

A Tradition of Reliability & Operational Excellence

2011 Annual Report

New York Power Authority

Generating more than electricity

Tradition,

A Message from the Governor

Reliable and affordable electricity is a mainstay of economic growth. This is particularly true for manufacturers and other energy-intensive businesses whose ability to undertake capital investments and create new jobs is closely tied to power costs.

My administration is aggressively pursuing measures that will bolster our state's electric power system and revitalize its economy. In this, we have an invaluable asset in the New York Power Authority (NYPA).

NYPA's value is epitomized in its managing of the ReCharge New York Program, which I signed into law in 2011 to provide a significant additional amount of low-cost power in return for the job commitments and investments that will help to jump-start New York's economy. The first power deliveries, beginning in July 2012, promise substantial economic benefits to hundreds of businesses and nonprofit organizations. Half of the 910 megawatts under the new program will come from NYPA's hydroelectric projects on the Niagara and St. Lawrence rivers, with the Power Authority obtaining the remainder from other economical sources.

The importance of partnering with the private sector —and NYPA's vital role— are also demonstrated in my Energy Highway initiative to address the state's aging electric power system. Our focus includes upgrading transmission to bring surplus fossil-fuel generation and wind power from upstate to downstate, repowering older power plants to make them cleaner and more efficient, and building clean new generating facilities.

The Power Authority's expertise is central to our efforts to enlist private interests in this bold endeavor.

Simultaneously, NYPA will anchor our plans to cut energy use in state buildings by 20 percent and to expand energy-saving improvements at other tax-supported public facilities, freeing up resources for essential services, creating jobs and benefiting the environment. The Power Authority is also a cornerstone for my NY-Sun Initiative, an ambitious undertaking to quadruple the amount of customer-sited solar power installed annually in New York by 2013 and to lower its costs.

The New York Power Authority has long been at the forefront in meeting the Empire State's most pressing energy challenges. The many accomplishments discussed in this 2011 Annual Report herald the significant contributions NYPA will make as New York forges ahead in efforts to lower electricity costs, spur economic development, enhance the state's electric power system and protect the environment.

Andrew M. Cuomo
Governor

Photos from left: St. Lawrence-FDR project upgrade; aboard HTP's cable-laying ship; New York Institute of Technology efficiency improvements.

Reliability, Excellence

A Message from the Chairman and the President

The Empire State is moving forward toward a more prosperous and productive future, and the New York Power Authority is helping energize that effort.

Under the leadership of Gov. Andrew M. Cuomo, NYPA is ready to draw on its collective expertise and rally its diverse resources to provide New York with the power it needs, now and in the coming years.

The Power Authority was created 80 years ago to develop New York's hydroelectric resources for public benefit, while leveraging this sustainable power supply into economic opportunity. In 2011, Governor Cuomo signed into law the ReCharge New York Program as a more effective way to use more than 450 megawatts of this lower-cost electricity to create jobs and strengthen the economy.

In the 1980s, NYPA initiated the first of its various energy efficiency programs to help New York consumers use electricity more wisely. Since that time, we expanded our efforts to include the latest clean energy technologies, and have financed approximately $1.5 billion in projects that are saving money and megawatts while preserving the environment.

We are already engaged in the Governor's initiative to develop master plans that will accelerate the implementation of additional energy-saving improvements in state facilities, with the added benefits of less pollution and new clean energy jobs.

The Power Authority has an established tradition of meeting New York's energy demands and delivering essential utility services. We also strive to be flexible and innovative in pursuing specialized solutions for some of the state's unique needs.

While exploring new opportunities for public service, we will continue to focus on our priority mission, which is the safe and efficient operation of our generation and transmission assets. Our trustees have adopted a fiscally sound and balanced operating budget for the coming year that allows for the continuation of several multiyear programs to maintain and upgrade NYPA's infrastructure. The Power Authority is also evaluating plans for a life extension and modernization of our statewide transmission network.

Governor Cuomo has announced an ambitious plan for an Energy Highway initiative to improve the efficiency and flexibility of the state's aging power grid, and NYPA stands ready to play a key role in this endeavor.

Cover photos, from left: Flynn plant outage; transmission maintenance; Bronx Community College.

We can do all this and more because of our team of dedicated professionals, some of whom are profiled in this year's annual report. In the following pages, NYPA employees describe some of our accomplishments in their own words. But there are many others, not mentioned here, who do the day-to-day work that keeps the Power Authority operating at peak performance. These are the workers who maintain our generation and transmission facilities, who market our electricity, who implement energy services projects, who manage our finances, who protect our infrastructure and who welcome the public to our three visitors centers.

The Power Authority believes that its people, its "human resources," are as valuable as the natural resources that have been entrusted to our use for the public good. Our Sustainability Action Plan, unveiled in 2010 and tracked each year in a separate annual report, outlines the path we are pursuing to improve our operations for the long-term benefit of our employees as well as the general public. We are also focusing specifically on efforts to expand and enhance the diversity within the Power Authority as well as our interactions with Environmental Justice communities throughout New York State.

Under Governor Cuomo's leadership, there's a new energy flowing through the Empire State, generated by the positive and cooperative spirit of New Yorkers working together toward a common goal. Here at the Power Authority, we are proud to contribute to that forward motion.

Michael J. Townsend
Chairman

Gil C. Quiniones
President & CEO

TRUSTEES and MANAGEMENT

Teamwork, and a Track Record of Success

The people who make up the New York Power Authority perform a variety of jobs that provide value to all New Yorkers. They believe in New York State's potential for greatness, and are proud of the role they play in providing lower-cost electricity and clean energy services that can reenergize the economy while improving the environment.

Like any team that works together in common purpose, NYPA employees take pride in past accomplishments while pursuing future goals, knowing that they are contributing to something bigger than their particular project or assignment. By representing the nation's largest state public power organization, Power Authority staff members are helping advance the entire electric utility industry while also serving the Empire State.

Some NYPA employees are on the front lines of high-profile initiatives, including those who are helping introduce Governor Cuomo's ReCharge New York Program, which will use power allocations to create jobs and strengthen eligible businesses and nonprofit organizations throughout the state. Others operate away from public view, like those keeping NYPA's generating stations and transmission lines working reliably and efficiently.

Offering the latest energy efficiency measures and clean energy technologies to customers is another way NYPA employees benefit New York State. The Power Authority's energy efficiency programs have evolved over the past two decades, drawing national and even international attention in the ongoing effort to find new solutions to the increasingly critical challenge of meeting society's energy needs in ways that can advance the economy without harming the environment.

In partnership with private businesses or other public entities, the Power Authority uses its expertise to help meet New York's energy challenges in ways that are cost-effective and innovative. This is the tradition of excellence that NYPA employees are striving to uphold, and the track record of success they wish to share in this annual report.

Photos above, from left: St. Lawrence-FDR project upgrade; Lake Erie-Niagara River Ice Boom; hot stick linemen make transmission repairs.

Investments in Infrastructure

Keep the Power Flowing

The New York Power Authority is committed to maintaining and upgrading its critical energy infrastructure to ensure reliable supplies of clean, lower-cost electricity for New York State well into the 21st century. With its 17 generating facilities and economical power purchases, NYPA provides about a quarter of the state's electricity; it also owns and operates 1,400 circuit-miles of transmission lines, about a third of New York's high-voltage network of 230 kilovolts and above.

Like other providers of essential services, NYPA operates around-the-clock, every day of the year. The level of activity intensifies during major maintenance and repairs, when equipment must be taken out of service. Standard work schedules are expanded and accelerated as NYPA staff work alongside specialized contractors to complete tasks on time, within budget and in compliance with strict safety standards.

In order to meet NYPA's diverse power supply commitments during upgrades and outages, employees must follow a strategically orchestrated plan of action that seeks to maximize overall power output even while individual generating units are repaired or replaced.

JOHN CANALE, vice president of project management, has been leading major capital projects at NYPA's large upstate hydropower facilities since 2006. A 15-year upgrade at the Niagara Power Project's main power dam, the Robert Moses Niagara Power Plant, was completed that same year while a comparable undertaking at the St. Lawrence-Franklin D. Roosevelt Power Project will finish in 2013. A similar assignment at the Blenheim-Gilboa Pumped Storage Power Project ended in 2010. Now, Canale is gearing up for another Life Extension and Modernization (LEM) job, this time at the Niagara project's auxiliary generating station, the Lewiston Pump-Generating Plant.

"Each power project is different, and each LEM has its own unique set of challenges," Canale said. "Of course we try to improve our performance with each job. I'd say the most important 'lessons learned' have to do with risk; the longer the duration of a project, the more risks that are involved. And these jobs take a long time because they are done one unit at a time, spread out over many years." Global sourcing of equipment and materials presents just one significant issue. In 2011, NYPA, like many American businesses, felt the ripple effect of supply shortages from Japan after an earthquake and tsunami struck in March of that year.

"Timing, the sequence of work, is also critical to our success," Canale continued. "We've learned over the years to get ancillary

Opposite page: A new park adjoins the Niagara project intakes.

This page from top: John Canale will oversee a LEM at the Lewiston plant. A major outage recently ended at the Flynn plant. Russ Baum, right, confers with Chief Operating Officer Edward Welz.

work done early. For example, in the middle of the St. Lawrence LEM, we had to rehabilitate a gantry crane. For the Lewiston LEM, we made sure all our cranes were upgraded in advance." The first of Lewiston's 12 pump-turbines will be taken out of service in late 2012; in the meantime, replacements have begun on its four generator step-up transformer units, necessary for the efficient transmission of large amounts of electricity.

Outages are coordinated to maximize overall power output to meet customer commitments

At the opposite end of the state, NYPA's clean natural gas-fueled plants also undergo regularly scheduled outages to replace or repair major equipment, especially the "hot gas" combustion components exposed to temperatures of up to 2,000 degrees Fahrenheit. These generating facilities, designed with the latest emission-control technology, provide much-needed electricity to the high-density New York metropolitan area, with greatest demand during the hot summer months. As a result, all major outages are typically planned in spring or fall.

In the fall of 2011, the Richard M. Flynn Power Plant on Long Island was taken out of service for two months of intensive labor. The combined-cycle plant's entire combustion turbine-generator was replaced while its steam turbine-generator and various other components were repaired. Also in 2011, three of NYPA's 10 small, clean power plants in New York City underwent refurbishing. And, looking ahead to the spring of 2012, the 500-MW Combined-Cycle Plant, in Queens, will undergo a similarly significant scheduled maintenance outage.

RUSS BAHM, director of operations at the Flynn Plant, oversees a highly motivated team of 20. "We have an exceptional work ethic here," Bahm said. "Our key criteria are safety and efficiency. If we focus on those goals, we can usually improve our schedule and reduce our cost. Because gas-turbine technology is always improving, we review our upgrade options with the original equipment manufacturer, and then make our decisions based on reliability and cost. We replace our computer systems as needed to maintain reliable operations and also keep up with security and communication demands."

