased portion of the line to 87.12% will increase its capacity payments by approximately $6 million to $9 million per year over the term of the FTCPA.

The amended FTCPA allows the Authority to seek to manage its RTEP exposure in two ways. First, the Authority can request HTP to relinquish its 320 MW of FTWRs associated with the Line. The Authority started this process which resulted in PJM's July 2017 FERC filing made at HTP's request to revise the ISA in order to relinquish HTP's FTWRS. As noted above, this led to FERC's December 15, 2017 order granting the relinquishment and subsequent PJM cost allocation updates which zeroed out NYPA's RTEP exposure commencing January 1, 2018. However, these determinations are subject to challenge, and are also questioned in a new complaint filed by the NJBPU, which attacked the December 15 order and other recent FERC decisions on cost allocation affecting both PJM and NYISO. Second, if the RTEP assessments cannot be eliminated despite HTP's efforts to terminate the FTWRs, the Authority retains the ability to direct HTP to cancel its interconnection agreement and physically disconnect the Line from the PJM transmission system. However, this option is considered less desirable because physical disconnection would eliminate the ability to make energy transactions over the Line when the cable replacement is completed. Lease payments would continue from the Authority to HTP in the event of a physical disconnection directed by the Authority.

Canal Corporation

Legislation was enacted on April 4, 2016 (the "Canal Transfer Legislation") which provided for (1) the transfer, effective January 1, 2017, of the Canal Corporation from the Thruway Authority to the Authority and (2) as of January 1, 2017, the Authority's assumption from the Thruway Authority of powers and duties relating to the Canal System, and jurisdiction over the Canal System and state assets, equipment and property in connection with the planning, development, construction, reconstruction, maintenance and operation of the Canal System, which the Authority is authorized to exercise through the Canal Corporation.

The Canal Transfer Legislation also authorized, but does not require, the Authority, to the extent that the Authority's Trustees deem it feasible and advisable as required by the Resolution, to transfer moneys, property and personnel to the Canal Corporation. As of December 31, 2017, the Authority recognized $86 million of costs associated with the transfer of the Canal Corporation to the Authority, including certain reimbursements to the Thruway Authority in respect of calendar year 2016.

The Canal Corporation operates at a loss and is expected to require substantial operating and maintenance support and capital investment. The Canal Corporation's expenses are expected to be funded by transfers of funds from the Authority. Any transfer of funds would be subject to approval by the Authority's Board of Trustees and compliance with the Authority's General Resolution Authorizing Revenue Obligations, as amended and supplemented. Certain expenses eligible for reimbursement are expected to be reimbursed to the Authority by moneys held in the Canal Development Fund maintained by the State Comptroller and the Commissioner of

Taxation and Finance. For the twelve months ended December 31, 2017, the Canal Corporation recognized $2 million in revenues, $93 million in operations and maintenance and $23 million in depreciation expense.

By resolution adopted December 12, 2017, the Canal Corporation's Board of Directors adopted a budget for 2018 that included expenditures of $82 million for operations and maintenance expenses, $40 million for capital expenses and $3 million for Canal Development Fund expenses. Through March 2017, the Authority's Trustees have authorized the release of up to $20.5 million in funding to support operations of the Canal Corporation in 2018.

Given the age of the Canal System, the Authority expects that significant maintenance and capital investments will be required to assure its continuing operation. The Authority's budget and financial plan for 2018-2021 includes Canal-related operating expenditures of $85 million per year over the next four years. The Authority's 2018-2021 budget and financial plan includes Canal System related capital expenditures of $40 million per year over the next four years. The Authority will continue to evaluate the condition of the Canal System and expects to allocate additional funding if deemed necessary through its annual budgeting process.

New York State Budget

The Authority is requested, from time to time, to make financial contributions or transfers of funds to the State. Any such contribution or transfer of funds must (i) be authorized by law (typically, legislation enacted in connection with the State budget), and (ii) satisfy the requirements of the Bond Resolution. The Bond Resolution requirements to withdraw moneys "free and clear of the lien and pledge created by the (Bond) Resolution" are as follows: (1) such withdrawal must be for a "lawful corporate purpose as determined by the Authority," and (2) the Authority must determine "taking into account, among other considerations, anticipated future receipt of Revenues or other moneys constituting part of the Trust Estate, that the funds to be so withdrawn are not needed" for (a) payment of reasonable and necessary operating expenses, (b) an Operating Fund reserve for working capital, emergency repairs or replacements, major renewals, or for retirement from service, decommissioning or disposal of facilities, (c) payment of, or accumulation of a reserve for payment of, interest and principal on senior debt, or (d) payment of interest and principal on subordinate debt.

In May 2011, the Authority's Trustees adopted a policy statement (Policy Statement) which relates to, among other things, voluntary contributions, transfers, or other payments to the State by the Authority after that date. The Policy Statement provides, among other things, that in deciding whether to make such contributions, transfers, or payments, the Authority shall use as a reference point the maintenance of a debt service coverage ratio of at least 2.0 (this reference point should not be interpreted as a covenant to maintain any particular coverage ratio), in addition to making the other determinations required by the Bond Resolution. The Policy Statement may at any time be modified or eliminated at the discretion of the Authority's Trustees.

Legislation enacted into law, as part of the 2000-2001 State budget, as amended up to the present time, has authorized the Authority as deemed feasible and advisable by the trustees, to make a series of voluntary contributions into the State treasury in connection with the PFJ Program and for other purposes as well. The PFJ Program, which had been extended to June 30, 2012, has ended and was replaced by the RNYPP, as discussed above in note 13(a) "Power Program – Recharge New York Power Program" of the notes to the financial statements. Cumulatively through December 31, 2012, the Authority has made voluntary contributions to the State totaling $475 million in connection with the ended PFJ Program.

In 2016, the Authority made contributions to the State of $91 million that were not related to the PFJ Program and which were recorded as nonoperating expenses in the year ended December 31, 2016 statements of revenues, expenses and changes in net position. These contributions were authorized by the Authority's Trustees and were

consistent with the related State fiscal year budgets. The 2016 contributions included $26 million that was paid to the State's General Fund and $65 million that was paid to Empire State Development Corporation (ESD). Cumulatively through December 31, 2016, the Authority has made voluntary contributions to the State totaling $763 million in connection unrelated to the PFJ Program.

The 2018-19 Executive Budget contains a provision authorizing the Authority as deemed "feasible and advisable by its trustees" to transfer to the State treasury to the credit of the general fund $20 million for the State fiscal year commencing April 1, 2018, the proceeds of which will be utilized to support energy-related State activities. The Authority cannot predict what additional contributions to the State may be authorized in the future.

The 2018-19 Executive Budget includes two bills that if enacted could affect the Authority's operations. One bill would clarify and enhance the Authority's statutory authority to support energy services and projects. The second bill would authorize the Authority, as deemed feasible and advisable by the Trustees, to finance, plan, design, engineer, acquire, construct, operate or manage renewable power and energy generating projects, and procure such renewable products, which the authority deems necessary or desirable to assist New York State in meeting any State clean energy standard or goals, and/or supply the needs of any public entity or authority customer within New York State. Legislation comprising the Executive Budget is subject to modification by the State Legislature.

Temporary Asset Transfers

In addition to the authorization for voluntary contributions, as a result of budget legislation enacted in February 2009, the Authority was requested to provide temporary asset transfers to the State of funds held in reserves. Pursuant to the terms of a Memorandum of Understanding dated February 2009 (MOU) between the State, acting by and through the State's Director of Budget, and the Authority, the Authority agreed to transfer approximately $215 million associated with its Spent Nuclear Fuel Reserves (Asset B) by March 27, 2009. The Spent Nuclear Fuel Reserves are funds that had been set aside for payment to the federal government sometime in the future when the federal government accepts the spent nuclear fuel for permanent storage (see Note12(b) "Nuclear Plant and Divestiture – Nuclear Fuel Disposal". The MOU provides for the return of these funds to the Authority, subject to appropriation by the State Legislature and the other conditions described below, at the earlier of the Authority's payment obligation related to the transfer and disposal of the spent nuclear fuel or September 30, 2017. Further, the MOU provides for the Authority to transfer within 180 days of the enactment of the 2009-2010 State budget $103 million of funds set aside for future construction projects (Asset A), which amounts would be returned to the Authority, subject to appropriation by the State Legislature and the other conditions described below, at the earlier of when required for operating, capital or debt service obligations of the Authority or September 30, 2014. In February 2009, the Authority's Trustees authorized the execution of the MOU relating to the temporary transfers of Asset B ($215 million) and Asset A ($103 million) and such transfers were made in March 2009 and September 2009, respectively, following Trustee approval.

The MOU provides that the obligation of the State to return all or a portion of an amount equal to the moneys transferred by the Authority to the State is subject to annual appropriation by the State Legislature. Further, the MOU provides that as a condition to any such appropriation for the return of the moneys earlier than September 30, 2017 for the Spent Nuclear Fuel Reserves and earlier than September 30, 2014 for the construction projects, the Authority must certify that the monies available to the Authority are not sufficient to satisfy the purposes for which the reserves, which are the source of the funds for the transfer, were established.

In lieu of interest payments, the State has waived certain future payments from the Authority to the State. The waived payments include the Authority's obligation to pay until September 30, 2017 the amounts to which the State is entitled under a governmental cost recovery process for the costs of central governmental services. These payments would have been approximately $5 million per year based on current estimates but the waiver is limited to a maximum of $45 million in the aggregate during the period. Further, the obligation to make payments in

support of certain State park properties and for the upkeep of State lands adjacent to the Niagara and St. Lawrence power plants is waived from April 1, 2011 to March 31, 2017. These payments would have been approximately $8 million per year but the waiver would be limited to a maximum of $43 million for the period. The present value of the waivers approximates the present value of the forgone interest income.

On April 24, 2014, the Authority and the State executed an Amendment to the MOU which provides that the State shall, subject to appropriation by the State Legislature, return the $103 million (Asset A) in five installments in the following amounts and by no later than September 30 of each of the following State fiscal years: (1) $18 million for State Fiscal Year 2014-2015; (2) $21 million for State Fiscal Year 2015-2016; (3) $21 million for State Fiscal Year 2016-2017; (4) $21 million for State Fiscal Year 2017-2018; and (5) $22 million for State Fiscal Year 2018-2019. By its terms, the Amendment to the MOU became effective when it was approved and ratified by the Authority's Board of Trustees on July 29, 2014. The Authority has received cumulative installment payments of $81 million as of December 31, 2017.

The Authority and the State executed a Second Amendment to the MOU, dated as of June 30, 2017, that provides for the return to the Authority of the $215 million (Asset B) in the following amounts and by no later than September 30 of each of the following State fiscal years: (1) $22 million for State Fiscal Year 2017-18, (2) $21 million for State Fiscal Year 2018-19, (3) $43 million for State Fiscal Year 2019-20, (4) $43 million for State Fiscal Year 2020-21, (5) $43 million for State Fiscal Year 2021-22, and (6) $43 million for State Fiscal Year 2022-23. The obligation of the State to return the moneys transferred by the Authority to the State is subject to annual appropriation by the State Legislature. The Authority received the first installment payment of $22 million in September 2017. The Assets A and B transfers are reported in miscellaneous receivables and other ($43 million as of December 31, 2017 and 2016) and in other noncurrent assets ($172 million and $215 million at December 31, 2017 and December 31, 2016, respectively) in the statements of net position.

New York State Office of Parks, Recreation and Historic Preservation

On July 18, 2005, the Authority executed the Relicensing Settlement Agreement Addressing New License Terms and Conditions ("Settlement Agreement") entered into by several parties to the relicensing of the Niagara Project, including The New York State Office of Parks, Recreation and Historic Preservation ("OPRHP"). The Settlement Agreement provides, among other things, for the establishment of a Relicensing Settlement Agreement State Parks Greenway Fund, which is to be funded by the Authority in the amount of $3 million per year to OPRHP for the term of the 50-year License. OPRHP has requested that the Authority accelerate certain of such payments by making a lump sum payment of approximately $25 million to pay for authorized projects. In order to make the lump sum payment, the Authority issued $25.2 million in subordinated notes on February 24, 2017 and made the proceeds available to OPRHP (see Note 6 "Long-Term Debt – Subordinate Debt" of notes to the consolidated financial statements).

Niagara Parkway Redevelopment

The State plans to replace an underutilized two-mile stretch of the Robert Moses Parkway North in Niagara Falls with open space, scenic overlooks and recreational trails. Construction is anticipated to commence in 2018 and take approximately three years to complete with funding in the amount of approximately $40 million expected to be provided by the Authority. As of December 31, 2017, the Authority's Trustees have approved up to $5.5 million in funding by the Authority. As of December 31, 2017, the Authority has disbursed approximately $4.4 million.

AGILe

The Authority, in collaboration with the State utilities, NYSERDA and NYISO, is developing an advanced grid innovation lab for energy ("AGILe") to create new tools to better monitor, control, accommodate and respond to the evolving energy sector. Costs to the Authority are estimated at $20 million over the initial three year period and are not expected to exceed $50 million through final build-out of the facility. Upon completion, operating and maintenance costs are expected to be shared among AGILe participants. On July 25, 2017, the Authority's Trustees authorized capital expenditures in the amount of $20 million for the initial phase of AGILe, which has since commenced.

New York Energy Highway

In January 2012, the Governor of New York announced the New York Energy Highway initiative, which is envisioned as a public-private partnership to upgrade and modernize the State's electric power system. The Governor formed a task force comprised of various State officials to oversee implementation of the initiative (Task Force) which is co-chaired by the Authority's President and Chief Executive Officer. In April 2012, the Task Force issued a request for information seeking ideas and proposals in furtherance of the initiative. Approximately 85 organizations responded to the Task Force's request for information and the responses included a large number of different generation and transmission project proposals. Based on the response of all these organizations, the Energy Highway Task Force issued an action plan in October 2012. The resulting Energy Highway Blueprint, calling for public and private investments in the State's energy system of about $5.7 billion over the next five to 10 years, proposed 13 specific actions, divided among four major categories: Expand and Strengthen the System, Accelerate Construction and Repair, Support Clean Energy and Technology Innovation.

In November 2012, the New York Public Service Commission (NYPSC) announced new proceedings addressing various actions described in the Blueprint including (i) the initiation of electric transmission upgrades to move excess power from upstate to downstate (AC Transmission), (ii) the creation of a contingency plan to prepare for a large generator retirement (Generation Retirement Contingency Plan) and (iii) the expansion of natural gas delivery to homeowners and businesses in New York State.

In response to the request for information and the Generation Retirement Contingency Plan and AC Transmission proceedings, the New York Transmission Owners (NYTOs), comprised of the State's largest private utilities, LIPA, and the Authority, indicated that they were exploring the creation of a new Statewide transmission entity (NY Transco) to pursue development, construction, operation, and ownership of new transmission projects. The NYTOs proposed to the Task Force and to the NYPSC several transmission projects that could be undertaken by a NY Transco entity. Participation of the Authority in the NY Transco would be contingent on the enactment of legislation by the State that enables the Authority to participate. As of the 2015 legislative session, which ended in June 2015, such enabling legislation has not been passed. On November 24, 2014, affiliates of the NYTOs formed a transmission entity (Four-Party Transco) that does not include LIPA or the Authority but would permit their participation should the necessary enabling legislation be passed.

In its November 4, 2013 Generation Retirement Contingency Plan Order, the NYPSC selected three transmission projects (TOTS projects) to be built by Consolidated Edison, New York State Electric and Gas (NYSEG) and the Authority. The NYPSC also requested that the NYTOs seek Federal Energy Regulatory Commission (FERC) approval for the three TOTS projects. On December 4, 2014, the NYTOs on behalf of themselves and the Four-Party Transco filed applications at FERC to permit the transfer of certain transmission assets to the Four-Party Transco. The Four-Party Transco also filed an application for cost allocation and recovery for five projects, including the three TOTS projects. A negotiated settlement of that cost allocation has been approved by FERC.

The Authority co-developed one of the TOTS projects, the Marcy-South Series Compensation, with NYSEG and has also completed a negotiated settlement at FERC to recover the costs of its portion of that project.

Build Smart NY Initiative

On December 28, 2012, the Governor of New York issued Executive Order No. 88 (EO 88) directing state agencies collectively to reduce energy consumption in state-owned and managed buildings by 20 percent within seven years – an initiative designed to produce significant savings for New York taxpayers, generate jobs, and significantly reduce greenhouse gas emissions. To meet this initiative, the Governor launched Build Smart NY, a plan to strategically implement EO 88 by accelerating priority improvements in energy performance. The Authority has offered to provide $450 million in low-cost financing for this initiative for state owned buildings and an additional $350 million for towns and municipalities. Such low-cost financing would be funded by proceeds of the Authority's commercial paper or another form of debt. The Authority's costs of financing would be recovered from the energy efficiency customers in this program. The Authority has established a central management and implementation team which designed implementation guidelines milestones and data collection and analysis systems to support the program. The team conducts routine outreach and meetings with affected state agencies and has commenced the implementation phase of the Build Smart NY program. As of December 31, 2017, the Authority has in aggregate provided approximately $391 million in financing for energy efficiency projects at State agencies and authorities covered by EO 88.

Certain Solar and Energy Efficiency Initiatives

In March 2012, the Authority's Trustees authorized up to $30 million in funding over five years for a solar market acceleration program involving solar research, training, and demonstration projects. In January 2017, the Authority's Trustees extended the program through December 2018. As of December 31, 2017, the Authority has approved the award of contracts with cumulative value of up to approximately $6 million.