Also during the Flynn outage, variable speed fans were installed in the plant's cooling tower, for more efficient use of power and cooling water. In addition to operational excellence, all Power Supply staff members strive to incorporate sustainable practices like smart water usage into their work to help lessen NYPA's impact on the environment.

Using electricity more effectively and efficiently provides both environmental and economic benefits. NYPA's Power Supply business unit, which accounts for roughly two-thirds of the Power Authority's more than 1,600 employees, also includes transmission staff working to keep the electricity flowing across the state. Because today's high-voltage equipment depends on sulfur hexafluoride (SF_6), an effective insulator that's also a potent greenhouse gas, NYPA now uses a laser imaging camera during transmission line maintenance to detect leaks of this colorless, odorless gas. SF_6 sensors have also been installed at remote substations.

Like other utilities, NYPA is exploring a variety of technologies to operate a "smarter" electric grid. Besides improving the way information is sent and received, smart-grid enhancements enable power lines to more easily accommodate alternative energy supplies, like wind farms, whose output can fluctuate more than traditional power sources.

JENNIFER DERING, operations planning manager, is an enthusiastic proponent of smart grid developments. "Under certain weather conditions — say, cool and windy days — power lines can handle more capacity," Dering explained. "So, we're installing Dynamic Thermal Circuit Rating devices that can provide us with data profiles on our transmission lines and the surrounding weather conditions. This allows us greater flexibility in adding more power to our system whenever possible." Phasor Measurement Units are another type of technology being employed to measure voltage and current during normal operations and, more importantly, at the moment a service disruption might be occurring. This equipment also allows quicker response by operators who must adjust to changing conditions throughout the state's electric grid.

More power and increased flexibility are just two benefits anticipated from the biggest NYPA-financed infrastructure effort currently under way. The Power Authority has agreed to buy up to 75 percent of the 660 megawatts of electric capacity that will flow from New Jersey and other states into New York City along a seven-mile underground and underwater power line being built by Hudson Transmission Partners (HTP). When completed in 2013, the conduit will be a high-voltage direct-current line allowing operators control as demand dictates and providing NYPA customers the opportunity to expand their renewable energy portfolios by choosing particular generation sources when available.

KHALIL SHALABI, director of power resource planning and acquisition, managed the complex details of the firm transmission capacity purchase agreement between NYPA and HTP. He also watched with pride as the Giulio Verne, a special cable-laying ship dispatched from Italy, installed a portion of the HTP power line beneath the floor of the Hudson River. "This project is truly an investment in the future," Shalabi said. "It is part of Governor Cuomo's long-term vision for enhancing the reliability of New York City's electric power system and the diversity of its energy supply. It also falls squarely in the domain of the types of projects that NYPA is known for — those which other power companies can't or won't do."

This page, clockwise from top: Jennifer Dering helps introduce smart grid technology. Khalil Shalabi handled the HTP contract. The Giulio Verne lays an underwater cable beneath the Hudson River.

Clean Energy Partnerships
Save Money and Megawatts

Green Power helps NYPA meet its customers' needs

Above: Jill Anderson and Chris Fry are growing NYPA's Green Power Program as new wind farms sprout up across New York State.

With close to two decades of energy efficiency and clean energy expertise, the Power Authority has become the "go-to" enterprise for innovative solutions that can lower electric bills and reduce greenhouse gas emissions. In fact, NYPA's renewable and efficiency activities already have helped cut electricity demand in New York State by approximately 230 megawatts (MW), equivalent to the output of one medium-sized power plant, while reducing annual greenhouse gas emissions by some 835,000 tons.

The Power Authority has been developing customer-sited clean energy projects since the early 1990s, including about 100 solar photovoltaic systems and 20 emission-free fuel cells. More recently, NYPA has begun buying Renewable Energy Credits (RECs) from new and existing grid-connected facilities built to generate electricity from biomass, waste gas and wind power sources. In 2011, more than 230,000 RECs were purchased on behalf of NYPA customers looking to "green" their operations or meet state and local mandates for renewable energy. Each REC represents one megawatt-hour of electricity generated from a renewable energy source.

CHRIS FRY, a project specialist in Energy Resource Management, is an enthusiastic proponent of NYPA's Green Power Program. "There are so many benefits to this program for both the buyers and the sellers," Fry stated. "It's all about our purchasing power and credit rating. Customers benefit from products that are competitively priced due to aggregation of demand while developers benefit from our creditworthiness, since a contract with us enables them to secure project financing."

Most recently, NYPA contracted to buy a small portion of the RECs generated by two new wind farms being developed upstate by EverPower Wind Holdings, Inc. While contracts with the New York State Energy Research and Development Authority enabled the projects, NYPA's contract helped reduce EverPower's remaining risk.

A prime example of NYPA's ability to enable development is a project that it helped facilitate specifically for the Port Authority of New York and New Jersey, one of its largest governmental customers, involving a biomass developer in Orange County.

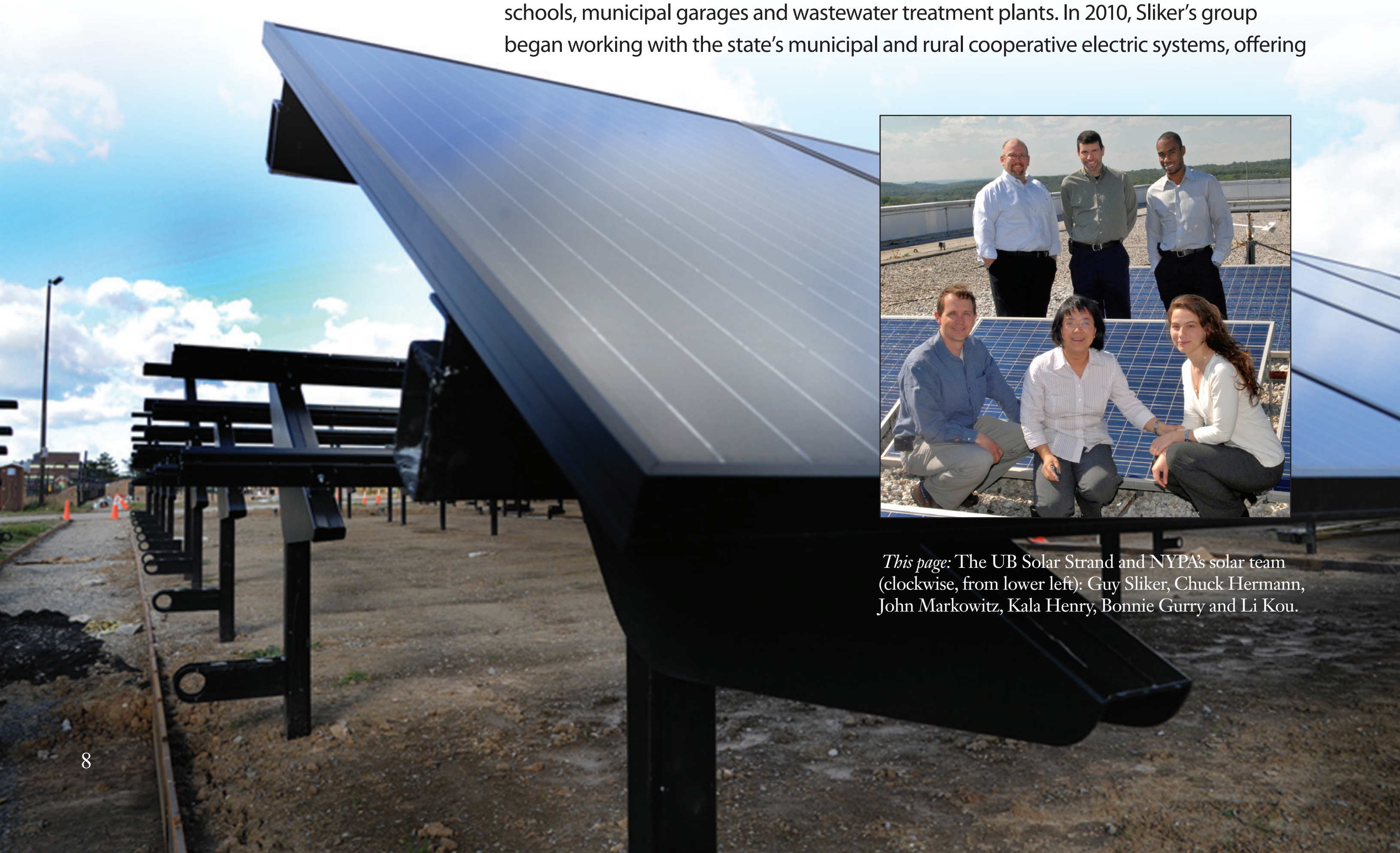
JILL ANDERSON, director of business integration, helped negotiate the deal between NYPA, the Port Authority and Taylor Biomass. "When the Port Authority took over operation of Stewart Airport, they wanted to demonstrate environmental responsibility to the surrounding communities of Orange County by partnering with a renewable energy generator," she explained. "Taylor Biomass answered NYPA's request for proposals with a plan to build a combined-cycle biomass plant in nearby Montgomery. When it is completed, the plant will be fueled by gas converted from sorted, nonrecyclable waste and woody biomass collected locally."

NYPA's energy efficiency and renewable energy investments now total $1.5 billion

The popularity of green power is expected to grow, Anderson added. What began in 2005 as an initial purchase for one customer has led to a formal program large enough to generate requests for proposals twice a year to meet NYPA's green power demands. "We recognize the value of renewable energy," Anderson said, "not only to our environment but also to our economy, and we try to support it in fiscally responsible ways."

Solar power is one clean energy technology that is becoming increasingly affordable and available. This is due to technological advances as well as an increase in demand. The modular nature of photovoltaic panels allows solar projects to be easily scaled to fit spaces of varying size, meeting diverse needs, from single residences to large community or industrial applications.

GUY SLIKER, director of renewable energy resources and technology, oversees a group of engineers who are helping introduce solar power technology to customers across New York. NYPA's earliest projects were located atop public facilities, including schools, municipal garages and wastewater treatment plants. In 2010, Sliker's group began working with the state's municipal and rural cooperative electric systems, offering



This page: The UB Solar Strand and NYPA's solar team (clockwise, from lower left): Guy Sliker, Chuck Hermann, John Markowitz, Kala Henry, Bonnie Gurry and Li Kou.

incentives to encourage homeowners to add small-scale installations to their residences. About a dozen of these public power utilities participated, with more than 80 property owners now supplementing their local power supplies with solar electricity.

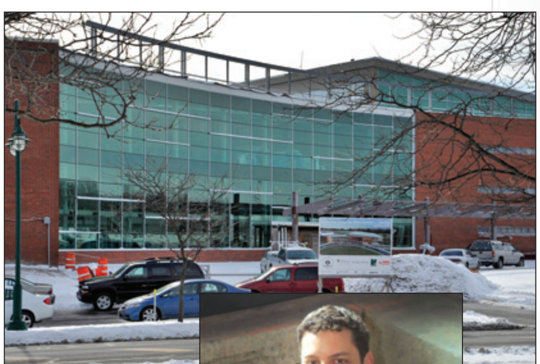
Sliker's team is also helping develop one of the nation's largest solar energy installations on a college campus. Called the "Solar Strand," this 750-kilowatt array at the University at Buffalo (UB) is more than just a clean energy showcase. It was designed with input from a landscape architect to be a monumental work of art set in a park-like setting.

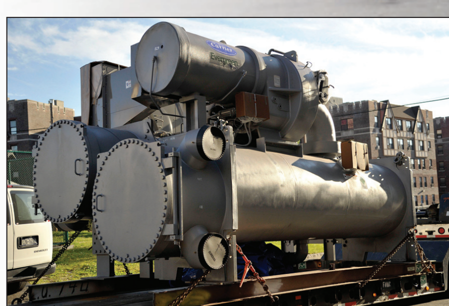
"The installation contractor for this project, Solar Liberty, hired UB graduates who are moving into the clean energy field," Sliker noted. "Current students and faculty also participated in some of our design meetings. Besides the educational and career-development aspects of this project, it had to meet NYPA's needs for a cost-effective generating facility and UB's requirements for energy savings and aesthetic considerations. So, it was a challenge, but it will also be a one-of-a-kind land art installation when it is completed in 2012."

Sliker added that NYPA is now implementing solar projects in combination with energy efficiency measures, "which our customers like because it allows them to invest in renewable energy with a reasonable blended rate of return," he said.

The Power Authority has financed approximately $1.5 billion in energy efficiency projects throughout the state. School districts and other academic institutions in particular look to NYPA for assistance and expertise in lowering their energy costs. The City University of New York, for example, signed a multi-year contract with NYPA for a variety of projects within its 24-school network.

JOE CRIMI, conservation program engineer, is helping SUNY Brockport in Monroe County build a new Special Events Recreation Center with chillers that use an innovative ice storage system to save on air-conditioning costs. "In-ground tanks store ice made at night, when electricity costs are low," he said. "That is then used to help cool the building during the day, when electricity prices spike. It's great working with people who are solving their energy problems creatively."





Clockwise from lower left: Joe Crimi and SUNY Brockport's new recreation center; Bronx Community College and high-efficiency chillers.

Programs and Initiatives
To Boost the Economy

Because lower-cost electricity is critical to the success of the Empire State economy, NYPA power allocations are considered essential to helping keep New York "open for business" as a world-class supplier of products and services.

From a cooperative of dairy farmers to the nation's largest public housing program, many of New York's private and public enterprises rely on NYPA to keep their energy costs affordable.

The account executives in NYPA's Economic Development group do more than just facilitate contract arrangements. The relationships they cultivate with their customers can broaden beyond energy issues and sometimes influence decisions to expand or diversify within New York State.

JULIEANNE SULLIVAN, senior account executive, developed one such relationship with Upstate Niagara Cooperative, a Western New York food and beverage producer owned by 375 dairy farmers that has been a NYPA power customer since 2005. Sullivan primarily handles hydropower allocations, from both the Niagara and St. Lawrence-FDR projects. When a dairy processing plant in St. Lawrence County went out of business in early 2011, Sullivan worked with state and local development agencies to attract the attention of Upstate Niagara, offering the cooperative a power allocation to help reopen the closed facility.

"It really was a perfect fit," Sullivan explained. "Upstate Niagara, which operates mostly in Western New York, was interested in expanding its operations, especially in the fast-growing yogurt market. The plant that just closed in Northern New York had been producing yogurt for a national brand. And NYPA helped 'seal the deal' for the reopening of the North Lawrence dairy plant with the possibility of an allocation of lower-cost Preservation Power from our St. Lawrence-FDR project."

As a result, Upstate Niagara rehired 60 dairy workers who had been laid off and is now investing in two new high-speed production lines at $3 million each. Plans call for at least 20 more workers to be added within three years; the new facility will also help the cooperative improve corporate and production efficiencies throughout its upstate operations.

Helping keep New York State 'Open For Business'

Working with Sullivan on the Upstate Niagara allocation were the North Country branch of Empire State Development along with the St. Lawrence County Industrial Development Agency.

Because local input is so important to economic renewal, Governor Cuomo's new statewide power program, called ReCharge New York, relies on the active involvement of regional economic development councils established to help implement this initiative.

ReCharge NY Low-Cost Power And Jobs

These public-private partnerships will include area stakeholders and experts from business, academia, local government and nongovernmental organizations who best know their communities' needs and strengths.

Signed into law in 2011, ReCharge New York will help create and protect jobs with a block of up to 910 megawatts (MW) that will be allocated to qualifying businesses and not-for-profit corporations. NYPA will administer the program, with half of the electricity coming from its own hydropower projects and the rest from the wholesale energy markets.

MICHAEL HUVANE, vice president of economic development, oversees the NYPA-wide effort that's promoting ReCharge New York across the state, reviewing the approximately 1,000 applications that resulted from an informational campaign and preparing for the start of new allocations, scheduled for July 1, 2012.

"Once Governor Cuomo signed ReCharge New York into law, NYPA hit the ground running," Huvane said. "We launched a new website and produced instructional materials; we scheduled informational meetings throughout the state; we advertised in local newspapers and trade journals; and we opened a dedicated call center that is

staffed 10 hours a day so that all inquiries will be answered within 24 hours. This was in addition to our account executives reaching out personally to their customer contacts, to make sure everyone knew about this important new program."

State and federal regulations govern most of NYPA's power allocations, which are intended to spur economic development through capital investments and job creation.

Another significant group of customers includes most of the governmental entities in New York City and Westchester County. Among them are some of the largest electricity users in the United States, such as the City of New York, the Metropolitan Transportation Authority and the New York City Housing Authority. They depend on NYPA electricity to lower utility costs so that more money is available to fund their important municipal services.

Opposite page: Upstate Niagara Cooperative expanded its dairy products business thanks to assistance from Julieanne Sullivan.

This page, from top: Globe Specialty Metals is a Niagara hydropower customer. Michael Huvane helps promote ReCharge New York. New York City's public housing agency received two electric trucks through NYPA's clean transportation program.

HELLE MAIDE, director of key accounts, has been nurturing relationships with these customers since the mid-1990s and she's seen the wide variety of services and solutions that NYPA makes available along with its lower-cost electricity. The New York City Housing Authority (NYCHA) is just one example. "NYCHA has been a customer since the mid-1970s," Maide explained, "and in addition to saving millions of dollars in energy costs at its facilities, NYCHA's partnership with the Power Authority has also resulted in more than 400 energy efficiency projects. These have generated over $19 million in annual electricity savings along with cleaner air for all New Yorkers."

In New York City, NYPA customers save money, megawatts and the environment

In December 2011, NYCHA was able to purchase two all-electric delivery trucks, thanks to a Power Authority grant tied to a pilot program that will monitor the effectiveness of the emission-free vehicles in New York's stop-and-go traffic. Similarly, in 2011, NYPA helped co-fund the purchase of 50 Chevrolet Volt sedans and 10 Ford Hybrid Transit Connect electric vans for New York City's police and fire departments along with other agencies.

Maide helped negotiate another clean transportation initiative during the year, one that will help create the first "green port" on the Eastern Seaboard when it is implemented at the Brooklyn Cruise Terminal. Working with New York City and the Port Authority, NYPA's "shore power" solution will enable ocean liners to turn off their high-sulfur diesel-fueled engines and plug into the electric grid while docked in Brooklyn. The surrounding communities had complained about the thick clouds of diesel fumes and particulates spewing from the passenger cruise ships. Creative problem-solving was required to resolve the situation, Maide said.

"Part of the problem was that while diesel fuel is dirty, it's also cheap," she said. "Implementing shore power also required about $15 million worth of infrastructure improvements at the cruise ship terminal. The electricity had to be affordable to make the project work, and that's where we came in. Costs will be shared between NYPA and New York City, with Carnival Cruise Lines paying a fixed and discounted rate for five years. When fully implemented by 2013, shore power will serve about 40 ship calls per year, resulting in the near elimination of 1,500 tons of carbon dioxide, 95 tons of nitrous oxide and 6.5 tons of particulate matter annually."

While the Power Authority routinely promotes clean energy technologies for its customers, it will turn to more traditional power sources when necessary. Such was the case with two emergency generators NYPA began installing at Manhattan's Grand Central Terminal in 2011. Although they'll run on diesel fuel when called upon in emergencies, the 2-MW units are more efficient, with better emission-control technology, than standard generators. And because the backup power supply is considered essential to public safety, 75 percent of the project's $16 million cost is covered by a federal Homeland Security grant.

This page: Helle Maide helped resolve air pollution concerns at the Brooklyn Cruise Terminal.

Opposite page, clockwise from top: Sylvia Hamer and Debra White spearhead NYPA's diversity efforts. More sustainable landscaping graces the White Plains Office. NYPA's Blenheim-Gilboa project now boasts a wind turbine and solar panels.

Toward a More Sustainable Future

Safeguarding the public's future is the underlying principle of another NYPA initiative. Known as *Generating Sustainability*, this effort seeks to incorporate the "triple-bottom-line" goals of environmental stewardship, social equity and economic prosperity into all of the Power Authority's operations and activities.

NYPA introduced its Sustainability Action Plan in January 2010, and since then has published two comprehensive annual reports. Anyone interested is encouraged to view these Sustainability annual reports in their entirety on the Power Authority's website: www.nypa.gov.

The Power Authority's hydropower generation, as well as its investments in energy efficiency and clean energy projects, already establishes a solid foundation of sustainability. More recently, NYPA has begun to follow guidelines of the U.S. Green Building Council to make its facilities healthier for employees, visitors and the surrounding environment.

In 2006, NYPA's main administrative offices in White Plains earned the state's first Gold rating (for an existing building) from the Green Building Council. In 2011, NYPA finished building a warehouse at its Niagara project designed to meet a Gold standard for new construction.

Because sustainability includes a human component, the Power Authority is in the process of expanding its diversity programs, both within its workforce and in the procurement of goods and services. In fact, in 2011, Empire State Development recognized NYPA for the amount of business it conducts with minority- and women-owned businesses.