In June 2012, the Authority's Trustees authorized up to $30 million in funding over five years for an energy efficiency market acceleration program involving energy efficiency research, demonstration projects, and market development. In January 2017, the Authority's Trustees extended the program through December 2018. As of December 31, 2017, the Authority has approved the award of contracts with a cumulative value of up to approximately $17 million.

In February 2015, the Authority's Trustees authorized up to $12 million in funding over two years for initial implementation of the Five Cities Energy Plans for the cities of Albany, Buffalo, Rochester, Syracuse and Yonkers. In January 2017, the Authority's Trustees extended the program through December 2018. As of December 31, 2017, the Authority has approved the award of contracts with a cumulative value of approximately $8 million.

Clean Energy Standard

On August 1, 2016, the New York Public Service Commission ("NYPSC") issued an order establishing a Clean Energy Standard (the "CES Order") to implement the clean energy goals of the State Energy Plan. Pursuant to the CES Order, load serving entities identified in the order are required to purchase "Zero Emission Credits" ("ZECs") from the New York State Energy Research Development Authority ("NYSERDA") to support the preservation of existing at-risk zero emissions nuclear generation. The Authority is not subject to NYPSC jurisdiction for purposes of the CES Order but has assumed an obligation to purchase ZECs consistent with the terms of the CES Order and intends to seek recovery of such costs from the Authority's customers. On January 31, 2017, the Authority's Trustees authorized (a) participation in the NYPSC's ZEC program and (b) execution of an agreement with NYSERDA to purchase ZECs associated with the Authority's applicable share of energy sales. The Authority

and NYSERDA executed an agreement covering a two year period from April 1, 2017 to March 31, 2019 under which the Authority committed to purchase ZECs in a quantity based on its proportional load in the New York control area. The Authority estimates that it will incur ZEC Purchase Obligation costs under the CES Order of approximately $286 million in aggregate over the 2018-2021 period, of which approximately $26 million is not expected to be recovered under customer contracts that predate the adoption of the CES Order.

Large-Scale Renewable Program

In support of the Clean Energy Standard goal for the State to achieve 50% renewable energy by 2030, the Authority issued a request for proposals in June 2017 to solicit renewable energy credits, energy and capacity from eligible large-scale renewable projects with a minimum size of 5MW, 10MW or 20MW, depending on the underlying technology. The goal is to procure 1 million MWh or more for the Authority's governmental customer base. Eligible projects, which may be based within or outside the State, include solar (photovoltaic), wind, hydro-electric and biomass. The Authority is in the process of developing financial strategies for the Large Scale Renewable program, which may include designating the program as a "Separately Financed Project" in accordance with the provisions of the Authority's Bond Resolution. Proposals were due September 8, 2017 and the evaluation period is ongoing.

Reforming the Energy Vision

In April 2014, the PSC commenced a proceeding to reform the State's energy industry and regulatory practices. According to the PSC, this initiative, called Reforming the Energy Vision ("REV"), will lead to regulatory changes that promote more efficient use of energy; deeper penetration of renewable energy resources such as wind and solar; and wider deployment of smaller power sources located closer to the customer load, including micro grids capable of meeting the regular demands of a community of consumers, on-site power supplies, and energy storage. REV also aims to promote greater use of advanced energy management products to enhance demand elasticity and efficiencies. The PSC order instituting the proceeding designated two tracks for the REV with track one focused on developing distributed resource markets and track two focused on reforming utility ratemaking practices.

The PSC has identified six core policy objectives for REV relating to enhanced customer knowledge and tools to support effective management of total energy bills, market animation and leverage of customer contributions, system-wide efficiency, fuels and resource diversity, system reliability and resiliency, and reduction of carbon emissions. A PSC "Staff Report and Proposal" released in April 2014 set forth a vision for how to accomplish the PSC's objectives. This report and additional information on REV, including the Order Adopting Regulatory Policy Framework and Implementation Plan issued and effective February 26, 2015 (Track 1) and Order Adopting a Ratemaking and Utility Revenue Model Policy Framework issued and effective May 19, 2016 (Track 2), are available at http://www.dps.ny.gov/. No statement on that website is incorporated by reference herein. The PSC has several ongoing proceedings related to Track 1 and Track 2 of REV that the Authority is following.

While the PSC does not have jurisdiction over rates for power generated or transmitted by the Authority, the reforms and innovations contemplated in the REV initiative are expected by the PSC to be done in conjunction with certain independent but related actions of the Authority, and will impact electricity rates for energy efficiency project customers. As a result, the Authority monitors the REV initiative closely and expects to evaluate any regulatory reforms that are ultimately implemented and their impact on project implementation and suitability for adoption by the Authority and its customers.

Retirement of Generation Resources

The retirement of generation resources may impact the Authority's resources, both positively and negatively. The reduction in the amount of generation capacity available to the system that results from generator retirement will, all other things being equal, increase the unit price paid for capacity from the Authority's resources. Retirement of resources also can affect power flows and the ability to fully access the energy available from the Authority's assets. For example, the retirement of coal-fired generation stations in Western New York could limit the amount of energy that the transmission system in the vicinity of the Authority's Niagara Project can accommodate, thus preventing the full use of this asset.

Recognizing the potential for such retirements and the impact they could have on the operation of the Niagara Project and the ability to access renewable power from Ontario, Canada, on July 20, 2015 the PSC issued an order that granted requests from the Authority and National Grid to establish a Public Policy Requirement driving the need for transmission additions to, among other things, enable the Authority to fully operate 2700 MW of generation from the Authority's Niagara and Lewiston Pump-Generating Plant and ensure that, under emergency conditions, no less than 1000 MW of import capacity will be available from Ontario. This order initiated the NYISO's competitive solicitation process that will procure, pursuant to procedures established in FERC's Order 1000, transmission enhancements sufficient to meet the need identified by the PSC. In October 17, 2017, the NYISO Board of Directors approved the NYISO staff recommendation to select the transmission proposal submitted by NextEra Energy Transmission New York, Inc. as the most cost effective transmission project. The project is expected to be completed in June 2022.

Contacting the Authority

This financial report is designed to provide our customers and other interested parties with a general overview of the Authority's finances. If you have any questions about this report or need additional financial information, contact the New York Power Authority, 123 Main Street, White Plains, New York 10601-3107. Email: info@nypa.gov

KPMG LLP
345 Park Avenue
New York, NY 10154-0102

Independent Auditors' Report

The Board of Trustees
Power Authority of the State of New York:

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of the Power Authority of the State of New York (the Authority), which comprise the consolidated statements of net position as of December 31, 2017 and 2016, and the related consolidated statements of revenues, expenses, and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion on the Financial Statements

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of December 31, 2017 and 2016, and its revenues, expenses, and changes in net position, and cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

KPMG LLP is a Delaware limited liability partnership and the U.S. member
firm of the KPMG network of independent member firms affiliated with
KPMG International Cooperative ("KPMG International"), a Swiss entity.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the information in the Management's Discussion and Analysis on pages 2 through 23 and Required Supplementary Information on pages 80 through 81 be presented to supplement the consolidated financial statements. Such information, although not a part of the consolidated financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the consolidated financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the consolidated financial statements, and other knowledge we obtained during our audits of the consolidated financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 20, 2018 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

KPMG LLP

New York, New York
March 20, 2018

NEW YORK POWER AUTHORITY

Consolidated Statements of Net Position

(In millions)

	December 31,	
	2017	2016
Assets and Deferred Outflows		
Current Assets:		
Cash and cash equivalents	$ 37	$ 43
Investment in securities	1,065	1,060
Investment in securities- restricted	–	1,504
Receivables - customers	171	152
Materials and supplies, at average cost:		
Plant and general	82	85
Fuel	27	33
Miscellaneous receivables and other	198	205
Total current assets	1,580	3,082
Noncurrent Assets:		
Restricted funds:		
Cash and cash equivalents	26	25
Investment in securities	33	31
Total restricted assets	59	56
Capital funds:		
Cash and cash equivalents	–	5
Investment in securities	25	27
Total capital funds	25	32
Capital Assets:		
Capital assets not being depreciated	758	512
Capital assets, net of accumulated depreciation	4,684	4,313
Total capital assets	5,442	4,825
Other Noncurrent Assets:		
Receivable - New York State	172	215
Other long-term assets	1,382	1,226
Total other noncurrent assets	1,554	1,441
Total noncurrent assets	7,080	6,354
Total assets	8,660	9,436
Deferred outflows:		
Pensions	66	107
Total assets and deferred outflows	$ 8,726	$ 9,543

(Continued)

NEW YORK POWER AUTHORITY

Consolidated Statements of Net Position

(In millions)

	December 31,	
	2017	2016
Liabilities, Deferred Inflows and Net Position		
Current liabilities:		
Accounts payable and accrued liabilities	$ 406	$ 328
Liability to decommission divested nuclear facilities	–	1,504
Short-term debt	485	516
Long-term debt due within one year	62	58
Capital lease obligation due within one year	31	25
Risk management activities - derivatives	–	8
Total current liabilities	984	2,439
Noncurrent liabilities:		
Long-term debt:		
Senior:		
Revenue bonds	720	784
Subordinated:		
Subordinated Notes	44	21
Commercial paper	5	5
Total long-term debt	769	810
Other noncurrent liabilities:		
Capital lease obligation	1,114	1,144
Disposal of spent nuclear fuel	219	217
Relicensing	250	270
Other long-term liabilities	303	227
Total other noncurrent liabilities	1,886	1,858
Total noncurrent liabilities	2,655	2,668
Total liabilities	3,639	5,107
Deferred inflows:		
Cost of removal obligation	330	313
Accumulated increase in fair value of derivative hedging	8	30
Pensions	10	12
Net position:		
Net investment in capital assets	2,973	2,278
Restricted	32	23
Unrestricted	1,734	1,780
Total net position	4,739	4,081
Total liabilities, deferred inflows and net position	$ 8,726	$ 9,543

See accompanying notes to the consolidated financial statements.

NEW YORK POWER AUTHORITY

Consolidated Statements of Revenues, Expenses and Changes in Net Position

(In millions)

	Year Ended December 31,	
	2017	2016
Operating revenues:		
Power sales	$ 1,745	$ 1,638
Transmission charges	189	174
Wheeling charges	618	609
Other	21	–
Total operating revenues	2,573	2,421
Operating Expenses:		
Purchased power	557	514
Fuel oil and gas	165	152
Wheeling	618	609
Operations	547	484
Maintenance	133	135
Depreciation	242	231
Impairment loss	73	–
Total operating expenses	2,335	2,125
Operating income	238	296
Nonoperating revenues and expenses:		
Nonoperating revenues:		
Investment income	12	15
Other	17	10
Total nonoperating revenues	29	25
Nonoperating expenses		
Contribution to New York State	–	91
Canal Reimbursement Agreement	–	62
Interest on long-term debt	47	49
Interest - other	117	117
Interest capitalized	(12)	(16)
Amortization of debt premium	(4)	(4)
Total nonoperating expenses	148	299
Net income and change in net position	119	22
Net position, January 1	4,081	4,059
Canal Corporation, net position - January 1	539	–
Net position, January 1	4,620	4,059
Net position, December 31	$ 4,739	$ 4,081

See accompanying notes to the consolidated financial statements.

NEW YORK POWER AUTHORITY

Consolidated Statements of Cash Flows

(In millions)

	Year Ended December 31,	
	2017	2016
Cash flows from operating activities:		
Received from customers for the sale of power, transmission and wheeling	$ 2,504	$ 2,356
Disbursements for:		
Purchased power	(556)	(515)
Fuel, oil and gas	(163)	(136)
Wheeling of power by other utilities	(626)	(617)
Operations and maintenance	(804)	(739)
Net cash provided by operating activities	355	349
Cash flows from capital and related financing activities:		
Gross additions to capital assets	(241)	(218)
Issuance of subordinated notes, series 2017	25	–
Repayment of bonds	(57)	(55)
Repayment of notes	(2)	(87)
Repayment of commercial paper	–	(39)
Interest paid, net	(45)	(50)
Net cash used in capital and related financing activities	(320)	(449)
Cash flows from noncapital–related financing activities:		
Energy conservation program payments received from participants	154	143
Energy conservation program costs	(232)	(142)
Issuance of commercial paper	84	110
Repayment of commercial paper	(115)	(121)
Interest paid on commercial paper	(7)	(5)
Transmission line interconnection costs	26	(49)
Contributions to New York State	–	(91)
Canal Reimbursement Agreement	(18)	(44)
Payment received from New York State	43	21
Margin deposits	(20)	–
NYISO collateral	(7)	–
Payments related to nuclear decommissioning fund transfer	8	–
Net used in noncapital-related financing activities	(84)	(178)
Cash flows from investing activities:		
Earnings received on investments	17	15
Purchase of investment securities	(4,460)	(3,074)
Sale of investment securities	4,482	3,318
Net cash provided by investing activities	39	259
Net decrease in cash	(10)	(19)
Cash and cash equivalents, January 1	73	92
Cash and cash equivalents, December 31	$ 63	$ 73
Reconciliation to net cash provided by operating activities:		
Operating income	$ 238	$ 296
Adjustments to reconcile operating income to net cash provided by operating activities:		
Change in assets, deferred outflows, liabilities and deferred inflows:		
Provision for depreciation	242	231
Net (increase) decrease in miscellaneous receivables and other	(53)	21
Net increase in receivables and materials and supplies	(61)	(70)
Net decrease in accounts payable/accrued liabilities and other	(11)	(129)
Net cash provided by operating activities	$ 355	$ 349

See accompanying notes to the consolidated financial statements.

(1) General

The Power Authority of the State of New York (the Power Authority), doing business as The New York Power Authority, is a corporate municipal instrumentality and political subdivision of the State of New York (State) created in 1931 by Title 1 of Article 5 of the Public Authorities Law, Chapter 43-A of the Consolidated Laws of the State, as amended (Power Authority Act or Act).

The Power Authority's mission is to power the economic growth and competitiveness of the State by providing customers with low-cost, clean, reliable power and the innovative energy infrastructure and services they value. 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.

The Power Authority is authorized by the Power Authority Act to help provide a continuous and adequate supply of dependable electricity to the people of the State. The Power Authority generates, transmits and sells electricity principally at wholesale. The Power Authority's primary customers are municipal and investor-owned utilities, rural electric cooperatives, high load factor industries and other businesses located throughout New York State, various public corporations located in Southeastern New York within the metropolitan area of New York City (SENY Governmental Customers), and certain out-of-state customers.

To provide electric service, the Power Authority owns and operates five major generating facilities, eleven small gas-fired electric generating facilities, and four small hydroelectric facilities in addition to a number of transmission lines, including major 765-kV and 345-kV transmission facilities. The Power Authority's five major generating facilities consist of two large hydroelectric facilities (Niagara and St. Lawrence-FDR), a large pumped-storage hydroelectric facility (Blenheim-Gilboa), the combined cycle electric generating plant located in Queens, New York (500-MW Plant) and the Richard M. Flynn combined cycle plant located on Long Island (Flynn). To provide additional electric generation capacity to the Authority's NYC Governmental Customers, the Authority entered into a long-term electricity supply agreement with Astoria Energy II LLC in 2008 for the purchase of the output of an Astoria, Queens based natural-gas fueled 550-MW generating plant, which entered service in the summer of 2011.

The Power Authority acts through a Board of Trustees. The Power Authority's Trustees are appointed by the Governor of the State of New York, with the advice and consent of the State Senate. The Power 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 a combination of internally generated funds and 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. Under the criteria set forth in Governmental Accounting Standards Board (GASB) the Authority considers its relationship to the State to be that of a related organization.

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

Article XV of the New York State Constitution provides, in part, that the barge canal, the divisions of which are the Erie canal, the Oswego canal, the Champlain canal, and the Cayuga-Seneca canal, and the terminals constructed as part of the barge canal system (collectively, the "Canal System") shall remain the property of the State and under its management and control forever. Legislation enacted in 1992 (the "1992 Legislation") transferred jurisdiction of the Canal System, among other assets and properties, from the New York State Commissioner of Transportation to the Thruway Authority, to be held by the New York Thruway Authority (the "Thruway Authority") in the name of the people of the State. Such canal system remained the property of the

State and under its management and control as exercised by and through the Thruway Authority, through its then newly created subsidiary, the New York State Canal Corporation (the "Canal Corporation"). The 1992 Legislation deemed the Canal Corporation to be the State for the purposes of such management and control of the canals but for no other purposes.

Legislation was enacted on April 4, 2016 (the "Canal Transfer Legislation") which provided for (1) the transfer, effective January 1, 2017, of the New York State Canal Corporation (Canal Corporation) from the New York State Thruway Authority (Thruway Authority) to the Power Authority and (2) as of January 1, 2017, the Power Authority's assumption from the Thruway Authority of powers and duties relating to the Canal System, and jurisdiction over the Canal System and state assets, equipment and property in connection with the planning, development, construction, reconstruction, maintenance and operation of the Canal System, which the Power Authority is authorized to exercise through the Canal Corporation. The Canal Corporation is responsible for a 524-mile Canal System consisting of the Erie, Champlain, Oswego and Cayuga-Seneca canals and the terminals constructed as part of the barge canal system (the "Canal System").

(2) Summary of Significant Accounting Policies

Significant accounting policies include the following:

(a) *Basis of Reporting*

The operations of the Power Authority and its subsidiary, the Canal Corporation, are presented as an enterprise fund following the accrual basis of accounting in order to recognize the flow of economic resources. Accordingly, revenues are recognized in the period in which they are earned and expenses are recognized in the period in which they are incurred. The accounts and transactions of the Canal Corporation are included in the consolidated financial statements and notes to the consolidated financial statements. All significant transactions between the Power Authority and the Canal Corporation have been eliminated. The Power Authority and its blended component unit are referred to collectively as the "Authority" in the consolidated financial statements, except where noted.