Being a Good Neighbor Has Widespread Benefits

At the New York Power Authority, "generating more than electricity" refers to the many different ways NYPA serves the people of New York State. This is particularly true in those communities located near NYPA facilities.

When each of its three large hydro projects was being built upstate, NYPA set aside acreage for recreational improvements and environmental enhancements. To offset potential impacts from its small, clean power plants downstate, NYPA initiated a "zero net emissions program" that reduced pollutants from other sources through energy-efficient technologies.

And in 2011, the Power Authority continued its environmental justice (EJ) efforts, intended to serve communities throughout the state that have historically borne more than their fair share of environmental impacts.

Being a good neighbor took on special significance for NYPA employees during Tropical Storm Irene, which dumped record rainfall on the Catskills in late August. Staff at the Blenheim-Gilboa project overcame power failures, communication outages and other technical difficulties to maintain NYPA's facilities and to protect its neighbors during an unprecedented weather event and the record-breaking floods that ensued. A similar effort was made to secure NYPA's Vischer Ferry small hydro plant on the Mohawk River. After the storm, NYPA linemen repaired damaged power lines owned by other utilities while about 40 employees joined Governor Cuomo's "Labor for your Neighbor" volunteer campaign to clean up the hardest hit areas.

LYNN HAIT, regional manager for Central New York, later described the scene to NYPA trustees and presented commendations to six employees for their actions at Blenheim-Gilboa. "We had several people working that Sunday morning shift," Hait explained. "We had a team — electricians, mechanics, plant operators, security guards — that exemplified all of those things required to professionally operate and maintain a power facility, especially in a given crisis. In addition, six employees each demonstrated heroic measures

of leadership and decision-making ability in extreme crisis under enormous pressure, when most men would turn and run home, not knowing if the facility would survive, not knowing what was upstream, not knowing if the inflows would continue to rise."

The Power Authority prepared a report on its emergency response for federal regulators; it also held a public meeting to help local residents better understand NYPA's activities along Schoharie Creek before, during and after the storm.

Because the waterways that power NYPA's facilities are so important, they've received special attention during relicensing proceedings. Along the St. Lawrence and Niagara rivers, NYPA hydropower projects have earned new 50-year licenses in return for a renewed commitment by the Power Authority to preserve and enhance the surrounding environment.

ED ALKIEWICZ, director of relicensing and implementation, played a key role in relicensing both the St. Lawrence-FDR project, in Northern New York, and the Niagara project, in Western New York. The Power Authority is helping improve the health of both ecosystems with a variety of enhancements to aid the recovery of threatened and endangered species, and encourage a greater, more natural, diversity in the flora and fauna along both rivers.

"Biological diversity strengthens vital ecological functions," Alkiewicz said. "You never want a single species to completely dominate an area, whether it's plants or wildlife. Cattails may be native, but they can take over a wetland. You want plants that provide food as well as cover. Wildlife diversity also helps keep an area healthy, whether it's fish, amphibians, mammals or waterfowl. Each one plays a role in keeping an ecosystem healthy."

These environmental enhancements promote healthier economies as well, since both the St. Lawrence and Niagara rivers draw sporting enthusiasts attracted by world-class opportunities to pursue various species of fish and waterfowl. Special relicensing funds benefit the host communities, providing an economic boost to the regions where NYPA operates its generating projects. The Power Authority also supports first-responder organizations that provide fire and rescue services to NYPA facilities and surrounding areas.

Opposite page, from top: Ed Alkiewicz supervised environmental enhancements at Beaver Island State Park. During Tropical Storm Irene, NYPA President and CEO Gil Quiniones explains B-G operations to Gov. Andrew M. Cuomo. Regional Manager Lynn Hait, right, confers with Mechanical Maintenance Supervisor Chris Brown.

This page, clockwise from top: NYPA community support benefits local first-responders, sturgeon habitats and North Country recreational facilities.

Special attention is focused near NYPA hydro projects

2011 New York

• **In 2011, the New York Power Authority** (NYPA) generated 28.1 billion kilowatt-hours (kwh) of electricity, with hydropower accounting for 78 percent of this amount. Total electricity sales, including power purchased from other generators, were 39.9 billion kwh.

• **The Power Authority's Generation Market Readiness**, representing the availability of NYPA generating facilities for bidding into New York's wholesale electricity marketplace, was 99.9 percent.

• **NYPA realized** net income for 2011 of $235 million.

• **Preliminary work** began on a nine-year, $460-million Life Extension and Modernization (LEM) of the Niagara Power Project's Lewiston Pump-Generating Plant.

• **Progress continued** on a 15-year, $281-million LEM at the St. Lawrence-Franklin D. Roosevelt Power Project, in Massena, with completion set for 2013.

• **First commercial power** was generated at a new, 550-megawatt (MW) natural gas-fueled generating plant in Astoria, Queens, to provide power to NYPA for its New York City customers under a 20-year contract.

• **Power Authority electricity** directly supported nearly 380,000 jobs throughout the state, with more than 9,000 new and existing jobs linked to allocations in 2011 alone. During the year, economic development efforts spurred private investment of nearly $315 million, including projects at M&T Bank Corporation and Moog, Inc., both in Erie County, and Upstate Niagara Cooperative in St. Lawrence County.

• **During the year,** NYPA established the framework for administering Governor Cuomo's ReCharge New York Program, with first power allocations announced in the spring of 2012. NYPA received more than 1,000 applications for the program.

• **On behalf of its customers,** NYPA's Green Power program purchased over 230,000 megawatt-hours of renewable energy credits from new and existing facilities built to generate electricity from biomass, waste gas and wind power sources.

• **For the third consecutive year,** NYPA broke its record with more than $186 million in expenditures for energy efficiency and clean energy projects. The expenditures were linked to initiatives at nearly 2,600 public facilities throughout the state, helping to lower electricity bills and reduce carbon pollution.

• **In 2011, NYPA's** energy efficiency efforts cut energy demand by 10 MW, lowered the annual energy bills of public facilities by about $9 million and reduced greenhouse gas emissions by nearly 36,000 tons.

Left: Upstate Niagara Cooperative's new dairy processing plant in North Lawrence.




Power Authority Accomplishments

• **NYPA executed an agreement** with the City of New York, plus federal and state agencies, that will allow cruise ships docked at the Brooklyn Cruise Terminal to turn off their diesel engines and plug into the electric grid for their power needs.

• **NYPA worked with** Con Edison and the Long Island Power Authority — other members of the LI-NYC Offshore Wind Collaborative — to prepare and submit an application for the federal lease of offshore property for possible development of a wind farm in the Atlantic Ocean off the Rockaway Peninsula.

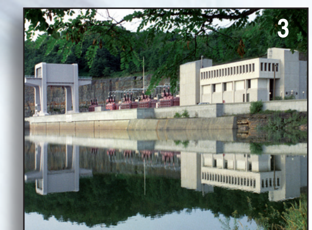
• **As a result of** a competitive process, NYPA commissioned Hudson Transmission Partners (HTP) to build a 660-MW transmission line under the Hudson River to improve energy reliability, diversity and security for New York City.

• **In 2011, NYPA's** Supplier Diversity efforts continued to expand. Its 21st Annual Purchasing Exchange for minority- and women-owned business enterprises (MWBEs) attracted more than 250 participants. For calendar year 2011, NYPA awarded more than $61.2 million, or 19 percent of reportable expenditures, to New York State-certified MWBE firms.

• **In support of NYPA's** Sustainability Action Plan, a new warehouse was constructed at the Niagara project, designed to meet Gold standards from the U. S. Green Building Council. And NYPA completed installation of a photovoltaic array and wind turbine adjacent to its Blenheim-Gilboa Visitors Center. NYPA's first Sustainability Annual Report was issued earlier in the year.

Clockwise from top: A New York State wind farm; HTP's cable-laying ship; the St. Lawrence-FDR LEM; the Niagara project's new green warehouse; the 2011 Supplier Diversity Purchasing Exchange.

NYPA Facilities



1. ST. LAWRENCE-FRANKLIN D. ROOSEVELT POWER PROJECT

Type: Hydroelectric

Location: Massena, on the St. Lawrence River, St. Lawrence County

Net Dependable Capability: 800,000 kw

First Commercial Power: July 1958

2011 Net Generation: 7.2 billion kwh

Net Generation Through 2011: 360.2 billion kwh

2. NIAGARA POWER PROJECT

Type: Hydroelectric

Location: Lewiston, on the Niagara River, Niagara County

Net Dependable Capability: 2,441,000 kw

First Commercial Power: January 1961

2011 Net Generation: 14.6 billion kwh

Net Generation Through 2011: 736.8 billion kwh

3. BLENHEIM-GILBOA PUMPED STORAGE POWER PROJECT

Location: Blenheim and Gilboa, southwest of Albany, in Schoharie County

Net Dependable Capability: 1,100,000 kw

First Commercial Power: July 1973

2011 Gross Generation: 0.18 billion kwh

Gross Generation Through 2011: 49.5 billion kwh

4. RICHARD M. FLYNN POWER PLANT

Type: Gas/Oil

Location: Holtsville, Suffolk County

Net Dependable Capability:135,600 kw

First Commercial Power: May 1994

2011 Net Generation: 1.0 billion kwh

Net Generation Through 2011: 19.5 billion kwh

5. FREDERICK R. CLARK ENERGY CENTER

Function: Coordinates NYPA system operations

Location: Marcy, north of Utica, Oneida County

Opened: June 1980

6. SMALL HYDRO FACILITIES

Located on reservoirs and waterways around the state, these facilities include the Ashokan Project (shown), the Kensico Project, the Gregory B. Jarvis Plant, the Crescent Plant and the Vischer Ferry Plant, with a combined net capability of 13,000 kw. They produced a total of 179 million kwh in 2011.

7. SMALL CLEAN POWER PLANTS

Type: Gas

Location: Six New York City sites and Brentwood, Suffolk County

Net Dependable Capability: 461,000 kw

First Commercial Power: June 2001

2011 Net Generation: 0.58 billion kwh

Net Generation Through 2011: 6.9 billion kwh

8. 500-MW COMBINED-CYCLE PLANT

Type: Gas/Oil

Location: New York City, on the East River

Net Dependable Capability: 500,000 kw

First Commercial Power: December 2005

2011 Net Generation: 3.0 billion kwh

Net Generation Through 2011: 17.7 billion kwh

2011

New York Power Authority
Financial Report

Management Report

Management is responsible for the preparation, integrity and objectivity of the financial statements of the Power Authority of the State of New York (the Authority), as well as all other information contained in the Annual Report. The financial statements have been prepared in conformity with U.S. generally accepted accounting principles 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 as well as testing of all key controls to ensure that the system is functioning as intended. Additionally, as part of its audit of the Authority's 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 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, 2011, 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, appointed by the Governor, by and with the advice and consent of the Senate, are not employees of the Authority. The Trustees' Audit Committee meets with the Authority's management, its 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 Vice President of Internal Audit and the Vice President of Labor Relations & Chief Ethics and Compliance Officer have direct access to the Audit Committee.

Donald A. Russak
Executive Vice President & Chief Financial Officer

March 27, 2012

KPMG LLP
515 Broadway
Albany, NY 12207-2974

Independent Auditors' Report

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

We have audited the balance sheets, statements of revenues, expenses, and change in net assets and statements of cash flows of the Power Authority of the State of New York (Authority) as of and for the years ended December 31, 2011 and 2010. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States and the standards for financial statement 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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of December 31, 2011 and 2010, and the changes in its financial position and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 15, 2012 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* and should be considered in assessing the results of our audit.

The accompanying management's discussion and analysis and the schedule of funding progress listed in the accompanying table of contents are not a required part of the basic financial statements but are supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

KPMG LLP

March 15, 2012

Overview of the Financial Statements

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

The financial statements provide summary information about the New York Power Authority's (Authority) overall financial condition. The notes provide explanation and more details about the contents of the financial statements.

The Authority is considered a special-purpose government entity engaged in business-type activities and follows financial reporting for enterprise funds. The Authority's financial statements are prepared in accordance with generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB). In accordance with GASB standards, the Authority has elected to comply with all authoritative pronouncements applicable to nongovernmental entities (i.e., Accounting Standards Codification of the Financial Accounting Standards Board) that do not conflict with GASB pronouncements.

Forward Looking Statements

The statements in this management discussion and analysis (MD&A) that are not historical facts are forward-looking statements based on current expectations of future events and are subject to risks and uncertainties that could cause actual results to differ materially from those expressed or implied by such statements. In addition, we, through our management, from time to time make forward-looking public statements concerning our expected future operations and performance and other developments. All of these forward-looking statements are subject to risks and uncertainties that may change at any time, and, therefore, our actual results may differ materially from those we expected. We therefore caution against placing substantial 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 written or oral forward-looking statements made by us or on our behalf as a result of new information, future events or other factors.

The following is a summary of the Authority's financial information for 2011, 2010, and 2009:

Summary of Revenues, Expenses, and Changes in Net Assets
(In millions)

		2011	2010	2009	2011 vs. 2010 favorable (unfavorable)	2010 vs. 2009 favorable (unfavorable)
Operating revenues	$	2,655	2,568	2,595	3%	(1)%
Operating expenses:						
Purchased power		854	931	905	8	(3)
Fuel		258	224	366	(15)	39
Wheeling		548	528	436	(4)	(21)
Operations and maintenance		519	443	438	(17)	(1)
Depreciation		194	163	164	(19)	1
Total operating expenses		2,373	2,289	2,309	(4)	1
Operating income		282	279	286	1	(2)
Nonoperating revenues		145	138	132	5	5
Nonoperating expenses		192	236	165	19	(43)
Nonoperating loss		(47)	(98)	(33)	52	(197)
Net income		235	181	253	30	(28)
Contributed capital		59	—	—		
Change in net assets		294	181	253		
Net assets – beginning		3,001	2,820	2,567	6	10
Net assets – ending	$	3,295	3,001	2,820	10	6

The following summarizes the Authority's financial performance for the years 2011 and 2010:

The Authority had net income of $235 million for the year ended December 31, 2011 compared to $181 million in 2010. This current year increase of $54 million included higher operating income of $3 million, higher non-operating revenues of $7 million and lower non-operating expenses of $44 million. Operating income was higher primarily due to higher net generation at Niagara resulting in higher energy sales into the New York Independent System Operator (NYISO) market. Large variations in purchased power, fuel and depreciation expenses from year to year were substantially attributable to the operation of the Astoria Energy II generating station (AEII) starting on July 1, 2011. This facility was utilized to serve the New York City (NYC) governmental customers and related cost variations were offset by recoveries through operating revenues. Operations and maintenance expenses increased mainly due to the operation of AEII and the recognition of residential consumer discounts associated with the Recharge New York power program legislation. This legislation provides for the funding of such discounts from the sale of hydro-power withdrawn from investor-owned utilities. Nonoperating expenses were lower in 2011 due to lower voluntary contributions to New York State ($82 million) partially offset by higher interest expenses ($38 million) primarily relating to AEII.

Net assets increased by $294 million in 2011 including contributed capital of $59 million relating to the contribution of wind farm transmission assets to the Authority.

During 2011, long-term debt decreased by $145 million, or 10%, primarily due to scheduled maturities, early extinguishments of debt (other than the refunded debt) and cash funding of capital expenditures. Interest expense was $38 million higher than 2010 primarily due to interest expense on the capitalized lease obligation related to AEII in 2011. During the period 2001 to 2011, the Authority reduced its total debt/equity ratio from 1.43 to 0.55. Total debt as of December 31, 2011 ($1.81 billion) is at its lowest level since December 31, 1975 ($1.64 billion).

The Authority had net income of $181 million in the year 2010, compared to $253 million in 2009. This $72 million decrease in net income is primarily due to higher nonoperating expenses ($65 million) as a result of higher voluntary contributions to New York State. Operating income was slightly lower ($7 million) than the prior year. Lower fuel costs and higher purchased power expenses in 2010 were substantially attributable to changes in resources utilized to serve the Authority's Southeast New York (SENY) Governmental Customers necessitated by the cessation of operations of the Authority's Poletti plant on January 31, 2010. Wheeling expenses increased due to a Con Ed rate increase for delivery service to the SENY Governmental Customers. The majority of these cost variations are offset through revenues as variances are reflected in customer rates. Nonoperating revenues increased by $6 million in 2010 including an increased mark-to-market adjustment for investments in 2010 due to lower market interest rates partially offset by lower realized investment income.

Operating Revenues

Operating revenues of $2,655 million in 2011 were $87 million or 3% higher than the $2,568 million in 2010, primarily due to higher market-based sales mainly due to higher generation from the Niagara plant.

Purchased Power and Fuel

Purchased power costs decreased by 8% in 2011 to $854 million from $931 million in 2010, primarily due to lower purchase volumes needed to serve SENY governmental customers as a result of the July 1, 2011 commercial operation date of AEII. Fuel costs were $34 million (15%) higher during 2011, also primarily due to the July 1, 2011 commercial operation date of AEII which is one of the resources utilized to serve the NYC governmental customers.

Operations and Maintenance (O&M)

O&M expenses increased by $76 million or 17% in 2011 to $519 million primarily due to expenditures relating to transitional discount payments to residential consumers who will no longer receive hydropower allocations ($42 million); voluntary contributions to New York State relating to the Power for Jobs program ($14 million); and AEII O&M expense for the period since it started commercial operations on July 1, 2011 ($13 million).

Nonoperating Revenues

For 2011, nonoperating revenues increased by $7 million or 5% due to the $11 million settlement of the spent nuclear fuel claim against the United States Department of Energy. This increase was partially offset by reduced investment income due to lower average interest rates on investments. Nonoperating revenues for 2011 and 2010 include income recognition of $72 million for each year resulting from a value sharing agreement relating to the nuclear power plants sold by the Authority to subsidiaries of Entergy Corporation in 2000. See note 11(a), "Nuclear Plant Divestiture," for additional information.

Nonoperating Expenses

For 2011, nonoperating expenses decreased by $44 million or 19% primarily due to a decrease of $82 million in the Authority's voluntary contribution to New York State ($65 million) that was not related to the Power for Jobs program partially offset by higher interest expenses ($38 million) primarily related to the capitalized lease obligation recorded for AEII.

Cash Flows

During 2011, the Authority generated cash flows of $412 million from operations compared to $427 million in 2010. Cash flows from operating activities for 2011 were lower than 2010 primarily due to delivery service refunds to SENY customers relating to prior years.

Net Generation

Net generation for 2011 was 28.1 million megawatt-hours (MWh) compared to the 24.5 million MWh generated in 2010. Net generation from the Niagara (14.6 million MWh) and St. Lawrence (7.3 million MWh) plants were both 10% higher than 2010 as a result of higher water flows. During 2011, net generation was approximately 108% of long-term average and above 2010, which was 98% of long-term average. Combined net generation of the fossil fuel plants for 2011 was 6.3 million MWh or 36% higher than 2010 (4.6 million MWh) with the bulk of the 1.7 million MWh increase attributable to the commercial start of AEII (1.5 million MWh).

The following is a summary of the Authority's balance sheets for 2011, 2010, and 2009:

Summary Balance Sheets
(In millions)

		2011	2010	2009	2011 vs. 2010	2010 vs. 2009
Current assets	$	1,809	1,636	1,396	11%	17%
Capital assets		4,910	3,697	3,711	33	0
Other noncurrent assets		2,316	2,288	2,203	1	4
Total assets		9,035	7,621	7,310	19	4
Current liabilities	$	982	938	830	5	13
Long-term liabilities		4,758	3,682	3,660	29	1
Total liabilities		5,740	4,620	4,490	24	3
Net assets		3,295	3,001	2,820	10	6
Total liabilities and net assets	$	9,035	7,621	7,310	19	4

The following summarizes the Authority's balance sheet variances for the years 2011 and 2010:

In 2011, current assets increased by $173 million (11%) to $1,809 million primarily due to increases in investments ($127 million) reflecting the investment of cash generated by operations; cash ($15 million); and deferred outflows ($31 million). Capital assets increased by $1,213 million (33%) to $4,910 million primarily due to the capitalization of lease payments related to AEII ($1,241 million) in July 2011. Current liabilities increased by $44 million (5%) to $982 million primarily due to changes in fair market values related to the Authority's energy commodity hedging transactions ($31 million) and an increase in short-term debt ($51 million) relating to the Authority's Energy Services programs offset by a decrease in long-term debt due within one year ($39 million). Long-term liabilities increased by $1,076 million (29%) to $4,758 million primarily due to the capitalized lease obligation relating to AEII ($1,225 million) and an increase in the nuclear plant decommissioning obligation ($58 million) offset by decreases in long-term debt resulting from reclassifications to long-term debt due within one year and early termination of debt ($145 million) and a decrease in liabilities related to risk management activities – derivatives ($54 million). The increase in the nuclear plant decommissioning obligation reflects the increase in the market value of the decommissioning fund (i.e., the Authority's obligation is limited to no more than the amount in the decommissioning fund and therefore the liability increases or decreases to reflect the fair value of the decommissioning fund). (See note 11(c) for more information on decommissioning.) The changes in net assets for 2011 and 2010 are discussed in the summary of revenues, expenses and changes in net assets in this Management's Discussion and Analysis.