The Authority complies with all applicable pronouncements of the Governmental Accounting Standards Board (GASB). In accordance with Governmental Accounting Standards (GAS) Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements,* the Authority applies all authoritative pronouncements applicable to nongovernmental entities (i.e., Accounting Standards Codification (ASC) of the Financial Accounting Standards Board) that do not conflict with GASB pronouncements.

(b) *Regulatory Accounting*

The Power Authority's Board of Trustees has broad rate setting authority for its power sales agreements with customers. The sale of transmission service over the Power Authority's facilities is provided pursuant to New York Independent System Operator (NYISO) tariffs and under contracts that pre-dated existence of the NYISO. The Power Authority files its transmission system revenue requirement with the Federal Energy Regulatory Commission (FERC) for inclusion in the NYISO's open access tariff.

The Authority accounts for its regulated operations under the provisions of GAS Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre November 30, 1989 FASB and AICPA Pronouncements*, paragraphs 476-500. These provisions recognize the economic ability of regulators, through the ratemaking process, to create future economic benefits and obligations affecting rate-regulated entities. Accordingly, the Authority records these future economic benefits and obligations as regulatory assets and regulatory liabilities, respectively. Regulatory assets represent probable future revenues associated with previously incurred costs that are expected to be recovered from customers.

Regulatory liabilities represent amounts that are collected from customers through the ratemaking process associated with costs to be incurred in future periods. Based on the action of the Board of Trustees, the Authority believes the future collection of the costs held over through regulatory assets is probable. For regulatory assets see Note 2(l) "Summary of Accounting Polices – Other Long-Term Assets" of the notes to the consolidated financial statements.

(c) *Estimates*

The preparation of consolidated 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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(d) *Capital Assets*

Capital assets are recorded at original cost and consist 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 capital assets retired less salvage is charged to accumulated depreciation. Depreciation of capital assets is generally provided on a straight-line basis over the estimated lives of the various classes of capital assets.

The related depreciation provisions at December 31, 2017 and 2016 expressed as a percentage of average depreciable capital assets on an annual basis are:

	Average depreciation rate	
	2017	**2016**
Type of plant:		
Production:		
Hydro	2.0%	2.0%
Gas turbine/combined cycle	2.4	2.9
Transmission	2.0	2.3
General	3.2	3.3%
Canal system	3.3	—
	2.6%	2.6%

(e) *Asset Retirement and Cost of Removal Obligations*

The Authority applies the applicable provisions of ASC Topic 410, *Asset Retirement and Environmental Obligations,* 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 determined that it had legal liabilities for the retirement of certain Small Clean Power Plants (SCPPs) in New York City and, accordingly, has recorded a liability for the retirement of these assets. In connection with these legal obligations, the Authority has also recognized a liability for the remediation of certain contaminated soils discovered during the construction process.

ASC Topic 410 does not apply to asset retirement obligations involving pollution remediation obligations that are within the scope of GAS No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. The Authority applies GAS No. 49 which, upon the occurrence of any one of five specified obligating events, requires an entity to estimate the components of expected pollution remediation outlays and determine whether outlays for those components should be accrued as a liability or, if appropriate, capitalized when goods and services are acquired. The Authority had no liabilities recorded related to GAS No. 49 at December 31, 2017 or 2016.

In addition to asset retirement obligations, the Authority has other cost of removal obligations that are being collected from customers and accounted for under the provisions of GAS Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre November 30, 1989 FASB and AICPA Pronouncements*, paragraphs 476-500. These cost of removal obligations are reflected in deferred inflows of resources in the statements of net position.

Asset retirement obligations (ARO) amounts included in other noncurrent liabilities and cost of removal obligation amounts included in deferred inflows are as follows:

	ARO amounts	Cost of removal obligation
	(In millions)	
Balance – December 31, 2016	$ 53	$ 313
Depreciation Expense	–	14
Other expense	–	3
Balance – December 31, 2017	$ 53	$ 330

(f) *Long-Lived Assets*

The Authority applies GAS No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, 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 impairments. In 2017, the Authority incurred an impairment loss of $73 million, which consisted of $62 million in capital assets and $11 million of equipment in materials and supplies, related to the planned replacement of certain combustion turbine equipment with technically superior upgraded components (see note 5 of notes to the consolidated financial statements).

(g) *Cash, Cash Equivalents and Investments*

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. 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*.

(h) *Derivative Instruments*

The Authority uses financial derivative instruments to manage the impact of energy and capacity price, fuel cost changes and interest rate when applicable, on its earnings and cash flows. The Authority recognizes the fair value of all financial derivative instruments as either an asset or liability on its statements of net position with the offsetting gains or losses recognized in earnings or deferred charges. The Authority applies GAS No. 53, *Accounting and Financial Reporting for Derivative Instruments*, which establishes accounting and reporting requirements for derivative instruments (see Note 8 "Risk Management and Hedging Activities" of the notes to the consolidated financial statements).

(i) *Accounts Receivable*

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

(j) *Materials and Supply Inventory*

Material and supplies are valued at weighted average cost and are charged to expense during the period in which the material or supplies are used.

(k) *Debt Refinancing Charges*

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.*

(l) *Other Long-Term Assets*

Other long-term assets at December 31, 2017 and 2016 consist of the following:

	December 31,	
	2017	**2016**
	(In millions)	
Other long-term assets:		
Regulatory assets (a):		
Recoverable electricity supply market costs	$ 320	$ 277
Risk management activities	–	8
Other regulatory assets	21	26
Total regulatory assets	341	311
Energy efficiency program costs (b)	400	323
Other long-term receivables	291	235
Transmission line interconnection costs	274	292
Other	76	65
Total other long-term assets	$ 1,382	$ 1,226

(a) Regulatory assets reflect previously incurred costs that are expected to be recovered from customers through the ratemaking process.

(b) Energy efficiency program costs will be recovered from certain customers through the terms of contracts.

On October 24, 2017, a Memorandum of Understanding was entered between the Authority and ten investor owned utility companies to provide Hurricane Relief assistance in Puerto Rico. The Authority's deployment cost associated with the assistance efforts are subject to reimbursement by the Emergency Management Assistant Compact (EMAC) program. As of December 31, 2017, the related costs are included in other long-term assets in the consolidated statements of net position.

(m) *Compensated Absences*

The Authority accrues the cost of unused sick leave which is payable upon the retirement of its employees. The Authority has accrued $32 million in other non-current liabilities and $6 million in current liabilities at December 31, 2017 and 2016 on the statements of net position. The current year's cost is accounted for as a current operating expense in the statements of revenues, expenses, and changes in net position.

(n) *Net Position*

Net Position represents the difference between assets plus deferred outflows and liabilities plus deferred inflows and is classified into three components:

a. Net investment in capital assets – This consists of capital assets, net of depreciation reduced by related outstanding debt and accounts. This indicates that these assets are not accessible for other purposes.

b. Restricted – This represents restricted assets reduced by related liabilities and deferred inflows of resources that are not accessible for general use because their use is subject to restrictions enforceable by third parties.

c. Unrestricted – This represents the net amount of assets, deferred outflows of resources, liabilities and deferred inflows of resources that are not included in the components noted above and that are available for general use.

(o) *New York Independent System Operator (NYISO)*

The Power Authority is a member and a customer of the New York Independent System Operator (NYISO). The NYISO schedules the use of the bulk transmission system in the State, which normally includes all the Power Authority's transmission facilities, and collects ancillary services, losses and congestion fees from customers. In addition, the Power 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.

Based upon the Power Authority's scheduled customer power needs and available electricity generated by the Power Authority's operating assets, the Authority buys and sells energy in an electricity market operated by the NYISO. A significant amount of the Power Authority's energy and capacity revenues result from sales of the Power Authority's generation into the NYISO market. A significant amount of the Power Authority's operating expenses consist of various NYISO purchased power charges in combination with generation related fuel expenses.

(p) *Operating Revenues*

The customers served by the Power Authority and the rates paid by such customers vary with the Power Authority facilities designated to serve such loads. These customers are served under contracts and tariffs approved by the Trustees.

The principal operating revenues are generated from the sale, transmission, and wheeling of power. Revenues are recorded when power is delivered or service is provided. Customers' meters are read, and bills

are rendered, monthly. Wheeling charges are for costs the Authority incurred for the transmission and/or delivery of power and energy to customers over transmission lines owned by other utilities. Sales to the Authority's five largest customers operating in the State accounted for approximately 49% and 48% of the Authority's operating revenues in 2017 and 2016, respectively.

In addition to contractual sales to customers, the Power Authority also sells power into an electricity market operated by the NYISO. These sales are affected by market prices and are not subject to rate regulation by the Power Authority's Board of Trustees or other regulatory bodies. Accordingly, the Power Authority does not apply the provisions of GAS Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre November 30, 1989 FASB and AICPA Pronouncements*, paragraphs 476-500 to these transactions.

(q) *Operating Expenses*

The Authority's operating expenses include fuel, operations and maintenance, depreciation, purchased power costs, and other expenses related to the sale of power. Energy costs are charged to expense as incurred.

Purchased power costs include capacity, energy and ancillary service purchases made in the wholesale market on behalf of its customers (except for those made through previously approved purchased power agreements). Wheeling expenses are based on contractual and/or tariff rates of the service provider and are recovered through pass-through provisions in customer contracts.

(r) *Pension Plans*

The Authority is a cost-sharing employer that participates in the New York State and Local Employees' Retirement System (NYSLERS), which is a cost-sharing multiple-employer plan in which the participating government employers pool their assets and their obligations to provide defined benefit pensions. The plan assets of this type of plan can be used to pay the pensions of the retirees of any participating employer. The amounts reported by the Authority for its proportionate share of the net pension liability, pension expense and deferred outflows and deferred inflows have been provided by the New York State and Local Employees' Retirement System to employers participating in the NYSLERS in accordance with Statement No. 68, *Accounting and Financial Reporting for Pensions*, and have been determined on the same basis as reported by the NYSLERS. See Note 10 "Pension Plans" of the notes to the consolidated financial statements.

(s) *New Accounting Pronouncements*

In 2017, GASB issued GAS Statement No. 87 (Statement No. 87), *Leases*, which is effective for reporting periods beginning after December 15, 2019. Statement No. 87 requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows or outflows of resources based on payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right-to-use an underlying asset. Under Statement No. 87, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. The Authority is evaluating the impact of Statement No. 87 on its consolidated financial statements.

In June 2015, GASB issued GAS Statement No. 75 (Statement No. 75), Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions, which is effective for fiscal years beginning after June 15, 2017. This statement requires governments that provide other postemployment benefits (OPEB) to their employees to recognize their unfunded accrued other postemployment benefits (OPEB) obligation in their financial statements. The Authority is evaluating the impact of Statement No. 75 on its consolidated financial statements.

(3) Bond Resolution

On February 24, 1998, the Authority adopted its "General Resolution Authorizing Revenue Obligations" (as amended and supplemented up to the present time, 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.

(4) Cash and Investments

Investment of the Authority's funds is administered in accordance with the applicable provisions of the Bond Resolution and with the Authority's investment guidelines. These guidelines comply with the New York State Comptroller's investment guidelines for public authorities and were adopted pursuant to Section 2925 of the New York Public Authorities Law.

(a) *Credit Risk*

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), Federal Home Loan Bank (FHLB), Federal Farm Credit Bank (FFCB) and Federal Home Loan Mortgage Corp. (FHLMC) were rated Aaa by Moody's Investors Services (Moody's), AAA by Fitch Ratings (Fitch) and AA+ by Standard & Poor's (S&P).

(b) *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.

(c) *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, 2017, the Authority's total investment portfolio of $1,178 million included investments of $379 million (32%), $291 million (25%), $200 million (17%) and $148 million (13%) and $105 million (9%) in securities of FHLB, FNMA, FHLMC and FFCB and other various municipal debt securities, respectively.

At December 31, 2016, the Authority's total investment portfolio of $2,695 million included investments of $406 million (15%), $316 million (12%), $217 million (8%) and $102 million (4%) and $72 million (3%) in securities of FNMA, FHLMC, FHLB and FFCB and other various municipal debt securities, respectively.

(d) *Decommissioning Fund*

The Decommissioning Trust Fund was a fund managed by external investment portfolio managers. Under the Decommissioning Agreements, the Authority made no further contributions to the Decommissioning Funds. The Authority's decommissioning responsibility did not exceed the amounts in each of the Decommissioning Funds. Therefore, the Authority's obligation was not affected by various risks which include credit risk, interest rate risk, and concentration of credit risk. In addition, the Decommissioning Trust Fund was not held within the Trust Estate of the Bond Resolution and therefore was administered under separate investment guidelines from those of the Authority or New York State. The Authority transferred its beneficial interest in the Decommissioning Funds to Entergy on January 30, 2017. See Note 12(c) "Nuclear Plant Divestiture and Related Matters – Nuclear Plant Decommissioning" of notes to the consolidated financial statements.

(e) *Other*

All investments are held by designated custodians in the name of the Authority. The bank balances at December 31, 2017 and 2016 were $58 million and $44 million, respectively, of which $57 million and $43 million, respectively, were uninsured, but were collateralized by assets held by the bank in the name of the Authority. As of December 31, 2016, the Authority had $50 million of investments in repurchase agreements.

Cash and Investments of the Authority at December 31, 2017 and 2016 are as follows:

December 31, 2017	Total	Total restricted	Restricted: Canal Developemnt Fund	Restricted: WNYEDF, POCR, projects and other	Capital fund	Unrestricted
			(In millions)			
Cash and investments:						
Cash and cash equivalents	$ 63	26	8	18	—	37
Other debt securities:						
FNMA	291	2	—	2	—	289
FHLMC	200	30	—	30	11	159
FHLB	379	1	—	1	10	368
FFCB	148	—	—	—	—	148
All other	105	—	—	—	4	101
	1,123	33	—	33	25	1,065
Total investments	1,123	33	—	33	25	1,065
Total cash and investments	$ 1,186	59	8	51	25	1,102
Summary of maturities (years):						
0 – 1	$ 394	59	8	51	25	310
1 – 5	792	—	—	—	—	792
	$ 1,186	59	8	51	25	1,102

Petroleum Overcharge Restitution (POCR) Funds – Legislation enacted into State law from 1995 to 2002, 2007 and 2008 authorized the Authority to utilize petroleum overcharge restitution (POCR) funds and 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 $60.9 million, took place from 1996 to 2009. The POCR funds are included in restricted funds in the statements of net position. The funds are held in a separate escrow account until they are utilized.

As of December 31, 2017, restricted funds include the POCR fund ($9 million), the Lower Manhattan Energy Independence Initiative fund ($6 million) and the Fish & Wildlife Habitat Enhancement fund related to the Niagara relicensing ($13 million), the Western New York Economic Development Fund ($13 million), the Northern New York Economic Development Fund ($3 million) (see Note 13(a) "Commitments and Contingencies – Power Programs") and other ($8 million).

			Restricted			
December 31, 2016	**Total**	**Total restricted**	**Decommiss-ioning Trust Fund**	**WNYEDF, POCR, projects and other**	**Capital fund**	**Unrestricted**
			(In millions)			
Cash and investments:						
Cash and cash equivalents	$ 73	25	—	25	5	43
U.S. government:						
Treasury Notes	5	—	—	—	—	5
GNMA	—	—	—	—	—	—
	5	—	—	—	—	5
Other debt securities:						
FNMA	406	21	—	21	15	370
FHLMC	316	10	—	10	1	305
FHLB	217	—	—	—	10	207
FFCB	102	—	—	—	—	102
All other	72	—	—	—	1	71
	1,113	31	—	31	27	1,055
Portfolio Manager	1,504	1,504	1,504	—	—	—
Total investments	2,622	1,535	1,504	31	27	1,060
Total cash and investments	$ 2,695	1,560	1,504	56	32	1,103
Summary of maturities (years):						
0 – 1	$ 417	56	—	56	31	330
1 – 5	762	—	—	—	—	762
5 – 10	11	—	—	—	—	11
10+	1	—	—	—	1	—
Portfolio manager	1,504	1,504	1,504	—	—	—
	$ 2,695	1,560	1,504	56	32	1,103

As of December 31, 2016, restricted funds include the POCR fund ($9 million), the Lower Manhattan Energy Independence Initiative fund ($6 million) and the Fish & Wildlife Habitat Enhancement fund related to the Niagara relicensing costs ($13 million), the Western New York Economic Development Fund ($20 million), the Northern New York Economic Development Fund ($2 million) (see Note 13(a) "Commitments and Contingencies – Power Programs") and other ($6 million).

(5) Capital Assets

The following schedule summarizes the capital assets activity of the Authority for the year ended December 31, 2017.

	Beginning balance	Additions	Retirements/ Transfers	Ending balance
		(In millions)		
Capital assets, not being depreciated:				
Land	$ 164	—	29	193
Construction in progress	348	271	(54)	565
Total capital assets not being depreciated	512	271	(25)	758
Capital assets, being depreciated:				
Production – Hydro	2,067	34	—	2,101
Production – Gas turbine/combined cycle	2,440	—	(62) (a)	2,378
Transmission	2,163	30	—	2,193
General	1,333	26	(204)	1,155
Canal System	—	14	698	712
Total capital assets being depreciated	8,003	104	432	8,539
Less accumulated depreciation for:				
Production – Hydro	797	35	—	832
Production – Gas turbine/combined cycle	1,082	90	—	1,172
Transmission	1,229	40	—	1,269
General	582	40	(205)	417
Canal System	—	24	141	165
Total accumulated depreciation	3,690	229	(64)	3,855
Net value of capital assets, being depreciated	4,313	(125)	496	4,684
Net value of all capital assets	$ 4,825	146	471	5,442

(a) In 2017, the Authority incurred an impairment loss of $73 million, which consisted of $62 million in capital assets and $11 million of equipment in materials and supplies, related to the replacement of certain combustion turbine equipment with technically superior upgraded components.