In 2010, current assets increased by $240 million (17%) to $1,636 million primarily due to an increase in investments ($204 million) reflecting the investment of cash generated by operations. Capital assets decreased by $14 million (0.4%) to $3,697 million primarily due to annual depreciation ($163 million) substantially offset by an increase in plant assets which includes Life Extension and Modernization programs at St. Lawrence and Blenheim-Gilboa (B-G) ($154 million). Other noncurrent assets increased by $85 million (4%) to $2,288 million primarily due to an increase in the market value of the nuclear decommissioning fund ($90 million). Current liabilities increased by $108 million (13%) to $938 million primarily due to changes in fair market values related to the Authority's energy commodity hedging transactions ($65 million) and an increase in short-term debt ($34 million) relating to the Authority's Energy Services programs. Long-term liabilities increased by $22 million (1%) to $3,682 million primarily due to increases in other long-term liabilities ($140 million) which includes an increase in the nuclear plant decommissioning obligation ($90 million) offset by decreases in long-term debt resulting from reclassifications to long-term debt due within one year ($121 million). The increase in the nuclear plant decommissioning obligation reflects the increase in the market value of the decommissioning fund (i.e., the Authority's obligation is limited to no more than the amount in the decommissioning fund and therefore the liability increases or decreases to reflect the fair value of the decommissioning fund). (See note 11(c) for more information on decommissioning.) The changes in net assets for 2011 and 2010 are discussed in the summary of revenues, expenses and changes in net assets in this Management's Discussion and Analysis.

Capital Asset and Long-Term Debt Activity

The Authority currently estimates that it will expend approximately $1,020 million for various capital improvements over the five-year period 2012-2016. The Authority anticipates that these expenditures will be funded using existing construction funds, internally generated funds and additional borrowings. Such additional borrowings are expected to be accomplished through the issuance of additional commercial paper notes and/or the issuance of long-term fixed rate debt. Projected capital requirements during this period include (in millions):

Projects:		
Plant Modernization Program (Lewiston Pump Generating Plant and St. Lawrence)	$	260
MA1 and MA2 Transmission Line		113
Switchyard Modernization Program (St. Lawrence, Niagara, Clark Energy Center)		83
Stator Rewind and Restack Projects (Niagara, St. Lawrence)		55
Relicensing Compliance/Implementation (B-G, Niagara, St. Lawrence)		51
Quick Start Modification Projects (500 MW, SCPP)		39
St. Lawrence Synchronous Condenser Refurbishment		27
500 MW Spare Rotor		22
Replacement of Superstructure Bridges at RMNPP		22
IT Initiatives		20
St. Lawrence Generator Step-up Transformer Replacement		18
Niagara Relay Replacement Program		10
Other (projects less than $9 million)		300
	$	1,020

In addition, the Authority's capital plan includes the provision of $960 million 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.

In June 2010, the Authority's Trustees approved a $460 million Life Extension and Modernization ("LEM") Program at the Lewiston Pump-Generating Plant. The work to be done includes a major overhaul of the plant's 12 pump turbine generator units. The LEM Program will increase pump and turbine efficiency, operating efficiency, and the peaking capacity of the overall Niagara Project. The Authority intends to file an application with the Federal Energy Regulatory Commission (FERC) for a non-capacity license amendment in connection with the program. The unit work is scheduled to begin in late 2012, with the final unit being 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. 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. The Authority currently expects that the costs associated with the relicensing of the Niagara Project will be at least $495 million over a period of 50 years, which includes $50.5 million in administrative costs associated with the relicensing effort and 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. Of the $495 million, $218 million has been spent through December 31, 2011.

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.

More detailed information about the Authority's capital assets is presented in notes 2 and 5 to the financial statements.

Capital Structure

		2011	2010	2009
			(In millions)	
Long-term debt:				
Senior:				
Revenue bonds	$	1,064	1,111	1,154
Adjustable rate tender notes		115	122	131
Subordinated:				
Commercial paper		173	264	330
Total long-term debt		1,352	1,497	1,615
Net assets		3,295	3,001	2,820
Total capitalization	$	4,647	4,498	4,435

In July 2011, the Authority's Trustees authorized the issuance of up to $341 million of additional revenue bonds for the purpose of refunding certain revenue bonds and commercial paper and/or extendible commercial paper notes. In September 2011, the Authority issued $108.4 million of Series 2011 A Revenue Bonds (2011 Bonds). The proceeds from the issuance of the 2011 Bonds and cash-on-hand were used to (i) refund $77.2 million of the Authority's Series 2000 A Revenue Bonds; (ii) defease $41.7 million of the Authority's Series 2002 A Revenue Bonds; and (iii) pay financing and other costs relating to the issuance of the 2011 Bonds.

During 2011, taking into account the issuance of the 2011 Bonds for the refunding of certain bonds, long-term debt, net of current maturities, decreased by $145 million primarily due to scheduled maturities, early extinguishments of debt other than the refunded debt and cash funding of capital expenditures.

During 2010, long-term debt, net of current maturities, decreased by $118 million primarily due to scheduled maturities and cash funding of capital expenditures.

Total Debt to Equity as of December 31, 2011, decreased to .55-to-1 from .65-to-1 as of December 31, 2010. Total debt as of December 31, 2011 ($1.81 billion) is at its lowest level since December 31, 1975 ($1.64 billion).

Debt Ratings

	Moody's	Standard & Poor's	Fitch
NYPA's underlying credit ratings:			
Senior debt:			
Long-term debt	Aa2	AA-	AA
Adjustable rate tender notes	Aa2/VMIG1	AA-/A-1+	N/A
Subordinate debt:			
Commercial paper	P-1	A-1	F1+
Municipal bond insurance support ratings:			
Senior debt:			
Series 2007 A, B and C Revenue Bonds due 2013 to 2047	Aa2*	AA-*	AA*
Series 2006 A Revenue Bonds due 2012 to 2020	Aa2*	AA-*	AA*
Series 2003 A Revenue Bonds due 2012 to 2033	Aa2*	AA-*	AA*

The Authority has a $550 million line of credit with a syndicate of banks supporting the Commercial Paper Notes which line expires January 20, 2014. More detailed information about the Authority's debt is presented in note 6 to the financial statements.

In September 2011, Moody's Investor Service, Inc., Standard & Poor's Rating Service and Fitch Ratings affirmed the Authority's senior and subordinate debt ratings.

In November 2011, S&P downgraded Assured Guaranty Municipal Corp's AA+ rating (formerly Financial Security Assurance Inc.) to AA-. All other bond insurers' ratings are no longer above the Authority's underlying rating and/or are no longer rated. Consequently, the insured bonds carry the Authority's underlying rating denoted by an asterisk (*) after the rating set forth in the table above.

The impact of the bond insurers' credit downgrades on the market value of the Authority's insured bonds was not discernible because of the Authority's strong underlying ratings.

Risk Management

The objective of the Authority's risk management program is to manage the impact of interest rate, energy commodity price and fuel cost volatility on its earnings and cash flows. To achieve these objectives, the Authority's Trustees have authorized the use of various interest rate, energy-price and fuel-price forward instruments for hedging purposes. In addition, the Authority also has a program designed to assess and manage enterprise-wide risk across the Authority.

The Vice President and Chief Risk Officer reports to the Executive Vice President and Chief Financial Officer and is responsible for establishing procedures for identifying, reporting and controlling energy commodity exposure and risk exposure connected with enterprise-wide risk.

On July 21, 2010, President Obama signed into law the Dodd-Frank Wall Street Reform and Consumer Protection Act ("DF Act") which addresses almost every aspect of the financial services industry. Among other things, the DF Act addresses forward interest rate and energy transactions of the type in which the Authority engages, and many of the requirements and processes in this area are expected to be set forth in regulations promulgated by the Commodities Futures Trading Commission in the coming months. Depending on the ultimate resolution of numerous issues, which is uncertain, including whether and to what extent forward transactions are required to be cleared through clearinghouses and/or traded on exchanges with accompanying collateral and/or margin requirements; whether and to what extent forward transactions entered into prior to the enactment of the DF Act are required to be collateralized; and whether and to what extent public power entities such as the Authority are exempted from these requirements, the impact of the DF Act on the Authority's liquidity and/or future risk mitigation activities could be significant. In the event such regulations are applied retroactively to forward positions predating the enactment of the DF Act, it could require the Authority to post as much as $185 million in collateral to maintain its open hedge positions as of July 16, 2012 (the revised, full-implementation date adopted by the CFTC in December 2011). The Authority has sufficient liquidity to post such collateral, if required.

Economic Conditions

The Authority operates in a competitive and sometimes volatile market environment. Volatility in the energy market has, in previous years, unfavorably impacted the Authority in its role as a buyer and has resulted in higher costs of purchased power and fuel in its NYC Governmental Customer and other market areas. The NYC Governmental Customer market cost situation is mitigated by the cost recovery provisions in the long-term supplemental electricity supply agreements and generation from the Authority's 500-MW plant and AEII. Wholesale electricity prices, which declined towards the 2008 year-end reflecting weaknesses in the economy and in commodity prices, continued at relatively low levels in 2010 and 2011 resulting in lower costs of purchased power and fuel, but also unfavorably impacted the Authority in its role as a seller in the electricity market.

According to the National Bureau of Economic Research, a recession in the United States began in December 2007 and ended in June 2009. However, the economy continues to grow slowly and unemployment is high. Forecasted recovery time for these economic conditions range from a few to many years. In this environment, the Authority has continued to utilize its financial flexibility to support its mission and its customers. In December 2010, the Governor approved long-term contract extensions for the continued supply of low-cost hydropower to more than 100 of Western New York's leading companies. These expansion and replacement power customers, who account for more than 70 percent of the manufacturing jobs in the region, are integral to the area's economy with wide-ranging impacts associated with spinoff jobs, payments to suppliers for goods and services, local tax revenues and financial support of local communities and organizations.

In response to the economic downturn's effects on New York's manufacturing sector, the Authority's Trustees in March 2009 approved execution of an agreement with Alcoa, Inc. to provide temporary relief from certain power sales contract provisions relating to the temporary shutdown of one of its two smelters served by the Authority in Massena, New York, including allowing Alcoa to release back to the Authority certain hydropower allocated to it, temporary waivers of certain minimum bill and employment thresholds, and entry into arrangements with the Authority for inclusion of a portion of Alcoa's load in the NYISO's demand response programs. In addition, in May 2009, the Authority's Trustees authorized a temporary program whereby up to $10 million would be utilized to provide electric bill discounts for up to a year to businesses located in Jefferson, St. Lawrence, and Franklin counties. These counties constitute the geographic region served by the Authority's Preservation Power program. The source of the $10 million was the net margin resulting from the sale of a portion of Alcoa's currently unused Preservation Power allocation into the NYISO markets. In September 2010, the Authority's Trustees approved extension of the electric bill discount program for the lesser of one year or the duration of the temporary curtailment of operations at the affected Alcoa facility. During the first quarter of 2011, Alcoa restarted the temporarily curtailed facility and the associated bill discount program ceased shortly thereafter.

In March 2009, the Authority's Trustees approved the deferral for recovery in the future of a proposed hydropower rate increase for the Authority's municipal electric and rural cooperative customers, neighboring state municipal customers, upstate investor-owned utilities, and certain other customers that was scheduled to go into effect on May 1, 2009; and in August 2010, the Authority announced an extension of such deferral through the end of 2010. In November 2011, the Authority's Trustees approved a 41-month rate plan providing for certain phased-in increases to these rates and the Trustees also approved commencement of rate recovery of the deferred amount. Further, in March 2009, the Authority also suspended the application of two annual, contractually-indexed hydropower rate increases for its Replacement Power, Expansion Power, and certain other industrial customers that were scheduled to go into effect on May 1, 2009 and May 1, 2010, respectively, totaling approximately $6.9 million. The Authority's Trustees in July 2011 approved the reinstatement of these indexed rate adjustments, resulting in an increase in these rates effective September 1, 2011 in the annualized amount of approximately $5.3 million.

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 State legislation (generally budget legislation), and (ii) satisfy the requirements of the Authority's 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.

Legislation enacted into law, as part of the 2000-2001 State budget, as amended in subsequent years, 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 Power for Jobs (PFJ) Program and for other purposes as well. Beginning December 2002 through January 2012, the Authority has made voluntary contributions to the State of $469 million in connection with the Power for Jobs Program with another $6 million authorized for payment in the first quarter of 2012, and an additional $402 million unrelated to the Power for Jobs Program. The 2011 ($65 million) and the 2010 ($147 million) contributions to the State which are not related to the PFJ Program were recorded as nonoperating expenses and classified as contributions to New York State in the 2011 and 2010 statements of revenues, expenses and changes in net assets, respectively. The $60 million paid in January 2012 will be reported as a nonoperating expense in the 2012 financial statements. In the Governor's proposed budget for State Fiscal Year 2012-2013, released in January 2012, it is proposed that the Authority be authorized to make an additional voluntary contribution of up to $65 million unrelated to the Power for Jobs Program during such fiscal year. The proposed budget has not yet been enacted into law. Such contributions will only be made if approved by the Authority's Trustees as feasible and advisable at that time. See notes 12(a) and 12(g), "Recharge New York Power Program," for a discussion of recent legislative activity involving the State Fiscal Year 2012-2013 budget, the PFJ Program, and related matters.

By budget legislation enacted in February 2009, the Authority was further authorized to make certain temporary asset transfers to the State of reserve funds. Pursuant to the terms of a Memorandum of Understanding dated February 2009 (MOU) between the State, acting by and through the Director of Budget of the State, and the Authority, the Authority agreed to transfer $215 million associated with its Spent Nuclear Fuel Reserves (Asset B) by the end of State Fiscal Year 2008-2009. The Spent Nuclear Fuel Reserves are funds that have been set aside for the liability to the federal government sometime in the future when the federal government accepts the spent nuclear fuel for permanent storage. 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 during State Fiscal Year 2009-2010 $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. Both transfers were approved by the Authority's Trustees and made in 2009.

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 would be 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 monies 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 were established.

The Authority classified the transfers of Asset A and Asset B ($318 million) as a long-term loan receivable. In lieu of interest payments, the State 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 will be 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 will be waived from April 1, 2011 to March 31, 2017. These payments would have been approximately $8 million per year but the waiver will be limited to a maximum of $43 million for the period. The present value of the waivers approximates the present value of the lost interest income on the transferred reserve funds.

Contacting the Authority

This financial report is designed to provide our customers and other interest 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.

NEW YORK POWER AUTHORITY

Balance Sheets

December 31, 2011 and 2010

(In millions)

Assets and Deferred Outflows		2011	2010
Current assets and deferred outflows:			
Cash and cash equivalents	$	65	50
Investment in securities		1,159	1,032
Interest receivable on investments		6	6
Accounts receivable		190	212
Materials and supplies:			
Plant and general		80	75
Fuel		23	15
Miscellaneous receivables and other		169	160
Deferred outflows		117	86
Total current assets		1,809	1,636
Noncurrent assets and deferred outflows:			
Restricted funds:			
Cash and cash equivalents		20	20
Investment in securities		1,147	1,096
Total restricted funds		1,167	1,116
Capital funds:			
Cash and cash equivalents		5	17
Investment in securities		93	130
Total capital funds		98	147
Capital assets:			
Capital assets not being depreciated		288	273
Capital assets, net of accumulated depreciation		4,622	3,424
Total capital assets		4,910	3,697
Other noncurrent assets and deferred outflows:			
Unamortized debt expense		13	15
Regulatory assets - risk management activities		34	34
Due from New York State		318	318
Deferred charges, long-term receivables and other		541	445
Notes receivable – nuclear plant sale		53	68
Deferred outflows		92	145
Total other noncurrent assets		1,051	1,025
Total noncurrent assets		7,226	5,985
Total assets	$	9,035	7,621

(Continued)

NEW YORK POWER AUTHORITY

Balance Sheets

December 31, 2011 and 2010

(In millions)

Liabilities and Net Assets		2011	2010
Current liabilities:			
Accounts payable and accrued liabilities	$	404	408
Short-term debt		374	323
Long-term debt due within one year		82	121
Capital lease obligation due within one year		5	—
Risk management activities - derivatives		117	86
Total current liabilities		982	938
Noncurrent liabilities:			
Long-term debt:			
Senior:			
Revenue bonds		1,064	1,111
Adjustable rate tender notes		115	122
Subordinated:			
Commercial paper		173	264
Total long-term debt		1,352	1,497
Other noncurrent liabilities:			
Capital lease obligation		1,225	—
Liability to decommission divested nuclear facilities		1,090	1,032
Disposal of spent nuclear fuel		216	216
Relicensing		329	335
Deferred credits and other		414	416
Risk management activities - derivatives		132	186
Total other noncurrent liabilities		3,406	2,185
Total noncurrent liabilities		4,758	3,682
Total liabilities		5,740	4,620
Net assets:			
Invested in capital assets, net of related debt		1,821	1,748
Restricted		32	34
Unrestricted		1,442	1,219
Total net assets		3,295	3,001
Total liabilities and net assets	$	9,035	7,621

See accompanying notes to financial statements.

NEW YORK POWER AUTHORITY

Statements of Revenues, Expenses, and Changes in Net Assets

Years ended December 31, 2011 and 2010

(In millions)

		2011	2010
Operating revenues:			
Power sales	$	1,960	1,889
Transmission charges		147	151
Wheeling charges		548	528
Total operating revenues		2,655	2,568
Operating expenses:			
Purchased power		854	931
Fuel oil and gas		258	224
Wheeling		548	528
Operations		420	350
Maintenance		99	93
Depreciation		194	163
Total operating expenses		2,373	2,289
Operating income		282	279
Nonoperating revenues and expenses:			
Nonoperating revenues:			
Investment income		37	41
Other income		108	97
Total nonoperating revenues		145	138
Nonoperating expenses:			
Contributions to New York State		65	147
Interest on long-term debt		71	75
Interest - other		63	21
Interest capitalized		(4)	(4)
Amortization of debt premium		(3)	(3)
Total nonoperating expenses		192	236
Nonoperating loss		(47)	(98)
Net income before contributed capital		235	181
Contributed capital - Wind farm transmission assets		59	—
Change in net assets		294	181
Net assets at January 1		3,001	2,820
Net assets at December 31	$	3,295	3,001

See accompanying notes to financial statements.

NEW YORK POWER AUTHORITY

Statements of Cash Flows

Years ended December 31, 2011 and 2010

(In millions)

		2011	2010
Cash flows from operating activities:			
Received from customers for the sale of power, transmission and wheeling	$	2,672	2,531
Disbursements for:			
Purchased power		(849)	(930)
Fuel oil and gas		(272)	(213)
Wheeling of power by other utilities		(581)	(512)
Operations and maintenance		(558)	(449)
Net cash provided by operating activities		412	427
Cash flows from capital and related financing activities:			
Issuance of series 2011 A bonds		108	—
Earnings received on capital fund investments		3	4
Issuance of commercial paper		3	4
Repayment of notes		(8)	(8)
Retirement of bonds		(118)	(40)
Defeasance of series 2002 A bonds		(42)	—
Repayment of commercial paper		(135)	(80)
Gross additions to capital assets		(109)	(80)
Sale of Tri-Lakes transmission assets		33	—
Interest paid, net		(70)	(74)
Net cash used in capital and related financing activities		(335)	(274)
Cash flows from noncapital – related financing activities:			
Energy conservation program payments received from participants		112	123
Energy conservation program costs		(176)	(139)
Issuance of commercial paper		163	159
Repayment of commercial paper		(113)	(125)
Interest paid on commercial paper		(1)	(1)
Contribution to OPEB trust fund		(40)	—
Contributions to New York State		(73)	(160)
DOE settlement		11	—
Entergy value sharing agreement		72	72
Entergy notes receivable		30	30
Net cash used in noncapital – related financing activities		(15)	(41)
Cash flows from investing activities:			
Earning received on investments		24	28
Purchase of investment securities		(7,728)	(5,852)
Sale of investment securities		7,645	5,682
Net cash used in investing activities		(59)	(142)
Net increase (decrease) in cash		3	(30)
Cash and cash equivalents, January 1		87	117
Cash and cash equivalents, December 31	$	90	87
Reconciliation to net cash provided by operating activities:			
Operating income	$	282	279
Adjustments to reconcile operating income to net cash provided by operating activities:			
Provision for depreciation		194	163
Change in assets and liabilities:			
Net decrease in prepayments and other		12	1
Net decrease/(increase) in receivables and inventory		9	(15)
Net decrease in accounts payable and accrued liabilities		(85)	(1)
Net cash provided by operating activities	$	412	427
Supplemental disclosures for noncash transactions:			
New capital lease/ debt agreements	$	1,225	—

See accompanying notes to financial statements.

(1) General

The Power Authority of the State of New York (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 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 Authority generates, transmits and sells electricity principally at wholesale. The Authority's primary customers are municipal and rural cooperative electric systems, investor-owned utilities, high-load-factor industries and other businesses, various public corporations located within the metropolitan area of New York City, including The City of New York, and certain out-of-state customers.