The following schedule summarizes the capital assets activity of the Authority for the year ended December 31, 2016.

		Beginning balance	Additions	Retirements/ Transfers	Ending balance
			(In millions)		
Capital assets, not being depreciated:					
Land	$	160	4	—	164
Construction in progress		428	251	(331)	348
Total capital assets not being depreciated		588	255	(331)	512
Capital assets, being depreciated:					
Production – Hydro		2,000	75	(8)	2,067
Production – Gas turbine/combined cycle		2,427	13	—	2,440
Transmission		2,002	167	(6)	2,163
General		1,245	91	(3)	1,333
Total capital assets being depreciated		7,674	346	(17)	8,003
Less accumulated depreciation for:					
Production – Hydro		770	35	(8)	797
Production – Gas turbine/combined cycle		984	98	—	1,082
Transmission		1,186	48	(5)	1,229
General		544	42	(4)	582
Total accumulated depreciation		3,484	223	(17)	3,690
Net value of capital assets, being depreciated		4,190	123	—	4,313
Net value of all capital assets	$	4,778	378	(331)	4,825

(6) Long-Term Debt

a. Components

	Amount 2017	Amount 2016	Interest rate	Maturity		Earliest redemption date prior to maturity
	(In millions)					
Senior debt:						
Revenue Bonds (Tax-Exempt):						
Series 2007 A Revenue Bonds:						
Term Bonds	$ 82	$ 82	4.5% to 5.0%	11/15/2047	**	Any date
Series 2007 C Revenue Bonds:						
Serial Bonds	144	176	4.0% to 5.0%	11/15/2018 to 2021		Any date
Series 2011 A Revenue Bonds:						
Serial Bonds	60	62	3.0% to 5.0%	11/15/2018 to 2031	*	11/15/2021
Term Bonds	39	39	4.0% to 5.0%	11/15/2038	**	11/15/2021
Series 2015 A Revenue Bonds:						
Serial Bonds	43	56	2.0% to 5.0%	11/15/2018 to 2020		N/A
Revenue Bonds (Taxable):						
Series 2003 A Revenue Bonds:						
Term Bonds	163	169	5.230% to 5.749%	11/15/2018 to 2033	**	Any date
Series 2007 B Revenue Bonds:						
Term Bonds	239	239	5.905% to 5.985%	11/15/2037 and 2043	**	Any date
Serial Bonds	—	4	5.603%	11/15/2017		N/A
	770	827				
Plus unamortized premium and discount	16	20				
Less deferred refinancing costs	6	6				
	780	841				
Less due in one year	60	57				
Long-term senior debt, net of due in one year	$ 720	$ 784				

* $26.4 million due 2022 is non-callable.
** Bonds are subject to sinking fund provisions.

	Amount			
	2017	2016	Interest rate	Maturity
	(In millions)			
Subordinate debt:				
Subordinated Notes, Series 2017	25	—	2.61% to 4.27%	2022 to 2041
Subordinated Notes, Series 2012	21	22	1.70% to 4.05%	2018 to 2037
Commercial Paper:				
EMCP (Series 1)	5	5	1.00%	2021
	51	27		
Less due within one year	2	1		
	49	26		
Total Long-term debt	831	868		
Less due within one year	62	58		
Long-term debt, net of due in one year	$ 769	$ 810		

Interest on Series 2003 A and 2007 B Revenue Bonds and Subordinated Notes, Series 2012 and Subordinated Notes, Series 2017 is not excluded from gross income for bondholders' Federal income tax purposes.

Senior Debt

As indicated in Note 3 "Bond Resolution" of notes to the consolidated financial statements, the Authority has pledged future revenues to service the Obligations and Parity Debt (Senior Debt) issued under the Bond Resolution. The total principal and interest remaining to be paid on the Senior Debt is $1,282 billion as of December 31, 2017. Principal and interest paid for 2017 and operating income plus depreciation were $101 million and $480 million, respectively. Principal and interest paid for 2016 and operating income plus depreciation were $187 million and $527 million, respectively.

Senior 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 in the table above, at principal amount or at various redemption prices according to the date of redemption, together with accrued interest to the redemption date.

At December 31, 2017 and 2016, the current market value of the senior debt was approximately $880 million and $933 million, respectively. Market values were obtained from a third party that utilized a matrix-pricing model.

Subordinate Debt:

Subordinate Notes – In November 2016, the Authority's Trustees authorized the issuance of Subordinated Notes, Series 2017 (Subordinated Notes, Series 2017) in a principal amount not to exceed $30 million to accelerate additional funding for the State Parks Greenway Fund, which was established pursuant to the Niagara Relicensing Settlement entered into by the Authority and the New York State Office of Parks, Recreation & Historic Preservation in connection with the Niagara Project's relicensing. The Authority issued the subordinate notes on February 24, 2017 in the amount of $25.2 million. These Subordinated Notes are subordinate to the Series 2003 A Revenue Bonds, the Series 2007 A, B, and C Revenue Bonds, the Series 2011 A Revenue Bonds, and the Series 2015 A Revenue Bonds.

In November 2012, the Authority's Trustees authorized the issuance of Subordinated Notes, Series 2012 (Subordinated Notes, Series 2012), in a principal amount not to exceed $30 million for the purpose of accelerating the funding for the State Parks Greenway Fund, which was established pursuant to the Niagara Relicensing Settlement entered into by the Authority and the New York State Office of Parks, Recreation & Historic Preservation. The Authority issued the Subordinated Notes on December 18, 2012 in the amount of $25 million. These Subordinated Notes are subordinate to the Series 2003 A Revenue Bonds, the Series 2007 A, B, and C Revenue Bonds, the Series 2011 A Revenue Bonds and the Series 2015 A Revenue Bonds.

Commercial Paper – 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 $200 million (EMCP Notes). It is the Authority's intent to remarket the EMCP Notes as they mature with their ultimate retirement in 2021. 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.

Under the Commercial Paper Note Resolution adopted June 28, 1994, as subsequently amended and restated, 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 $400 million (Series 1 CP Notes), $450 million (Series 2 CP Notes), $350 million (Series 3 CP Notes) and $220 million (Series 4 CP Notes). See Note 7 of the notes to the financial statements for Series 1, and certain Series 2 and Series 3 CP Notes designated as short-term debt. There were no Series 4 CP Notes outstanding at December 31, 2017.

The proceeds of certain Series 2 Commercial Paper Notes (CP Notes) were used to refund General Purpose Bonds and the proceeds of the EMCP Notes were used to refund Series 2 and 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 EMCP Notes as they mature.

The Authority has a line of credit under a 2015 revolving credit agreement, as amended (the amended 2015 RCA), with a syndicate of banks, to provide liquidity support for the Series 1-3 CP Notes, under which the Authority may borrow up to $600 million in aggregate principal amount outstanding at any time for certain purposes, including the repayment of the Series 1–3 CP Notes. The amended 2015 RCA terminates January 18, 2019. There are no outstanding borrowings under the amended 2015 RCA.

CP Notes and EMCP Notes are subordinate to the Series 2003 A Revenue Bonds, the Series 2007 A, B, and C Revenue Bonds, the Series 2011 A Revenue Bonds and the Series 2015 A Revenue Bonds.

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

The interest rate used to calculate future interest expense on variable rate debt is the interest rate at December 31, 2017.

Maturities and Interest Expense:	Long-Term Debt (In millions)			Capitalized Lease Obligations (In millions)		
	Principal	**Interest**	**Total**	**Principal**	**Interest**	**Total**
Years ending December 31:						
2018	$ 62	43	105	$ 31	90	121
2019	65	40	105	37	88	125
2020	67	36	103	43	85	128
2021	60	33	93	50	81	131
2022	41	31	72	58	77	135
2023 – 2027	92	133	225	434	294	728
2028 – 2032	139	103	242	492	74	566
2033 – 2037	114	66	180	—	—	—
2038 – 2042	84	39	123	—	—	—
2043 – 2047	97	14	111	—	—	—
	821	538	1,359	1,145	789	1,934
Plus unamortized bond premium	16	—	16	—	—	—
Less deferred refinancing cost	6	—	6	—	—	—
Total	$ 831	538	1,369	$ 1,145	789	1,934

b. Terms by Which Interest Rates Change for Variable Rate Debt

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 the higher of (SIFMA + E) or F, where SIFMA is the Securities Industry and Financial Markets Association Municipal Swap Index, which is calculated weekly, and where “E” and “F” are fixed percentage rates expressed in basis points (each basis point being 1/100 of one percent) and yields, respectively, that are determined based on the Authority’s debt ratings subject to a cap rate of 12%. As of December 31, 2017 the reset rate would have been 7%.

c. *Changes in Noncurrent Liabilities*

Changes in the Authority's noncurrent liabilities for the year ended December 31, 2017 are comprised of the following:

	Beginning balance	Additions	Maturities/ refundings and other	Ending balance	Due within one year
			(In millions)		
Senior debt:					
Revenue bonds	$ 827	—	57	770	60
Subtotal	827	—	57	770	60
Subordinate debt:					
Subordinated Notes, Series 2017	—	25	—	25	1
Subordinated Notes, Series 2012	22	—	1	21	1
Commercial paper	5	—		5	—
Subtotal	27	25	1	51	2
Net unamortized discounts/ premiums and deferred losses	14	—	4	10	—
Total debt, net of unamortized discounts/ premiums/ deferred losses	$ 868	25	62	831	62
Other noncurrent liabilities:					
Capitalized lease obligation	$ 1,144	—	30	1,114	31
Disposal of nuclear fuel	217	2	—	219	—
Relicensing	270	18	38	250	—
Other	227	76	—	303	—
Total other noncurrent liabilities	$ 1,858	96	68	1,886	31

Changes in the Authority's long-term liabilities for the year ended December 31, 2016 are comprised of the following:

	Beginning balance	Additions	Maturities/ refundings and other	Ending balance	Due within one year
			(In millions)		
Senior debt:					
Revenue bonds	$ 882		55	827	57
Adjustable rate tender notes	86	—	86	—	—
Subtotal	968	—	141	827	57
Subordinate debt:					
Subordinated Notes, Series 2012	22	—	—	22	1
Commercial paper	44	—	39	5	—
Subtotal	66	—	39	27	1
Net unamortized discounts/ premiums and deferred losses	18	—	4	14	—
Total debt, net of unamortized discounts/ premiums/ deferred losses	$ 1,052	—	184	868	58
Other noncurrent liabilities:					
Capitalized lease obligation	$ 1,169	—	25	1,144	25
Nuclear decommissioning	1,430	74	1,504	—	1,504
Disposal of nuclear fuel	217	—	—	217	—
Relicensing	270	18	18	270	—
Other	153	155	81	227	—
Total other noncurrent liabilities	$ 3,239	247	1,628	1,858	1,529

(7) Short-Term Debt

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

	December 31,			
	2017		2016	
	Availability	Outstanding	Availability	Outstanding
	(In millions)			
CP Notes (Series 1)	$ 225	$ 175	$ 176	$ 224
CP Notes (Series 2)	162	288	180	270
CP Notes (Series 3)	328	22	328	22

Under the Commercial Paper Note Resolution adopted June 28, 1994, as subsequently amended and restated, 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 $400 million (Series 1 CP Notes), $450 million (Series 2 CP Notes), $350 million (Series 3 CP Notes) and $220 million (Series 4 CP Notes). It had been and shall be the intent of the Authority to use the proceeds of the Series 1 CP Notes and certain Series 2 and Series 3 CP Notes to finance the Authority's current and future energy efficiency programs and for other corporate purposes.

The changes in short-term debt are as follows:

	Beginning balance	Increases	Decreases	Ending balance
	(In millions)			
Year:				
2017	$ 516	83	114	485
2016	$ 528	109	121	516

(8) Risk Management and Hedging Activities

Overview

The Authority purchases insurance coverage for its operations, and in certain instances, is self-insured. Property insurance 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 protects the Authority from third-party liability related to its operations, including general liability, automobile, aircraft, marine and various bonds. Cyber liability insurance protects the Authority against first and third party losses. Insured losses by the Authority did not exceed coverage for any of the four preceding fiscal years. The Authority self-insures a certain amount of its general liability coverage and the physical damage claims for its owned and leased vehicles. The Authority is also self-insured for portions of its medical, dental and workers' compensation insurance programs. The Authority pursues subrogation claims as appropriate against any entities that cause damage to its property.

Another aspect of the Authority's risk management program is to manage risk and related volatility on its earnings and cash flows associated with electric energy prices, fuel prices, electric capacity prices and interest rates. Through its participation in the NYISO and other commodity markets, the Authority is subject to electric energy price, fuel price and electric capacity price risks that impact the revenue and purchased power streams of its facilities and customer market areas. Such volatility can potentially have adverse effects on the Authority's

financial condition. To mitigate potential adverse effects and to moderate cost impacts to its customers (many of the Authority's customer contracts provide for the complete or partial pass-through of these costs), the Authority hedges market risks through the use of financial derivative instruments and/or physical forward contracts. Hedges are transacted by the Authority to mitigate volatility in the cost of energy or related products needed to meet customer needs; to mitigate risk related to the price of energy and related products sold by the Authority; to mitigate risk related to margins (electric sales versus fuel use) where the Authority owns generation or other capacity; and mitigation of geographic cost differentials of energy procured or sold for transmission or transportation to an ultimate location. Commodities to be hedged include, but are not limited to, natural gas, natural gas basis, electric energy, electric capacity and congestion costs associated with the transmission of electricity.

To achieve the Authority's risk management program objectives, the Authority's Trustees have authorized the use of various interest rate, energy, and fuel derivative instruments for hedging purposes that are considered derivatives under GAS No. 53, *Accounting and Financial Reporting for Derivative Instruments* (GAS No. 53).

The fair values of all Authority derivative instruments, as defined by GAS No. 53, are reported in current and noncurrent assets or liabilities on the statements of net position as risk management activities. For designated hedging derivative instruments, changes in the fair values are deferred and classified as deferred outflows or deferred inflows on the statements of net position. For renewable energy derivative instruments, designated as investment derivative instruments, changes in fair value are deferred as regulatory assets or liabilities, as they are recoverable from customers by contractual agreements. The fair value for over-the-counter and exchange-traded energy, renewable energy, natural gas and capacity derivative instruments are determined by the latest end-of-trading-month forward prices over the lifetime of each outstanding energy derivative instrument using the prices published by Standard & Poor's Global Platt's ("Platts") or internal pricing models.

Derivative Instruments

The following table shows the fair value of outstanding derivative instruments for 2017 and 2016:

Derivative instrument description	Fair value balance December 31, 2016	Net change in fair value	Fair value balance December 31, 2017	Type of hedge or transaction	Financial statement classification for changes in fair value	Notional amount December 31, 2017	Unit of Measure
			($ in millions)				
Energy swaps	15	(13)	2	Cash Flow	Deferred inflow	(8,295,604)	MWh
Renewable energy swaps	(8)	8	—	Investment	Regulatory Asset	—	MWh
Energy capacity futures	13	(7)	6	Cash Flow	Deferred inflow	(12,773,000)	KWm
Fuel futures/swaps	2	(2)	—	Cash Flow	Deferred inflow	—	MMBtu
Totals	$ 22	$ (14)	$ 8				

Energy swaps – The Authority has outstanding short-term forward energy swaps to manage the revenue stream of forecasted merchant hydro sales and the cost of forecasted purchased power requirements and transmission congestion for certain business customers through 2020. Net settlement receipts were $40.4 million and $21.6 million in 2017 and 2016, respectively.

Renewable energy swaps – The Authority had outstanding long-term forward energy swaps and purchase agreements based upon a portion of the generation of the counterparties' wind-farm-power-generating facilities through 2017. The fixed price ranged from $74 to $75 per MWh and included the purchase of the related environmental attributes. The intent of the swaps and purchase agreements was to assist certain customers in

acquiring and investing in wind power and related environmental attributes to satisfy certain New York State mandates to support renewable energy. Net settlement payments were $8.3 million and $8.7 million in 2017 and 2016, respectively. The Authority recovered any net settlements through specific contractual agreements with customers.

Energy capacity futures – The Authority has outstanding forward installed capacity futures intended to mitigate the volatility of market prices for transactions in the NYISO markets through 2019. Net settlement receipts were $22.3 million and $5.6 million in 2017 and 2016, respectively.

Fuel futures/swaps – The Authority had outstanding forward natural gas futures, intended to mitigate the volatility of market prices for fuel to operate certain electrical generating facilities in 2017 and 2016 for the benefit of certain of the Authority's customers. Net settlement payments were $ 6.1 and $2.4 million in 2017 and 2016, respectively.

Other – The Authority from time to time enters into certain derivative instruments that may become ineffective as hedging instruments due to changes in the hedged item. The change in fair value of such derivative instruments would be recognized as other nonoperating charges or credits in the statements of revenues, expenses and changes in net position. The fair value of these derivative instruments was insignificant to the Authority's 2017 and 2016 financial statements.

Counterparty Credit Risk

The Authority's policy regarding the creditworthiness of counterparties for interest rate derivative instruments is defined in the Bond Resolution. The policy requires that such counterparties be rated in at least the third highest rating category for each appropriate rating agency maintaining a rating for qualified swap providers at the time the derivative instrument is executed or have a guarantee from another appropriate entity or an opinion from the rating agencies that the underlying bonds or notes will not be downgraded on the derivative instrument alone. The Authority's Board of Trustees has adopted a Policy for the Use of Interest Rate Exchange Agreements which provides the overall framework for delegation of authority; allowable interest rate hedging instruments; counterparty qualifications and diversification as well as reporting standards.

The Authority also imposes thresholds, based upon agency-published credit ratings and/or analysis, for unsecured credit that can be extended to counterparties to the Authority's commodity derivative transactions. The thresholds are established in bilateral credit support agreements with counterparties and require collateralization of market values in excess of the thresholds. In addition, the Authority regularly monitors each counterparty's market-implied credit ratings and financial ratios and the Authority can restrict transactions with counterparties on the basis of that monitoring, even if the applicable unsecured credit threshold is not exceeded.

Based upon the fair values as of December 31, 2017, the Authority's individual or aggregate exposure to derivative instrument counterparty credit risk is not significant.

Other Considerations

The Authority from time to time may be exposed to any of the following risks:

Basis risk – The Authority is exposed to basis risk on its pay-fixed interest rate swaps since it receives variable-rate payments on these hedging derivative instruments based upon indexes which differ from the actual interest rates the Authority pays on its variable-rate debt. The Authority remarkets its Notes at rates that approximate SIFMA and LIBOR after considering other factors such as the Authority's creditworthiness.

The Authority is exposed to other basis risk in a portion of its electrical commodity-based swaps where the electrical commodity swap payments received are based upon a reference price in a NYISO Market Zone that

differs from the Zone in which the hedged electric energy load is forecasted. If the correlation between these Zones' prices should fall, the Authority may incur costs as a result of the hedging derivative instrument's inability to offset the delivery price of the related energy.

Rollover risk – Certain commodity derivative instruments are based upon projected future customer loads or facility operations. Beyond the terms of these derivative instruments, the Authority is subject to the corresponding market volatilities.

Termination risk – The Authority or its counterparties may terminate a derivative instrument agreement if either party fails to perform under the terms of the agreement. The risk that such termination may occur at a time which may be disadvantageous to the Authority has been mitigated by including certain terms in these agreements by which the counterparty has the right to terminate only as a result of certain events, which includes a payment default by the Authority; other Authority defaults which remain uncured within a defined time-frame after notice; bankruptcy or insolvency of the Authority (or similar events); or a downgrade of the Authority's credit rating below investment grade. If at the time of termination the Authority has a liability position, related to its hedging derivative instruments, the Authority would be liable to the counterparty for a payment equal to the liability, subject to netting arrangements.

Market access risk – The Authority remarkets its CP Notes on a continuous basis. Should the market experience a disruption or dislocation, the Authority may be unable to remarket its Notes for a period of time. To mitigate this risk, the Authority has entered into liquidity facilities with highly rated banks to provide loans to support the CP Note programs. See Note 6 "Long-Term Debt" of the notes to the consolidated financial statements.

Dodd Frank Act

The Dodd-Frank Wall Street Reform and Consumer Protection Act (DF Act) addresses, among other things, interest rate and energy related commodity swap transactions of the type in which the Authority engages. The requirements and processes are set forth in regulations promulgated by the Commodities Futures Trading Commission (CFTC). Pursuant to CFTC rules, the Authority, as a public entity and electric utility which uses swaps solely to manage its risk, is exempted from posting collateral beyond that of any existing credit support annexes in support of its open over-the-counter hedge positions. These CFTC rules are not anticipated to have significant impact on the Authority's liquidity and/or future risk mitigation activities. CFTC DF Act rules are still being promulgated, and the Authority will continue to monitor their potential impact on the Authority's liquidity and/or future risk mitigation activities.

(9) Fair Value Measurements

The Authority adopted GAS Statement No. 72, *Fair Value Measurement and Application* during the year ended December 31, 2016 (GAS No. 72). GAS No. 72 provides guidance for determining fair value measurements and requires disclosures to be made about fair value measurements, the level of fair value hierarchy, and valuation techniques for certain assets and liabilities. The implementation of this standard does not have a material effect on the Authority's reporting as the fair value measurement is already maintained by the Authority. The Authority's investments and derivatives are recorded at fair value as of December 31, 2017 and 2016.

GAS No. 72 establishes a hierarchy of valuation inputs based on the extent to which the inputs are observable in the marketplace. Inputs are used in applying the various valuation techniques and take into account the assumptions that market participants use to make valuation decisions. Inputs may include price information, credit data, interest and yield curve data, and other factors specific to the financial instrument. Observable inputs reflect market data obtained from independent sources. In contrast, unobservable inputs reflect the entity's assumptions about how market participants would value the financial instrument.

The fair value hierarchy prioritizes the inputs used to measure fair value into three broad Levels (Levels 1, 2, and 3), moving from quoted prices in active markets in Level 1 to unobservable inputs in Level 3. A financial instrument's level within the fair value hierarchy (where Level 1 is the highest and Level 3 is the lowest) is based on the lowest level of any input that is significant to the fair value measurement. The categorization of a financial instrument within the hierarchy is based upon pricing transparency and is not necessarily an indication of the Authority's perceived risk of that instrument.

The following describes the hierarchy of inputs used to measure fair value and the primary valuation methodologies used for financial instruments measured at fair value on a recurring basis:

- Level 1 – quoted prices for identical assets or liabilities in active markets that a government can access at the measurement date.
- Level 2 - quoted prices other than quoted prices included within Level 1 and other inputs that are observable for an asset or liability, either directly or indirectly.
- Level 3 – pricing inputs are unobservable for the asset or liability and may rely on inputs using the best available data under the circumstances, including the government's own data.

The following describes the valuation methodologies used for assets and liabilities measured at fair value:

- U.S. government obligations – The fair value is based on institutional bond quotes and evaluations based on various market data/inputs.
- U.S. government agencies and instrumentalities – The fair value of government agencies and instrumentalities are based on institutional bond quotes and evaluations based on various market and industry inputs.
- Corporate obligations – The fair value is based on institutional bond quotes and evaluations on various market and industry inputs.
- Common trust fund – Effective January 30, 2017, the Authority transferred its beneficial interest in the Decommissioning Funds to Entergy (see Note 12(c) "Nuclear Plant Divestiture and Related Matters – Nuclear Plant Decommissioning" of notes to the consolidated financial statements). As of December 31, 2016, the common trust fund represented the Nuclear Decommissioning Trust Fund (see Note 4(d) "Cash and Investments – Decommissioning Fund" of notes to the consolidated financial statements). The fair value of the common trust fund as of December 31, 2016, was primarily derived from the quoted prices in active markets on the underlying securities. The trust fund is a balance account that invests in a mix of asset classes, either directly through purchases of debt and equity securities, exchange-traded funds, and other collective funds.
- Derivative instruments – The Authority hedges market risks through the use of financial derivative instruments. Derivative instruments are traded on both exchange-based and non-exchange based markets. A detail disclosure on derivatives is included in Note 8 "Risk Management and Hedging Activities" of notes to the consolidated financial statements.
    - The fair values for over-the-counter and exchange-traded energy, renewable energy, natural gas and natural gas transportation derivative instruments are determined by the latest end-of-trading-month forward prices over the lifetime of each outstanding derivative instrument using prices published by Platts.

- The fair value for capacity derivative instruments is based on internal pricing models which develop a demand curve for the NYISO monthly spot market capacity auctions. Capacity reference points are observed from the NYISO filing with FERC. Peak load forecast are observed in the NYISO's Gold Book and PSC's publications.

The following tables summarize the Authority's assets and liabilities within the fair value hierarchy at December 31, 2017 and December 31, 2016:

	Fair Value Measurements (in millions)			
December 31, 2017	**Total**	**Level 1**	**Level 2**	**Level 3**
Assets				
Cash and cash equivalents	$ 63	$ 63	$ -	$ -
Federal Agency securities:				
FNMA	291	-	291	-
FHLMC	200	-	200	-
FHLB	379	-	379	-
FFCB	148	-	148	-
Municipal Bonds	102	-	102	-
All other	3	-	-	3
Total cash and investments at fair value	1,186	63	1,120	3
Derivative instruments:(a)				
Energy swaps	2	-	2	-
Energy capacity futures	6	-	-	6
Total derivatives assets at fair value	8	-	2	6
Total Assets at Fair Value	$ 1,194	$ 63	$ 1,122	$ 9

	Fair Value Measurements (in millions)			
December 31, 2016	**Total**	**Level 1**	**Level 2**	**Level 3**
Assets				
Cash and cash equivalents	$ 73	$ 73	$ -	$ -
U.S. government:				
US Treasury Notes	5	5	-	-
Federal Agency securities:				
FNMA	406	-	406	-
FHLMC	316	-	316	-
FHLB	217	-	217	-
FFCB	102	-	102	-
Municipal Bonds	68	-	68	-
All other	4	-	-	4
Common trust fund	1,504	-	1,504	-
Total cash and investments at fair value	2,695	78	2,613	4
Derivative instruments:(a)				
Energy/Electric - swaps	15	-	15	-
Energy capacity futures	13	-	-	13
Fuel futures/swaps	2	-	2	-
Total derivatives assets at fair value	30	-	17	13
Total Assets at Fair Value	$ 2,725	$ 78	$ 2,630	$ 17
Liabilities				
Derivative instruments:(a)				
Renewal energy swaps	$ 8	$ -	$ 8	$ -
Total derivative liability at fair value	8	-	8	-
Total Liabilities at Fair Value	$ 8	$ -	$ 8	$ -

(a) The accounting rules for fair value measurements and disclosures require consideration of the impact of nonperformance risk (including credit risk) from a market participant perspective in the measurement of the fair value of assets and liabilities. At December 31, 2017 and 2016, the Authority determined that nonperformance risk would have no material impact on the financial position or results of operations.

(10) Pension Plans

General Information

The Authority and substantially all of the Authority's employees participate in the New York State and Local Employees' Retirement System (NYSLERS) and the Public Employees' Group Life Insurance Plan (the Plan). These are cost-sharing multiple-employer defined benefit retirement plans.

The NYSLERS uses a tier concept to distinguish membership classes (i.e. tiers 1 through 6) with tier membership based on the date an employee joins the System. The ERS is non-contributory for tiers 1 and 2 employees who joined the NYSLERS on or prior to July 27, 1976. Tiers 3 and 4 employees, who joined the NYSLERS between July 28, 1976 and December 31, 2009 and have less than ten years of service, contribute 3% of their salary. Tier 5 employees who joined the NYSLERS on or after January 1, 2010 contribute 3% of their salary during their entire length of service. Tier 6 employees who joined the NYSLERS on or after April 1, 2013 contribute 3% of their salary through March 31, 2013 and up to 6% thereafter, based on their annual salary, during their entire length of service. Members become vested in the plan after ten years of service and generally are eligible to receive benefits at age 55. The benefit is generally 1.67 percent of final average salary (FAS) times the number of years of service, for members who retire with less than 20 years of service, and 2 percent of FAS for members who retiree with 20 or more years of service. The NYSLERS provides an annual automatic cost of living adjustment to members or surviving spouses based on certain eligibility criteria.

The NYSLERS and the Plan provide retirement benefits as well as death and disability benefits. Obligations of employers and employees to contribute and benefits to employees are governed by the New York State Retirement and Social Security Law (NYSRSSL). As set forth in the NYSRSSL, the Comptroller of the State of New York (Comptroller) serves as sole trustee and administrative head of the NYSLERS and the Plan. The Comptroller adopts and may amend rules and regulations for the administration and transaction of the business of the NYSLERS and the Plan, and for the custody and control of their funds. Under the authority of the NYSRSSL, the Comptroller shall certify annually the rates expressed as proportions of payroll of members, which shall be used in computing the contributions required to be made by employers.

The Authority is required to contribute at an actuarially determined rate. The average contribution rate relative to payroll for the NYSLERS fiscal year ended March 31, 2017 was 15%. The average contribution rates relative to payroll for the NYSLERS fiscal years ending March 31, 2018 and 2019 have been set at approximately 15% for both years. The required contributions for 2017 and 2016 were $28 million and $24 million, respectively. The Authority's contributions to the NYSLERS were equal to 100% of the required contributions for each year.

The NYSLERS and the Plan issue a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the New York State and Local Employees' Retirement System, 110 State Street, Albany, NY 12244 or may be found on the internet at www.osc.state.ny.us/retire/publications/index.php.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At December 31, 2017, the Authority reported a liability of $68 million for its proportionate share of the net pension liability. The NYSLERS total pension liability, which was used to calculate the NYSLERS net pension liability, was determined by the NYSLERS actuarial valuation as of March 31, 2017 (measurement date). The Authority's proportion of the net pension liability was based on a projection of the Authority's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. At March 31, 2017, the Authority's proportion percentage (0.637%) of the net pension liability changed slightly compared to its proportion measured as of March 31, 2016 (0.595%). The Canal Corporation's proportionate share was 0.08% as of March 31, 2017.

For the year ended December 31, 2017 and 2016, the Authority recognized pension expense of $38 million and $34 million, respectively. At December 31, 2017, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows	Deferred Inflows
	(In millions)	
Difference between expected and actual experience	$ 2	$ 10
Net difference between projected and actual earnings on investments	13	–
Change of assumptions	23	–
Net difference between employer contributions and proportionate share of contributions	–	–
Employer contributions subsequent to the measurement date	28	–
Total	$ 66	$ 10

The $28 million reported as deferred outflows of resources related to pensions resulting from the Authority's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2018. The other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows (in millions):

Year ending December 31,	
2018	$ 13
2019	13
2020	12
2021	(10)
Total	$ 28

Actuarial Assumptions

The NYSLERS total pension liability at March 31, 2017 was determined by using the NYSLERS actuarial valuation as of April 1, 2016 with updated procedures to roll forward the NYSLERS total pension liability to March 31, 2017. The following actuarial assumptions were used for the April 1, 2016 NYSLERS actuarial valuation:

Actuarial cost method:	Entry age normal
Inflation rate:	2.5%
Salary increases:	3.8% annually
Investment rate of return:	7.0% compounded annually, net of investment
Cost of living adjustments:	1.3 % annually

The NYSLERS Annuitant mortality rates are based on April 1, 2010 – March 31, 2015 NYSLERS experience with adjustments for mortality improvements based on the Society of Actuaries' Scale MP-2014. The actuarial assumptions used in the April 1, 2016 valuation are based on the results of an actuarial experience study for the period April 1, 2010 – March 31, 2015.

The NYSLERS long term expected rate of return on pension plan investments was determined using a building block method in which best estimate ranges of expected future real rates of return (expected returns net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the target asset allocation as of March 31, 2017 are summarized below.

Long-Term Expected Rate of Return

Asset Type	Target Allocation	Long-term Expected Real Rate
Domestic Equity	36%	4.55%
International Equity	14	6.35
Private Equity	10	7.75
Real Estate	10	5.80
Absolute Return	2	4.00
Opportunistic Portfolio	3	5.89
Real Asset	3	5.54
Bonds and Mortgages	17	1.31
Cash	1	(0.25)
Inflation Indexed Bonds	4	1.50
	100%	

Discount Rate

The NYSLERS discount rate used to calculate the total pension liability for the March 31, 2017 and 2016 measurement date was 7.0%. The projection of cash flows used to determine the discount rate assumes that contributions from plan members will be made at the current contribution rates and that contributions from employers will be made at statutorily required rates, actuarially. Based upon the assumptions, the NYSLERS fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore the long term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the Authority's proportionate share of the net pension liability calculated using the discount rate of 7.0 percent, as well as what the Authority's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.0 percent) or one percentage point higher (8.0 percent) than the current rate:

	1% Decrease	Current Assumption	1% Increase
Discount rate	6.0%	7.0%	8.0%
The Authority's proportionate share of the net pension liability (asset)	$ 215 million	$ 67 million	$ (58) million

The NYSLERS actuary has not recommended any future changes to the actuarial assumptions used in the NYSLERS April 1, 2016 actuarial valuation.

(11) Other Postemployment Benefits, Deferred Compensation and Savings

(a) *Other Postemployment Benefits (OPEB)*

Power Authority — The Power Authority provides certain health care and life insurance benefits for eligible retired employees and their dependents under a single employer noncontributory (except for certain optional life insurance coverage) health care plan. Employees and/or their dependents become eligible for these benefits when the employee has at least 10 years of service and retires or dies while working at the Power Authority. Salaried employees hired after December 31, 2015 and IBEW employees hired after October 15, 2015, become eligible after 15 years of service. In addition, they will be required to contribute 50% of the active plan contribution. Approximately 4,600 participants, including 1,800 current employees and 2,800 retired employees and/or spouses and dependents of retired employees, were eligible to receive these benefits at December 31, 2017. The Power Authority's post-retirement health care trust does not issue a stand-alone financial report.

The Power Authority has an established trust for OPEB obligations (OPEB Trust), with the trust to be held by an independent custodian. Plan members are not required to contribute to the OPEB Trust. The funding of the Power Authority's annual OPEB contribution is at the discretion of management as approved by the Board of Trustees. The retirees' health plan was 90% funded as of December 31, 2017 and 81% funded as of the Power Authority's most recent actuarial valuation date January 1, 2016. The Power Authority made no contributions in 2017 and 2016 to the OPEB Trust.

The net OPEB asset of $40 million is reported in miscellaneous receivables current in the statements of net position at December 31, 2017. The net OPEB asset of $58 million, which consists of $15 million current assets and $43 million noncurrent assets, is reported in miscellaneous receivables and other and other long-term assets, respectively, in the statements of net position at December 31, 2016.

The Power Authority's annual OPEB cost for 2017 was $40 million, which is reflected as an operations expense in the statements of revenues, expenses, and changes in net position. The Power Authority's annual OPEB cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GAS No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. As indicated herein, the Power Authority uses a 20-year amortization period.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits. The Power Authority's most recent actuarial valuation was performed as of January 1, 2016 and resulted in an actuarial accrued liability of $600 million which was funded with assets totaling $483 million indicating that the Authority's retiree health plan was 81% funded as of the valuation date. As of December 31, 2017 and 2016, the balance in the OPEB Trust was $603 million and $517 million, respectively, and the actuarial accrued liability was $671 million and $632 million, respectively.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of

each valuation. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. In the 2016 actuarial valuation, the projected unit credit actuarial cost method was used with benefits attributed to full eligibility. The actuarial assumptions included a 7% investment rate of return (net of administrative expenses) and an annual healthcare cost trend rate of approximately 7.5 % (net of administrative expenses), including inflation, declining approximately 1/4% each year to an ultimate trend rate of approximately 4.5%. Both the cost trend rate and the ultimate trend rate include a 3% inflation assumption. The Power Authority amortizes actuarial gains and losses over an open 20-year period while continuing to amortize its initial unfunded accrued liability over a closed 20-year period.

Canal Corporation — The Canal Corporation provides health care and death benefits for eligible retired employees. Substantially all employees may become eligible for these benefits if they reach normal retirement age while working for the Canal Corporation. The Canal Corporation participates, pursuant to the provision of Section 163(4) of the New York State Civil Service Law, in the New York State health Insurance Program (NYSHIP), an Agent Multiple-Employer plan. NYSHIP is administered through the Department of Civil Service. NYSHIP does not issue a standalone financial report since there are no assets legally segregated for the sole purpose of paying benefits under the plan.

To be eligible an employee must (1) retiree as a member of NYSHIP, or be at least 55 years old at time of termination; (2) be enrolled in the NYSHIP on date of retirement; and (3) complete at least 5 years of service for the retiree and dependent to have coverage while the employee is living. Ten years of service are needed for continued dependent coverage upon death of the employee. The Plan currently pays a portion of the medical premium cost for retired employees and covered dependents. Additionally, the Plan reimburses retirees and covered dependents for their Medicare Part B premiums. Approximately 850 participants, including 430 current employees and 420 retired employees and/or spouses and dependents of retired employees, were eligible to receive these benefits at December 31, 2017.

The Canal Corporation's OPEB costs of $17 million is included as an operations expense in the consolidated statements of revenues, expenses, and changes in net position for the year ended December 31, 2017. The Canal Corporation's net OPEB obligation of $103 million is recorded in the Authority's statements of net position in other long-term liabilities. As of December 31, 2017, the Canal Corporation's unfunded actuarial accrued liability was $240 million.

The following table shows the components of the Authority's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the Authority's net OPEB obligation.

	2017			2016
	NYPA	Canal	Total	NYPA
	(In millions)			
Annual OPEB cost:				
Annual required contribution (ARC):				
Normal cost	$ 16	$ 9	$ 25	$ 15
Amortization payment	17	9	26	18
Total	33	18	51	33
ARC adjustment	12	(4)	8	11
Interest on net OPEB obligation	(5)	3	(2)	(5)
Annual OPEB cost	$ 40	$ 17	$ 57	$ 39
Net OPEB obligation:				
Net OPEB (asset) obligation at beginning of fiscal year	$ (58)	$ 91	$ 33	$ (73)
Annual OPEB cost	40	17	57	39
Employer contribution:				
Benefit payments for retirees during the year	(22)	(5)	(27)	(24)
Total employer contribution	(22)	(5)	(27)	(24)
Net OPEB (asset) obligation at end of fiscal year	$ (40)	$ 103	$ 63	$ (58)

(b) *Deferred Compensation and Savings Plans*

The Power 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 Power 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 Power Authority matches contributions of employees up to limits specified in the plan. Matching annual contributions were approximately $3.3 million and $3.1 million for 2017 and 2016, respectively.

Both the deferred compensation plan and the savings plan have a loan feature.

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 nonunion employees and a committee of nonunion 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.

(12) Nuclear Plant Divestiture and Related Matters

(a) *Nuclear Plant Divestiture*

On November 21, 2000, the Power Authority sold the James A. Fitzpatrick nuclear plant (JAF) and the Indian Point 3 nuclear plant (IP3) to two subsidiaries of Entergy Corporation (collectively, Entergy or the Entergy Subsidiaries).

(b) *Nuclear Fuel Disposal*

In accordance with the Nuclear Waste Policy Act of 1982, in June 1983, the Power 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 Power Authority's contract with the DOE was assigned to Entergy. The Power Authority remains liable to Entergy for the pre-1983 spent fuel obligation (see Note 13(e) "Commitments and Contingencies – New York State Budget and Other Matters" relating to a temporary transfer of such funds to the State). As of December 31, 2017 and 2016, the liability to Entergy totaled $219 million and $217 million, respectively.

(c) *Nuclear Plant Decommissioning*

In connection with the Power Authority's sale of the nuclear plants, the Power Authority entered into a Decommissioning Agreement with each of the Entergy Subsidiaries relating to the responsibility for decommissioning the JAF and IP3 nuclear plants (Decommissioning Agreements). The Decommissioning Agreements contained provisions dealing with the decommissioning funds (Decommissioning Funds), which were maintained by the Power Authority under a master decommissioning trust agreement, as well as certain rights and obligations with respect to decommissioning of the plants.

In August 2016, the Power Authority entered into certain agreements with Entergy Nuclear Operations, Inc. and the Entergy Subsidiaries related to the proposed sale of JAF by Entergy to Exelon Generation Company, LLC. Such agreements provided for the transfer, subject to approval by the Nuclear Regulatory Commission (NRC), from the Power Authority to Entergy of the beneficial interest in the Decommissioning Funds relating to JAF and IP3, as well as all remaining nuclear decommissioning financial obligations under the Decommissioning Agreements,. The Power Authority remains liable for the pre-1983 spent fuel obligation described in Note 12(b) "Nuclear Plant Divestiture and Related Matters – Nuclear Fuel Disposal" above. In addition, the Authority provided a standby letter of credit to Entergy Nuclear Fitzpatrick, LLC in the amount of $35 million, which may be drawn upon by the beneficiary upon certain conditions. The letter of credit was undrawn and terminated in January 2017.

On January 30, 2017, following the issuance of an NRC order approving the transfer, the Power Authority transferred its beneficial interest in the Decommissioning Funds to Entergy. On the transfer date, the Decommissioning Funds had a market value of approximately $1.519 billion.

(13) Commitments and Contingencies

(a) *Power Programs*

Recharge New York Power Program

Chapter 60 (Part CC) of the Laws of 2011 (Chapter 60) established the "Recharge New York Power Program" (RNYPP), administered by the Authority, which has as its central benefit up to 910 MW of low cost power comprised of up to 455 MW of hydropower from the Niagara and St. Lawrence-FDR Projects and up to 455 MW of other power procured by the Authority from other sources. The 910 MW of power is

available for allocation as provided by Chapter 60 to eligible new and existing businesses and not-for-profit corporations under contracts of up to seven years. RNYPP was effective beginning July 1, 2012.

The RNYPP replaced two other programs, the Power for Jobs (PFJ) and Energy Cost Savings Benefit (ECSB) Programs, which had extended benefits of low-cost power to certain businesses, small businesses and not-for-profit organizations. Those PFJ and ECSB Program customers who were in substantial compliance with contractual commitments under the PFJ and ECSB Programs and who applied but did not receive RNYPP allocations are eligible to apply for transitional electricity discounts, as provided for in Chapter 60. This transitional electricity discounts program provided for declining levels of discounts through June 30, 2016, when the program terminated, if payment of such discounts was deemed feasible and advisable by the Authority's Trustees. As of December 31, 2017, the Authority's Trustees have authorized transitional electricity discount payments of up to $20 million for the period from July 1, 2012 and June 30, 2016. As of December 31, 2017, approximately $12 million of such discounts have been paid with approximately an additional $2 million in payments remaining to be made.

The hydropower used for the RNYPP was power formerly used to provide low-cost electricity to domestic and rural customers of the three private utilities that serve upstate New York. To mitigate the impacts from the redeployment of this hydropower for the RNYPP, Chapter 60 created a "Residential Consumer Discount Program" (RCDP). The RCDP authorizes the Authority, as deemed feasible and advisable by its Trustees, to provide annual funding of $100 million for the first three years following withdrawal of the hydropower from the residential and farm customers, $70 million for the fourth year, $50 million for the fifth year, and $30 million each year thereafter, for the purpose of funding a residential consumer discount program for those customers that had formerly received the hydropower that is utilized in the RNYPP. Chapter 60 further authorizes the Authority, as deemed feasible and advisable by the Trustees, to use revenues from the sales of hydroelectric power, and such other funds of the Authority, as deemed feasible and advisable by the Trustees, to fund the RCDP. The Authority's Trustees have authorized the release of a total $504 million through December 2017 in support of the RCDP. The Authority supplemented the market revenues through the use of internal funds, from the August 2011 start of the program through December 31, 2017, totaling cumulatively $90 million. Operations and maintenance expenses included $30 million and $43 million of residential consumer discounts in the years ended December 31, 2017 and 2016, respectively.

Western New York Power Proceeds Allocation Act

Effective March 30, 2012, Chapter 58 (Part GG) of the Laws of 2012 (Chapter 58) created the Western New York Power Proceeds Act (WNYPPA). The WNYPPA authorizes the Authority, as deemed feasible and advisable by the Trustees, to deposit net earnings from the sale of unallocated Expansion Power and Replacement Power from the Authority's Niagara project into an account administered by the Authority known as the Western New York Economic Development Fund (WNYED Fund). Net earnings are defined as any excess revenues earned from such power sold into the wholesale market over the revenues that would have been received had the power been sold at the Expansion Power and Replacement Power rates. Proceeds from the Fund may be used to support eligible projects undertaken within a 30-mile radius of the Niagara power project that satisfy applicable criteria. Chapter 58 also establishes a five-member Western New York Power Allocations Board, which is appointed by the Governor. Chapter 58 also repealed Chapter 436 of the Laws of 2010 which had created a similar program that could not be effectively implemented.

The Authority's Trustees have approved the release of up to $62 million in net earnings, calculated for the period August 30, 2010 through December 31, 2017 as provided in the legislation, for deposit into the Fund. As of December 31, 2017, $42 million has been deposited into the Fund. As of December 31, 2017, the Authority has approved awards of Fund money totaling approximately $35 million to businesses that have proposed eligible projects and has made payments totaling $29 million to such businesses. Payment of these awards is contingent upon the execution of acceptable contracts between the Authority and individual awardees.

Northern New York Power Proceeds Allocation Act

Chapter 545 of the Laws of 2014 enacted the "Northern New York Power Proceeds Act" (NNYPPA). The NNYPPA authorizes the Authority, as deemed feasible and advisable by the Trustees, to deposit "net earnings" from the sale of unallocated St. Lawrence County Economic Development Power (SLCEDP) by the Authority in the wholesale energy market into an account the Authority would administer known as the Northern New York Economic Development Fund (NNYED Fund), and to make awards to eligible applicants that propose eligible projects that satisfy applicable criteria. The NNYPPA also establishes a five-member Northern New York Power Allocations Board appointed by the Governor to review applications seeking NNY Fund benefits and to make recommendations to the Authority concerning benefits awards.

SLCEDP consists of up to 20 MW of hydropower from the Authority's St. Lawrence-FDR Power Project which the Authority has made available for sale to the Town of Massena Electric Department ("MED") for MED to sub-allocate for economic development purposes in accordance with a contract between the parties entered into in 2012 (Authority-MED Contract). The NNYPPA defines "net earnings" as the aggregate excess of revenues received by the Authority from the sale of energy associated with SLCEDP by the Authority in the wholesale energy market over what revenues would have been received had such energy been sold to MED on a firm basis under the terms of the Authority-MED contract. For the first 5 years after enactment, the amount of SLCEDP the Authority could use to generate net earnings may not exceed the lesser of 20 MW or the amount of SLCEDP that has not been allocated by the Authority pursuant to the Authority-MED contract. Thereafter, the amount of SLCEDP that the Authority could use for such purpose may not exceed the lesser of 10 MW or the amount of SLCEDP that has not been allocated.

As of December 31, 2017, the Authority's Trustees approved the release of funds, of up to $10 million, into the NNYED Fund representing "net earnings" from the sale of unallocated SLCEDP into the wholesale energy market for the period December 29, 2014 through December 31, 2017. As of December 31, 2017, approximately $3 million has been deposited into the Fund. Payment of approved awards of the NNYED Fund money is contingent upon the execution of acceptable contracts between the Authority and individual awardees.

(b) *Governmental Customers in the New York City Metropolitan Area*

In 2005, the Authority and its eleven 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, entered into long-term supplemental electricity supply agreements (2005 LTAs) with a term through December 31, 2017. Under the 2005 LTAs, the NYC Governmental Customers agreed to purchase their electricity from the Authority through December 31, 2017.

Under the 2005 LTAs, the Authority and the NYC Governmental Customers modified rates through an annual process based on cost of service principles.

In early 2018, the Authority executed new supplemental long-term electricity supply agreements (2018 LTAs) with nine of its eleven NYC Governmental Customers. Negotiations are ongoing with the remaining two NYC Governmental Customers.

Under the 2018 LTAs, effective January 1, 2018, the NYC Governmental Customers who have signed on have agreed to purchase their electricity from the Authority through December 31, 2027, with the NYC Governmental Customers having the right to (1) terminate at any time upon at least 12 months' notice or (2) terminate effective December 31, 2022 upon at least 6 months' notice. Under the 2018 LTAs, fixed costs were set for each customer and are subject to renegotiation after five years. Variable costs, including fuel,

purchased power and NYISO related costs, will be passed through to each customer by an energy charge adjustment.

The Authority's other Southeastern New York (SENY) Governmental Customers are Westchester County and numerous municipalities, school districts, and other public agencies located in Westchester County (collectively, the "Westchester Governmental Customers"). The Authority has entered a supplemental electricity supply agreement with all 103 Westchester Governmental Customers. Among other things, under the agreement, an energy charge adjustment mechanism is applicable, and customers are allowed to partially terminate service from the Authority on at least two months' notice prior to the start of the NYISO capability periods. Full termination is allowed on at least one year's notice, effective no sooner than January 1 following the one year notice.

In anticipation of the closure of the Authority's Poletti plant in 2010, the Authority, in 2007, issued a nonbinding request for proposals for up to 500 MW of in-city unforced capacity and optional energy to serve the needs of its NYC Governmental Customers. This process, which included approval of the NYC Governmental Customers, resulted in a long-term electricity supply contract in 2008 between the Authority and Astoria Energy II LLC for the purchase of the output of Astoria Energy II, a new 550-MW plant, which was constructed and entered into commercial operation on July 1, 2011 in Astoria, Queens. The costs associated with the contract will be borne by these customers for the life of the Astoria Energy II contract. The Authority is accounting for and reporting this lease transaction as a capital lease in the amount of $1,145 billion as of December 31, 2017, which reflects the present value of the monthly portion of lease payments allocated to real and personal property. The balance of the monthly lease payments represents the portion of the monthly lease payment allocated to operations and maintenance costs which are recorded monthly. Fuel for the plant is provided by the Authority and the costs thereof are being recovered from the NYC Governmental Customers.

HTP Transmission Line

In 2011, the Trustees authorized Authority staff to enter into an agreement with Hudson Transmission Partners, LLC (HTP) for the purchase of capacity to meet the long-term requirements of the Authority's NYC Governmental Customers and to improve the transmission infrastructure serving New York City through the transmission rights associated with HTP's transmission line (the Line) extending from Bergen County, New Jersey in the PJM Interconnection, LLC (PJM) transmission system, to Consolidated Edison Company of New York, Inc.'s (Con Edison) West 49th Street substation in the NYISO. Specifically, the Authority executed a Firm Transmission Capacity Purchase Agreement (FTCPA) with HTP which would have entitled the Authority to 75% of the Line's 660 MW capacity, or 495 MW, for 20 years. The Authority's capacity payment obligations under the FTCPA began upon the Line's commencement of commercial operation, which occurred on June 3, 2013. Also upon commercial operation, the FTCPA obligates the Authority to reimburse HTP for the cost of interconnection and transmission upgrades in New York and New Jersey associated with the Line and to pay for all remaining upgrade costs as they are incurred. Such interconnection and transmission upgrades have been completed. As of December 31, 2017, the Authority paid approximately $336 million of such costs related to the interconnection and transmission upgrades. The Authority's obligations under the FTCPA also include payment of the Regional Transmission Enhancement Plan (RTEP) charges allocated to HTP in accordance with the PJM tariff. Such RTEP costs are significant and are discussed below.

It is estimated that the revenues derived from the Authority's rights under the FTCPA will not be sufficient to fully cover the Authority's costs under the FTCPA during the 20-year term of the FTCPA. In December 2017, the Authority estimated that its under-recovery of costs under the FTCPA could be in the range of approximately $84 million to $92 million per year over the next five years. The under-recovery estimates were based on projections of the capacity payment obligations, the costs of interconnection and transmission upgrades, and energy and capacity revenues.

PJM's RTEP cost allocation methodology for certain upgrades, such as the Bergen-Linden Corridor (BLC) project built by Public Service Electric & Gas Company (PSE&G) in New Jersey, is being challenged at FERC in numerous proceedings by Con Edison, the Authority, HTP and other parties on the grounds that PJM has disproportionately allocated the costs of those projects to those parties. In a separate FERC proceeding, the Authority challenged the RTEP share of the BLC project costs allocated to HTP that were effective May 1, 2017 as a result of Con Edison's termination of its PJM firm transmission rights. The cost allocations shifted approximately $533 million in RTEP charges for the BLC project that had previously been allocated to Con Edison to HTP. Such costs are in addition to the $111 million in RTEP charges for the BLC project that had been previously allocated to HTP. RTEP costs relating to the BLC project would be paid over a number of years after construction commenced in 2017. Phase I of the BLC project June 2016, Phase II was completed in the spring of 2017 and Phase III is scheduled to be completed in June 2018.

From June 2013 through December 2017, the Authority has paid approximately $90 million in RTEP charges for the Line, including the BLC project. The Authority believes that based on the FERC Order dated December 15, 2017 permitting HTP to relinquish its firm rights on the HTP Line, coupled with corresponding PJM updates to its cost allocations for 2018, RTEP charges should not be imposed on the Authority from 2018 onward. However, the December 15, 2017 order has been challenged by various PJM transmission owners and the New Jersey Board of Public Utilities ("NJBPU"). Moreover, the NJBPU filed a complaint at FERC on December 22, 2017 regarding the regional cost allocation treatment affecting PJM and NYISO.

On March 31, 2017, the Authority and HTP executed an amendment to the FTCPA. In exchange for the Authority extending the cure period for HTP to replace underwater cables that have been subject to failure and which have resulted in the Line being out of service, under the amended FTCPA the Authority will receive: (1) rights to direct HTP to take necessary actions to withdraw, cancel or terminate the 320 MW of Firm Transmission Withdrawal Rights (FTWRs), which form the basis for the RTEP cost allocations to HTP, to eliminate future RTEP costs; (2) rights to direct HTP to later reapply for and reacquire these FTWRs on the Authority's behalf; (3) guarantee that if PJM RTEP assessments cannot be eliminated despite HTP's efforts to withdraw, cancel or terminate the FTWRs, that HTP will cancel its interconnection service agreement (ISA) to physically disconnect the Line from the PJM transmission system, causing termination of all RTEP allocations; (4) based upon RTEP costs already paid, an immediate $40 million increase in the size of the tracking account that is used to offset the cost to purchase the Line at the end of the FTCPA term, at the Authority's option, and (5) shared rights to direct power on the Line in the opposite direction of its current flow should market conditions present revenue opportunities for selling capacity and energy from New York to New Jersey. Contingent upon the successful satisfactory reduction or complete elimination of the Authority's obligation for RTEP charges, and HTP's completion of the cable replacement (or demonstration that it is in the process of completing the cable replacement), the Authority will increase the portion leased by the Authority from 75% to 87.12% of the Line's capacity, bringing the total capacity of the line leased from 495 MW to 575 MW at a monthly capacity charge rate that represents a decrease in the unit price (on a $/MW-month basis) paid to HTP in the original FTCPA. The Authority estimates that increasing the leased portion of the line to 87.12% will increase its capacity payments by approximately $6 million to $9 million per year over the term of the FTCPA.

The amended FTCPA allows the Authority to seek to manage its RTEP exposure in two ways. First, the Authority can request HTP to relinquish its 320 MW of FTWRs associated with the Line. The Authority started this process which resulted in PJM's July 2017 FERC filing made at HTP's request to revise the ISA in order to relinquish HTP's FTWRS. As noted above, this led to FERC's December 15, 2017 order granting the relinquishment and subsequent PJM cost allocation updates which zeroed out NYPA's RTEP exposure commencing January 1, 2018. However, these determinations are subject to challenge, and are also questioned in a new complaint filed by the NJBPU, which attacked the December 15 order and other recent FERC decisions on cost allocation affecting both PJM and NYISO. Second, if the RTEP assessments cannot

be eliminated despite HTP's efforts to terminate the FTWRs, the Authority retains the ability to direct HTP to cancel its interconnection agreement and physically disconnect the Line from the PJM transmission system. However, this option is considered less desirable because physical disconnection would eliminate the ability to make energy transactions over the Line when the cable replacement is completed. Lease payments would continue from the Authority to HTP in the event of a physical disconnection directed by the Authority.

(c) *Small, Clean Power Plants*

To meet capacity deficiencies and ongoing load requirements in the New York City metropolitan area that could also adversely affect the statewide electric pool, the Authority has in operation, the Small, Clean Power Plants (SCPPs), consisting of eleven natural-gas-fueled combustion-turbine electric units, each having a nameplate rating of 47 MW at six sites in New York City and one site in the service region of LIPA.

As a result of the settlement of litigation relating to certain of the SCPPs, the Authority has agreed under the settlement agreement to cease operations at one of the SCPP sites, which houses two units, under certain conditions and if the Mayor of New York City directs such cessation. No such cessation has occurred.

(d) *Legal and Related Matters*

St. Regis Litigation

In 1982 and again in 1989, several groups of Mohawk Indians, including a Canadian Mohawk tribe, filed lawsuits (the St. Regis litigation) 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 and Barnhart Island is the location of significant Project facilities. Settlement discussions were held periodically between 1992 and 1998. In 1998, the Federal government intervened on behalf of all Mohawk plaintiffs.

The parties agreed to a land claim settlement, dated February 1, 2005, which if implemented would have included, among other things, the payment by the Authority of $2 million a year for 35 years to the tribal plaintiffs and the provision of up to 9 MW of low cost Authority power for use on the reservation. The legislation required to effectuate the settlement was never enacted and the litigation continued.

In 2013, all claims against the Authority were dismissed and the lawsuit against the Authority was concluded. On May 28, 2014, the State of New York, the St. Regis Mohawk Tribe, St. Lawrence County and the Authority executed a Memorandum of Understanding (St. Regis MOU) that outlined a framework for the possible settlement of all the St. Regis land claims. In the St. Regis MOU, the Authority endorses a negotiated settlement that, among other terms and conditions, would require the Authority to pay the Tribe $2 million a year for 35 years and provide up to 9 MW of its hydropower at preference power rates to serve the needs of the Tribe's Reservation. The St. Regis MOU would require an Act of Congress to forever extinguish all Mohawk land claims prior to such a settlement becoming effective.

Any settlement agreement, including the terms endorsed in the St. Regis MOU, would in the first instance need to be negotiated and agreed upon by all parties to the St. Regis litigation, including parties that did not execute the St. Regis MOU, such as the two other Mohawk groups, the federal government and Franklin County. In addition, before any settlement becomes effective and the Authority is obligated to make any payments contemplated by the St. Regis MOU, federal and state legislation must be enacted which approves the settlement and extinguishes all Mohawk land claims.

Long Island Sound Cable Project

In January 2014, one of the Sound Cable Project underwater cables was severely impacted by an anchor and /or anchor chain dropped by one or more vessels, causing the entire electrical circuit to fail and the circuit to trip. As a result of the impact to the cable, dielectric fluid was released into Long Island Sound. The Authority incurred approximately $34 million in costs arising from this incident. At December 31, 2017, the statement of net position includes approximately $17 million in other long-term assets, reflecting the cost of damages net of insurance recoveries. The Authority believes that it will be able to recover the full amount of its damages through legal proceedings, insurance coverage and contractual obligations.

Other Actions or Claims

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. While the Authority cannot presently predict the outcome of the matters described above or any related litigation, the Authority believes that it has meritorious defenses and positions with respect thereto. However, adverse decisions of a certain type in the matters discussed above could adversely affect Authority operations and revenues.

(e) *New York State Budget and Other Matters*

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. Bills are periodically introduced into the State Legislature, which propose to limit or restrict the powers, rights and exemption from regulation that 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 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 that 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. Examples of such legislation affecting only the Authority include legislation, discussed below and elsewhere herein, relating to the Authority's voluntary contributions to the State, the Authority's temporary transfer of funds to the State, and contributions and transfers to fund temporary and permanent programs administered by the Authority and other State entities.

Budget

The Authority is requested, from time to time, to make financial contributions or transfers of funds to the State. Any such contribution or transfer of funds must (i) be authorized by law (typically, legislation enacted in connection with the State budget), and (ii) satisfy the requirements of the Bond Resolution. The Bond Resolution requirements to withdraw moneys "free and clear of the lien and pledge created by the (Bond) Resolution" are as follows: (1) such withdrawal must be for a "lawful corporate purpose as determined by

the Authority," and (2) the Authority must determine "taking into account, among other considerations, anticipated future receipt of Revenues or other moneys constituting part of the Trust Estate, that the funds to be so withdrawn are not needed" for (a) payment of reasonable and necessary operating expenses, (b) an Operating Fund reserve for working capital, emergency repairs or replacements, major renewals, or for retirement from service, decommissioning or disposal of facilities, (c) payment of, or accumulation of a reserve for payment of, interest and principal on senior debt, or (d) payment of interest and principal on subordinate debt.

In May 2011, the Authority's Trustees adopted a policy statement (Policy Statement) which relates to, among other things, voluntary contributions, transfers, or other payments to the State by the Authority after that date. The Policy Statement provides, among other things, that in deciding whether to make such contributions, transfers, or payments, the Authority shall use as a reference point the maintenance of a debt service coverage ratio of at least 2.0 (this reference point should not be interpreted as a covenant to maintain any particular coverage ratio), in addition to making the other determinations required by the Bond Resolution. The Policy Statement may at any time be modified or eliminated at the discretion of the Authority's Trustees.

Legislation enacted into law, as part of the 2000-2001 State budget, as amended up to the present time, has authorized the Authority as deemed feasible and advisable by the trustees, to make a series of voluntary contributions into the State treasury in connection with the PFJ Program and for other purposes as well. The PFJ Program, which had been extended to June 30, 2012, has ended and was replaced by the RNYPP, as discussed above in Note 13(a) "Power Programs" – Recharge New York Power Program" of the notes to the financial statements. Cumulatively through December 31, 2012, the Authority has made voluntary contributions to the State totaling $475 million in connection with the ended PFJ Program.

In 2016, the Authority made contributions to the State of $91 million that were not related to the PFJ Program and which were recorded as nonoperating expenses in the year ended December 31, 2016 statements of revenues, expenses and changes in net position. These contributions were authorized by the Authority's Trustees and were consistent with the related State fiscal year budgets. The 2016 contributions included $26 million that was paid to the State's General Fund and $65 million that was paid to Empire State Development Corporation (ESD). Cumulatively through December 31, 2016, the Authority had made voluntary contributions to the State totaling $763 million in connection unrelated to the PFJ Program.

Temporary Asset Transfers

In addition to the authorization for voluntary contributions, as a result of budget legislation enacted in February 2009, the Authority was requested to provide temporary asset transfers to the State of funds held in reserves. Pursuant to the terms of a Memorandum of Understanding dated February 2009 (MOU) between the State, acting by and through the State's Director of Budget, and the Authority, the Authority agreed to transfer approximately $215 million associated with its Spent Nuclear Fuel Reserves (Asset B) by March 27, 2009. The Spent Nuclear Fuel Reserves are funds that had been set aside for payment to the federal government sometime in the future when the federal government accepts the spent nuclear fuel for permanent storage (see Note12(b) "Nuclear Plant and Divestiture – Nuclear Fuel Disposal". The MOU provides for the return of these funds to the Authority, subject to appropriation by the State Legislature and the other conditions described below, at the earlier of the Authority's payment obligation related to the transfer and disposal of the spent nuclear fuel or September 30, 2017. Further, the MOU provides for the Authority to transfer within 180 days of the enactment of the 2009-2010 State budget $103 million of funds set aside for future construction projects (Asset A), which amounts would be returned to the Authority, subject to appropriation by the State Legislature and the other conditions described below, at the earlier of when required for operating, capital or debt service obligations of the Authority or September 30, 2014. In February 2009, the Authority's Trustees authorized the execution of the MOU relating to the temporary

transfers of Asset B ($215 million) and Asset A ($103 million) and such transfers were made in March 2009 and September 2009, respectively, following Trustee approval.

The MOU provides that the obligation of the State to return all or a portion of an amount equal to the moneys transferred by the Authority to the State is subject to annual appropriation by the State Legislature. Further, the MOU provides that as a condition to any such appropriation for the return of the moneys earlier than September 30, 2017 for the Spent Nuclear Fuel Reserves and earlier than September 30, 2014 for the construction projects, the Authority must certify that the monies available to the Authority are not sufficient to satisfy the purposes for which the reserves, which are the source of the funds for the transfer, were established.

In lieu of interest payments, the State has waived certain future payments from the Authority to the State. The waived payments include the Authority's obligation to pay until September 30, 2017 the amounts to which the State is entitled under a governmental cost recovery process for the costs of central governmental services. These payments would have been approximately $5 million per year based on current estimates but the waiver is limited to a maximum of $45 million in the aggregate during the period. Further, the obligation to make payments in support of certain State park properties and for the upkeep of State lands adjacent to the Niagara and St. Lawrence power plants is waived from April 1, 2011 to March 31, 2017. These payments would have been approximately $8 million per year but the waiver would be limited to a maximum of $43 million for the period. The present value of the waivers approximates the present value of the forgone interest income.

On April 24, 2014, the Authority and the State executed an Amendment to the MOU which provides that the State shall, subject to appropriation by the State Legislature, return the $103 million (Asset A) in five installments in the following amounts and by no later than September 30 of each of the following State fiscal years: (1) $18 million for State Fiscal Year 2014-2015; (2) $21 million for State Fiscal Year 2015-2016; (3) $21 million for State Fiscal Year 2016-2017; (4) $21 million for State Fiscal Year 2017-2018; and (5) $22 million for State Fiscal Year 2018-2019. By its terms, the Amendment to the MOU became effective when it was approved and ratified by the Authority's Board of Trustees on July 29, 2014. The Authority has received cumulative installment payments of $81 million as of December 31, 2017.

The Authority and the State executed a Second Amendment to the MOU, dated as of June 30, 2017, that provides for the return to the Authority of the $215 million (Asset B) in the following amounts and by no later than September 30 of each of the following State fiscal years: (1) $22 million for State Fiscal Year 2017-18, (2) $21 million for State Fiscal Year 2018-19, (3) $43 million for State Fiscal Year 2019-20, (4) $43 million for State Fiscal Year 2020-21, (5) $43 million for State Fiscal Year 2021-22, and (6) $43 million for State Fiscal Year 2022-23. The obligation of the State to return the moneys transferred by the Authority to the State is subject to annual appropriation by the State Legislature. The Authority received the first installment payment of $22 million in September 2017. The Assets A and B transfers are reported in miscellaneous receivables and other ($43 million as of December 31, 2017 and 2016) and in other noncurrent assets ($172 million and $215 million at December 31, 2017 and December 31, 2017, respectively) in the statements of net position.

In the Second Amendment to the MOU the Authority and the State agree to enter into alternative cost recovery agreements for each of State Fiscal Year 2017-2018 through State Fiscal Year 2022-2023 that the asset transfers have not been fully returned to the Authority. The alternative cost recovery agreements would relieve the Authority of any obligation to make up to $5 million in cost recovery assessment payments to the State in each year. In the event that the cost recovery assessment for a given year exceeds $5 million, the assessment due from the Authority would be limited to the difference between the assessment and $5 million. The State and the Authority entered into the first such alternative cost recovery agreement dated as of March 31, 2017, with respect to State Fiscal Year 2017-2018. In accordance with such agreement, the Authority was not charged an assessment for such State Fiscal Year.

(f) *Relicensing of Niagara*

By order issued March 15, 2007, FERC issued the Authority a new 50-year license for the Niagara project effective September 1, 2007. In doing so, FERC approved six relicensing settlement agreements entered into by the Authority with various public and private entities. By decision dated March 13, 2009, the U.S. Court of Appeals for the District of Columbia Circuit denied a petition for review of FERC's order filed by certain entities, thereby concluding all litigation involving FERC's issuance of the new license. In 2007, the Authority estimated that the capital cost associated with the relicensing of the Niagara project would be approximately $495 million. This estimate does not include the value of the power allocations and operation and maintenance expenses associated with several habitat and recreational elements of the settlement agreements. As of December 31, 2017, the balance in the recorded liability associated with the relicensing on the statement of net position is $274 million ($24 million in current and $250 million in other noncurrent liabilities). As of December 31, 2016, the balance in the recorded liability associated with the relicensing on the statement of net position is $295 million ($25 million in current and $270 million in other noncurrent liabilities).

In addition to internally generated funds, the Authority issued additional debt obligations in October 2007 to fund, among other things, Niagara relicensing costs. The costs associated with the relicensing of the Niagara project, including the debt issued therefore, were incorporated into the cost-based rates of the project beginning in 2007.

New York State Office of Parks, Recreation and Historic Preservation

On July 18, 2005, the Authority executed the Relicensing Settlement Agreement Addressing New License Terms and Conditions ("Settlement Agreement") entered into by several parties to the relicensing of the Niagara Project, including The New York State Office of Parks, Recreation and Historic Preservation ("OPRHP"). The Settlement Agreement provides, among other things, for the establishment of a Relicensing Settlement Agreement State Parks Greenway Fund, which is to be funded by the Authority in the amount of $3 million per year to OPRHP for the term of the 50-year License. OPRHP has requested that the Authority accelerate certain of such payments by making a lump sum payment of approximately $25 million to pay for authorized projects. In order to make the lump sum payment, the Authority issued $25.2 million in subordinated notes on February 24, 2017 and made the proceeds available to OPRHP (see Note 6 "Long-Term Debt – Subordinate Debt" of notes to the financial statements).

(g) *St. Lawrence-FDR Relicensing – Local Task Force Agreement*

The St. Lawrence-FDR Power Project No. 2000 Relicensing Agreement ("LGTFSA") between the Authority and the Local Government Task Force ("LGTF") provides for a review of the LGTFSA every ten years to discuss issues not contemplated at the time of relicensing in 2003. The first such review commenced in December 2013. The Authority and the LGTF entered into an agreement effective May 4, 2015 in which the Authority agreed to commit up to $45.1 million over 10 years for certain actions, including to: (1) fund an economic development strategic marketing study (the "Marketing Study"); (2) temporarily reduce electricity costs for certain farms and businesses (the "Discount Program"); (3) initiate an energy efficiency and renewable energy program for the LGTF communities; and (4) enhance certain recreational facilities in the LGTF communities.

In July 2016, the Authority's Trustees approved a proposal to terminate the Discount Program early and repurpose funding to be used to support a collaborative marketing effort between the Authority and North Country communities through the St. Lawrence County Economic Development Study Advisory Board created in connection with the Marketing Study at the rate of $2 million/year for five years ($10 million total) commencing in 2017.

At their meeting on July 25, 2017, the Authority's Trustees approved: (1) a new temporary business incentive program consisting of a monetary discount or rebate that would be payable to eligible private business applicants who agree to establish new business operations in certain North Country counties ("Business Incentive Discount Program"); and (2) the repurposing of funds previously approved for the marketing effort to include funding for the Business Incentive Discount Program. Funding repurposed for the marketing effort, including the Business Incentive Discount Program, would not exceed a total of $10 million.

(h) *Regional Greenhouse Gas Initiative and Air Pollution Rule*

The Regional Greenhouse Gas Initiative (the "RGGI") is a cooperative effort by Northeastern and Mid-Atlantic states, including New York, to reduce carbon dioxide emission levels. Participating states have established a regional carbon dioxide emissions cap from the power section (fossil fuel-fired power plants 25MW or greater). The emissions cap reduces by 2.5% annually until 2020. Central to this initiative is the implementation of a multi-state cap-and-trade program with a market-based emissions trading system. The program requires electricity generators to hold carbon dioxide allowances in a compliance account in a quantity that matches their total emissions of carbon dioxide for the compliance period. The Authority's Flynn plant, the SCPPs, and 500-MW Plant are subject to the RGGI requirements as is the Astoria Energy II plant. The Authority has participated in program auctions to acquire carbon dioxide allowances, which the Authority requires to cover operation of its fossil-fueled power plants and the Astoria Energy II plant, and expects to recover RGGI costs through its power sales revenues. The number of allowances offered in the auction by RGGI cap and trade program was reduced from allowances covering 165 million tons of carbon dioxide emissions in 2013 to 60.3 million tons in 2018), and will decline by 2.5% each year through 2020. On December 19, 2017, the RGGI states released an updated Model Rule that includes an additional 30% regional cap reduction between 2020 and 2030. The Authority is monitoring federal legislation and proposed programs that would impact RGGI.

On August 3, 2015, the United States Environmental Protection Agency ("EPA") released its final Clean Power Plan ("CPP") Rule for existing power plants to reduce carbon dioxide emissions nationwide from electric utility generating units. The EPA's regulations required states, including New York, to submit implementation plans to the EPA and be compliant with carbon dioxide reduction starting in 2022, with the state's final goal to be met in 2030. The CPP Rule was stayed by the U.S. Supreme Court on February 9, 2016 pending disposition of petitions for review before the U.S. Court of Appeals for the District of Columbia Circuit. Thereafter, the D.C. Circuit Court granted EPA's motion to suspend cases challenging the CPP Rule to give the current EPA administration time to review the rule. On October 16, 2017, the EPA published its proposal to repeal CPP in the Federal Register for public comment and hearings. The Authority continues to monitor developments in this area.

During 2011, the EPA issued a series of rulings to establish the Cross-State Air Pollution Rule ("CSAPR"). The CSAPR establishes emission allowance budgets for sulfur dioxide and nitrogen oxides for eastern states, including New York, and requires power plants in those states to hold allowances to cover their emissions. Certain trading of allowances is authorized under the CSAPR. The Authority continues to operate its fossil-fueled plants within the allocated allowances and anticipates that operation of its fossil-fueled plants will not be impacted by CSAPR.

(i) *Certain Solar and Energy Efficiency Initiatives*

In March 2012, the Authority's Trustees authorized up to $30 million in funding over five years for a solar market acceleration program involving solar research, training, and demonstration projects. In January 2017, the Authority's Trustees extended the program through December 2018. As of December 31, 2017, the Authority has approved the award of contracts with cumulative value of up to approximately $6 million.

In June 2012, the Authority's Trustees authorized up to $30 million in funding over five years for an energy efficiency market acceleration program involving energy efficiency research, demonstration projects, and market development. In January 2017, the Authority's Trustees extended the program through December 2018. As of December 31, 2017, the Authority has approved the award of contracts with a cumulative value of up to approximately $17 million.

In February 2015, the Authority's Trustees authorized up to $12 million in funding over two years for initial implementation of the Five Cities Energy Plans for the cities of Albany, Buffalo, Rochester, Syracuse and Yonkers. In January 2017, the Authority's Trustees extended the program through December 2018. As of December 31, 2017, the Authority has approved the award of contracts with a cumulative value of approximately $8 million.

(j) *Construction Contracts and Net Operating Leases*

Estimated costs to be incurred on outstanding contracts in connection with the Authority's construction programs aggregated approximately $654 million at December 31, 2017.

Noncancelable operating leases primarily include leases on real property (office and warehousing facilities and land) utilized in the Authority's operations. Rental expense for years ended December 31, 2017 and 2016 was $2.6 million and $2.1 million, respectively. Commitments under noncancelable operating leases are as follows:

	Total	2018	2019	2020	2021	2022	Thereafter
				(In millions)			
Operating leases	$ 6.8	1.5	1.4	0.9	0.6	0.6	1.8

(k) *Other Developments*

New York Energy Highway

In January 2012, the Governor of New York announced the New York Energy Highway initiative, which is envisioned as a public-private partnership to upgrade and modernize the State's electric power system. The Governor formed a task force comprised of various State officials to oversee implementation of the initiative (Task Force) which is co-chaired by the Authority's President and Chief Executive Officer. In April 2012, the Task Force issued a request for information seeking ideas and proposals in furtherance of the initiative. Approximately 85 organizations responded to the Task Force's request for information and the responses included a large number of different generation and transmission project proposals. Based on the response of all these organizations, the Energy Highway Task Force issued an action plan in October 2012. The resulting Energy Highway Blueprint, calling for public and private investments in the State's energy system of about $5.7 billion over the next five to 10 years, proposed 13 specific actions, divided among four major categories: Expand and Strengthen the System, Accelerate Construction and Repair, Support Clean Energy and Technology Innovation.

In November 2012, the New York Public Service Commission (NYPSC) announced new proceedings addressing various actions described in the Blueprint including (i) the initiation of electric transmission upgrades to move excess power from upstate to downstate (AC Transmission), (ii) the creation of a contingency plan to prepare for a large generator retirement (Generation Retirement Contingency Plan) and (iii) the expansion of natural gas delivery to homeowners and businesses in New York State.

In response to the request for information and the Generation Retirement Contingency Plan and AC Transmission proceedings, the New York Transmission Owners (NYTOs), comprised of the State's largest

private utilities, LIPA, and the Authority, indicated that they were exploring the creation of a new Statewide transmission entity (NY Transco) to pursue development, construction, operation, and ownership of new transmission projects. The NYTOs proposed to the Task Force and to the NYPSC several transmission projects that could be undertaken by a NY Transco entity. Participation of the Authority in the NY Transco would be contingent on the enactment of legislation by the State that enables the Authority to participate. As of the 2017 legislative session, which ended in June 2017, such enabling legislation has not been passed. On November 24, 2014, affiliates of the NYTOs formed a transmission entity (Four-Party Transco) that does not include LIPA or the Authority but would permit their participation should the necessary enabling legislation be passed.

In its November 4, 2013 Generation Retirement Contingency Plan Order, the NYPSC selected three transmission projects (TOTS projects) to be built by Consolidated Edison, New York State Electric and Gas (NYSEG) and the Authority. The NYPSC also requested that the NYTOs seek Federal Energy Regulatory Commission (FERC) approval for the three TOTS projects. On December 4, 2014, the NYTOs on behalf of themselves and the Four-Party Transco filed applications at FERC to permit the transfer of certain transmission assets to the Four-Party Transco. The Four-Party Transco also filed an application for cost allocation and recovery for five projects, including the three TOTS projects. A negotiated settlement of that cost allocation has been approved by FERC. The Authority co-developed one of the TOTS projects, the Marcy-South Series Compensation, with NYSEG and has also completed a negotiated settlement at FERC to recover the costs of its portion of that project.

Build Smart NY Initiative

On December 28, 2012, the Governor of New York issued Executive Order No. 88 (EO 88) directing state agencies collectively to reduce energy consumption in state-owned and managed buildings by 20 percent within seven years – an initiative designed to produce significant savings for New York taxpayers, generate jobs, and significantly reduce greenhouse gas emissions. To meet this initiative, the Governor launched Build Smart NY, a plan to strategically implement EO 88 by accelerating priority improvements in energy performance. The Authority has offered to provide $450 million in low-cost financing for this initiative for state owned buildings and an additional $350 million for towns and municipalities. Such low-cost financing would be funded by proceeds of the Authority's commercial paper or another form of debt. The Authority's costs of financing would be recovered from the energy efficiency customers in this program. The Authority has established a central management and implementation team which designed implementation guidelines milestones and data collection and analysis systems to support the program. The team conducts routine outreach and meetings with affected state agencies and has commenced the implementation phase of the Build Smart NY program. As of December 31, 2017, the Authority has in aggregate provided approximately $391 million in financing for energy efficiency projects at State agencies and authorities covered by EO 88.

Clean Energy Standard

On August 1, 2016, the New York Public Service Commission ("NYPSC") issued an order establishing a Clean Energy Standard (the "CES Order") to implement the clean energy goals of the State Energy Plan. Pursuant to the CES Order, load serving entities identified in the order are required to purchase "Zero Emission Credits" ("ZECs") from the New York State Energy Research Development Authority ("NYSERDA") to support the preservation of existing at-risk zero emissions nuclear generation. The Authority is not subject to NYPSC jurisdiction for purposes of the CES Order but has assumed an obligation to purchase ZECs consistent with the terms of the CES Order and intends to seek recovery of such costs from the Authority's customers. On January 31, 2017, the Authority's Trustees authorized (a) participation in the NYPSC's ZEC program and (b) execution of an agreement with NYSERDA to purchase ZECs associated with the Authority's applicable share of energy sales. The Authority and NYSERDA executed an agreement covering a two year period from April 1, 2017 to March 31, 2019 under which the Authority

committed to purchase ZECs in a quantity based on its proportional load in the New York control area. The Authority estimates that it will incur ZEC Purchase Obligation costs under the CES Order of approximately $286 million in aggregate over the 2018-2021 period, of which approximately $26 million is not expected to be recovered under customer contracts that predate the adoption of the CES Order.

AGILe

The Authority, in collaboration with the State utilities, NYSERDA and NYISO, is developing an advanced grid innovation lab for energy ("AGILe") to create new tools to better monitor, control, accommodate and respond to the evolving energy sector. Costs to the Authority are estimated at $20 million over the initial three year period and are not expected to exceed $50 million through final build-out of the facility. Upon completion, operating and maintenance costs are expected to be shared among AGILe participants. On July 25, 2017, the Authority's Trustees authorized capital expenditures in the amount of $20 million for the initial phase of AGILe, which has since commenced.

Certain Projects with the Triborough Bridge and Tunnel Authority

The Authority commenced a project to finance and install multi-purpose energy efficiency and security projects on bridges and tunnels in the New York City metropolitan region in coordination with the Triborough Bridge and Tunnel Authority. The Authority expects to be reimbursed for the cost of this project through State infrastructure and economic development funds.

Moses Adirondack Line

The Authority is moving forward with its plans to replace a major section of the Moses Adirondack Line, one of the Authority's backbone transmission facilities. The replacement project covers 78 miles of 230 kV transmission line from Massena to the town of Croghan in Lewis County. In July 2017, the Authority received authorization under the NYISO tariff to include the costs of this replacement project in its NYPA Transmission Adjustment Charge mechanism for cost recovery of the Authority's transmission system costs, which means that the costs will be allocated to all ratepayers in the State. The project includes the replacement of obsolete wood pole structures with higher, steel pole structures, as well as replacement of failing conductor with new conductor and insulation. The line will operate at its current 230 kV level, but the conductor and insulation design will accommodate future 345 kV operation. The Authority anticipates that the Moses Adirondack line will support the transmission of growing levels of renewable generation located in upstate New York and Canada, such as wind and hydroelectricity, and assist in meeting the State's renewable energy goals. The rebuilt line is also expected to enhance grid reliability by supporting the NYISO's black start plan. The Authority plans to file its application for Article VII approval with the PSC in the first quarter of 2018. The Authority estimates a project cost of $440 million. Construction is expected to take four years and begin in 2019.

Niagara Parkway Redevelopment

The State plans to replace an underutilized two-mile stretch of the Robert Moses Parkway North in Niagara Falls with open space, scenic overlooks and recreational trails. Construction is anticipated to commence in 2018 and take approximately three years to complete with funding expected to be provided by the Authority. As of December 31, 2017, the Authority's Trustees have approved up to $5.5 million in funding by the Authority. As of December 31, 2017, the Authority has disbursed approximately $4.4 million.

Large-Scale Renewable Program

In support of the Clean Energy Standard goal for the State to achieve 50% renewable energy by 2030, the Authority issued a request for proposals in June 2017 to solicit renewable energy credits, energy and

capacity from eligible large-scale renewable projects with a minimum size of 5MW, 10MW or 20MW, depending on the underlying technology. The goal is to procure 1 million MWh or more for the Authority's governmental customer base. Eligible projects, which may be based within or outside the State, include solar (photovoltaic), wind, hydro-electric and biomass. The Authority is in the process of developing financial strategies for the Large Scale Renewable program, which may include designating the program as a "Separately Financed Project" in accordance with the provisions of the Authority's Bond Resolution. Proposals were due September 8, 2017 and the evaluation period is ongoing.

(14) Canal Corporation

The Canal Transfer Legislation enacted April 4, 2016, authorized, but does not require, the Authority, to the extent that the Authority's Trustees deem it feasible and advisable as required by the Resolution, to transfer moneys, property and personnel to the Canal Corporation. As of December 31, 2017, the Authority recognized $86 million of costs associated with the transfer of the Canal Corporation to the Authority, including certain reimbursements to the Thruway Authority in respect of calendar year 2016.

The Canal Corporation operates at a loss and is expected to require substantial operating and maintenance support and capital investment. The Canal Corporation's expenses are expected to be funded by transfers of funds from the Authority. Any transfer of funds would be subject to approval by the Authority's Board of Trustees and compliance with the Authority's General Resolution Authorizing Revenue Obligations, as amended and supplemented. Certain expenses eligible for reimbursement are expected to be reimbursed to the Authority by moneys held in the Canal Development Fund maintained by the State Comptroller and the Commissioner of Taxation and Finance. For the year ended December 31, 2017, the Canal Corporation recognized $2 million in revenues, $93 million in operations and maintenance and $23 million in depreciation expense.

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Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

The Board of Trustees
Power Authority of the State of New York:

We have audited, in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States the consolidated financial statements of the Power Authority of the State of New York, (the Authority), which comprise the statements of net position as of December 31, 2017, and 2016, and the related statements of revenues, expenses, changes in net position and cash flows for the years then ended, and the related notes to the financial statements, and have issued our report thereon dated March 20, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements as of and for the year ended December 31, 2017, we considered the Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported herein under *Government Auditing Standards*.

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KPMG International Cooperative ("KPMG International"), a Swiss entity.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

New York, New York
March 20, 2018

REQUIRED SUPPLEMENTARY INFORMATION
(UNAUDITED)

New York Power Authority

Required Supplementary Information

(Unaudited)

Schedule of Funding Progress for the Retiree Health Plan

($ in millions)

The New York Power Authority

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL)--- Projected Unit Credit Method (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
January 1, 2016	$ 483	$ 600	$ 117	81%	$ 161	73%
January 1, 2014	422	575	153	73	145	105
January 1, 2012	283	517	234	55	143	163

The New York Power Authority has a trust for its OPEB obligations initially funded in the amount of $100 million

Canal Corporation

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL)--- Projected Unit Credit Method (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
January 1, 2017	$ 0	$ 234	$ 234	0%	$ 22	1,064%

New York Power Authority

Required Supplementary Information
(Unaudited)

Schedules Relating to the Employees' Retirement System Pension Plan

($ in millions)

Schedule of Proportionate Share of the Net Pension Liability

As of March 31,	Proportion of the Net Pension Liability (Asset) Percentage	Proportionate Share of the Net Pension Liability (Asset)	Covered Employee Payroll	Proportionate Share of the Net Pension Liability (Asset) as a percentage of Covered Payroll	Plan Fiduciary Net Position as a percentage of the Total Pension Liability
2017	0.72%	$67	$193	35.0%	94.7%
2016	0.60	96	166	57.4	90.7
2015	0.59	20	150	13.3	97.9
2014	0.60	27	148	18.2	97.2

Schedule of Contributions

Year Ending December 31,	Actuarially Required Contribution	Actual Contribution	Contribution (Excess) Deficiency	Covered Employee Payroll	Contribution as a Percentage of Covered Payroll
2017	$ 28	$ 28	$ –	$ 193	14%
2016	24	24	–	166	15
2015	25	25	–	150	17
2014	28	28	–	148	19
2013	29	29	–	146	20
2012	27	27	–	146	19
2011	21	21	–	141	15
2010	17	17	–	145	12
2009	10	10	–	139	7
2008	12	12	–	139	9
2007	12	12	–	133	9