The Authority's Trustees are appointed by the Governor of the State, with the advice and consent of the State Senate. The Authority is a fiscally independent public corporation that does not receive State funds or tax revenues or credits. It generally finances construction of new projects through sales of bonds and notes to investors and pays related debt service with revenues from the generation and transmission of electricity. Accordingly, the financial condition of the Authority is not controlled by or dependent on the State or any political subdivision of the State. However, pursuant to the Clean Water/Clean Air Bond Act of 1996 (Bond Act), the Authority administers a Clean Air for Schools Projects program, for which $125 million in Bond Act monies have been allocated for effectuation of such program. Also, in accordance with legislation enacted in 2006, the Authority was appropriated $25 million to implement the Lower Manhattan Energy Independence Initiative involving certain clean energy and energy efficiency measures. Under the criteria set forth in Governmental Accounting Standards Board (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.

Income of the Authority and properties acquired by it for its projects are exempt from taxation. However, the Authority is authorized by Chapter 908 of the Laws of 1972 to enter into agreements to make payments in lieu of taxes with respect to property acquired for any project where such payments are based solely on the value of the real property without regard to any improvement thereon by the Authority and where no bonds to pay any costs of such project were issued prior to January 1, 1972.

(2) Summary of Significant Accounting Policies

The Authority's significant accounting policies include the following:

(a) General

The Authority complies with all applicable pronouncements of the GASB. In accordance with GAS No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the Authority also has elected to comply with all authoritative pronouncements applicable to nongovernmental entities (i.e., Accounting Standards Codification (ASC) of the Financial Accounting Standards Board) that do not conflict with GASB pronouncements. The Authority also applies the standard that allows utilities to capitalize or defer certain costs or revenues based on management's ongoing assessment that it is probable these items will be recovered or reflected in the rates charged for electricity. The operations of the Authority are presented as an enterprise fund following the accrual basis of accounting in order to recognize the flow of economic resources. Under this basis, revenues are recognized in the period in which they are earned and expenses are recognized in the period in which they are incurred.

(b) Accounting for the Effects of Rate Regulation

The Authority is subject to the provisions of ASC Topic 980, Regulated Operations (FAS No. 71, Accounting for the Effects of Certain Types of Regulation). These provisions recognize the economic ability of regulators, through the ratemaking process, to create future economic benefits and obligations affecting rate-regulated companies. 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 probable future reductions in revenues associated with amounts that are expected to be refunded to customers through the ratemaking process.

In order for a rate-regulated entity to continue to apply the provisions of ASC Topic 980, it must continue to meet the following three criteria: (1) the enterprise's rates for regulated services provided to its customers must be established by an independent third-party regulator or its own governing board empowered by a statute to establish rates that bind customers; (2) the regulated rates must be designed to recover the specific enterprise's costs of providing the regulated services; and (3) in view of the demand for the regulated services and the level of competition, it is reasonable to assume that rates set at levels that will recover the enterprise's costs can be charged to and collected from customers.

Based upon the Authority's evaluation of the three criteria discussed above in relation to its operations, and the effect of competition on its ability to recover its costs, the Authority believes that the provisions of ASC Topic 980 continue to apply.

(c) Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(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, 2011 and 2010 expressed as a percentage of average depreciable capital assets on an annual basis are:

	Average depreciation rate	
	2011	**2010**
Type of plant:		
Production:		
Hydro	2.0%	1.9%
Gas turbine/combined cycle	3.2	3.5
Transmission	2.4	2.6
General	3.7	3.3
	2.8%	2.7%

(e) Asset Retirement Obligation

The Authority applies the applicable provisions of ASC Topic 410 Asset Retirement and Environmental Obligations (FAS No. 143, Accounting for Asset Retirement 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 this asset. 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, 2011 or 2010.

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 ASC Topic 980. The balances of these other cost of removal obligations as of December 31, 2011 and 2010 were approximately $235 million and $228 million, respectively, and are recorded in other noncurrent liabilities on the balance sheets.

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

		ARO amounts	Cost of removal obligation
		(In millions)	
Balance – December 31, 2010	$	22	228
Depreciation expense		—	7
Balance – December 31, 2011	$	22	235

(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.

(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 interest rate, energy price and fuel cost changes on its earnings and cash flows. The Authority recognizes the fair value of all derivative instruments as either an asset or liability on its balance sheets 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.

(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) Deferred Charges

At December 31, 2011 and 2010, deferred charges include $141 million and $146 million, respectively, of energy services program costs. These deferred costs will be recovered from certain customers through the terms of contracts.

(l) Deferred 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*.

(m) Compensated Absences

The Authority accrues the cost of unused sick leave which is payable upon the retirement of its employees. The current year's cost is accounted for as a current operating expense in the statement of revenues, expenses, and changes in net assets and in other noncurrent liabilities on the balance sheets.

(n) Net Assets

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

a. Investment in Capital Assets, Net of Related Debt – This reflects the net assets of the Authority that are invested in capital assets, net of related debt and accounts. This indicates that these assets are not accessible for other purposes.

b. Restricted Net Assets – This represents the net assets that are not accessible for general use because their use is subject to restrictions enforceable by third parties.

c. Unrestricted Net Assets – This represents the net assets that are available for general use.

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

(o) Revenues

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 incurred for the transmission of power over transmission lines owned by other utilities. Sales and purchases of power between the Authority's facilities are eliminated from revenues and operating expenses. Energy costs are charged to expense as incurred. Sales to the Authority's five (5) largest customers (three governmental customers and two investor-owned utilities) operating in the State accounted for approximately 53% and 53% of the Authority's operating revenues in 2011 and 2010, respectively. The Authority distinguishes operating revenues and expenses from nonoperating items in the preparation of its financial statements. The principal operating revenues are generated from the sale, transmission, and wheeling of power. The Authority's operating expenses include fuel, operations and maintenance, depreciation, purchased power costs, and other expenses related to the sale of power. All revenues and expenses not meeting this definition are reported as nonoperating income and expenses.

(p) Reclassifications

Certain prior year amounts have been reclassified to conform with the current year's presentation. These reclassifications had no effect on net income and changes in net assets.

(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 there for (including the anticipated receipt of proceeds of sale of Obligations, as defined in the Bond Resolution, issued under the Bond Resolution or other bonds, notes or other obligations or evidences of indebtedness of the Authority that will be used to pay the principal of Obligations issued under the Bond Resolution in anticipation of such receipt, but not including any anticipated or actual proceeds from the sale of any Project), to meet the financial requirements of the Bond Resolution. Revenues of the Authority (after deductions for operating expenses and reserves, including reserves for working capital, operating expenses or compliance purposes) are applied first to the payment of, or accumulation as a reserve for payment of, interest on and the principal or redemption price of Obligations issued under the Bond Resolution and the payment of Parity Debt issued under the Bond Resolution.

The Bond Resolution also provides for withdrawal for any lawful corporate purpose as determined by the Authority, including but not limited to the retirement of Obligations issued under the Bond Resolution, from amounts in the Operating Fund in excess of the operating expenses, debt service on Obligations and Parity Debt issued under the Bond Resolution, and subordinated debt service requirements. The Authority has periodically reacquired revenue bonds when available at favorable prices.

(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, 2011, $337 million (14%), $188 million (8%) and $575 million (23%) of the Authority's investments were in securities of Federal Home Loan Bank (FHLB), Federal Farm Credit Bank (FFCB) and Federal National Mortgage Association (FNMA or Fannie Mae), respectively.

(d) Decommissioning Fund

The Decommissioning Trust Fund is managed by external investment portfolio managers. Under the Decommissioning Agreements (see note 11), the Authority will make no further contributions to the Decommissioning Funds. The Authority's decommissioning responsibility will not exceed the amounts in each of the Decommissioning Funds. Therefore, the Authority's obligation is not affected by various risks which include credit risk, interest rate risk, and concentration of credit risk. In addition, the Decommissioning Trust Fund is not held within the Trust Estate of the Bond Resolution and therefore is administered under separate investment guidelines from those of the Authority or New York State.

(e) Other

All investments are held by designated custodians in the name of the Authority. At December 31, 2011 and 2010, the Authority had investments in repurchase agreements of $48 million and $50 million, respectively. The bank balances were $52 million and $29 million, respectively, of which $51 million and $28 million, respectively, were uninsured, but were collateralized by assets held by the bank in the name of the Authority.

Cash and Investments of the Authority at December 31, 2011 and 2010, are as follows:

			Restricted				
December 31, 2011	**Total**	**Total restricted**	**Decommiss-ioning Trust Fund**	**POCR and CAS projects and other**	**ART note debt reserve**	**Capital fund**	**Unrestricted**
				(In millions)			
Cash and investments:							
Cash and cash equivalents	$ 90	20	—	20	—	5	65
U.S. government:							
GNMA	19	—	—	—	—	—	19
	19	—	—	—	—	—	19
Other debt securities:							
FNMA	575	5	—	—	5	6	564
FHLMC	78	36	—	36	—	9	33
FHLB	337	9	—	—	9	15	313
FFCB	188	—	—	—	—	33	155
All other	112	7	—	—	7	30	75
	1,290	57	—	36	21	93	1,140
Portfolio Manager	1,090	1,090	1,090	—	—	—	—
Total investments	2,399	1,147	1,090	36	21	93	1,159
	$ 2,489	1,167	1,090	56	21	98	1,224
Summary of maturities (years):							
0 – 1	$ 374	56	—	56	—	53	265
1 – 5	924	21	—	—	21	31	872
5 – 10	37	—	—	—	—	—	37
10+	64	—	—	—	—	14	50
Portfolio manager	1,090	1,090	1,090	—	—	—	—
	$ 2,489	1,167	1,090	56	21	98	1,224

Petroleum Overcharge Restitution (POCR) Funds and Clean Air for Schools (CAS) Projects 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 to date, took place from 1996 to 2009. The POCR funds are included in restricted funds in the balance sheets. The funds are held in a separate escrow account until they are utilized.

The New York State Clean Water/Clean Air Bond Act of 1996 made available $125 million for Clean Air for Schools Projects (CAS Projects) for elementary, middle and secondary schools, with the Authority authorized to undertake implementation of the CAS Projects program. The CAS Projects are designed to improve air quality for schools and include, but are not limited to, projects that replace coal-fired furnaces and heating systems with furnaces and systems fueled with oil or gas. The conversion of the last 6 of 80 schools was in process as of December 31, 2011. As of December 31, 2011, restricted funds include the POCR fund ($14 million), the CAS Projects fund ($9 million), the Lower Manhattan Energy Independence Initiative fund ($13 million) and the Fish & Wildlife Habitat Enhancement fund related to the Niagara relicensing costs ($17 million).

As of December 31, 2010, restricted funds include the POCR fund ($16 million), the CAS Projects fund ($10 million), the Lower Manhattan Energy Independence Initiative fund ($18 million) and the Fish & Wildlife Habitat Enhancement fund related to the Niagara relicensing costs ($17 million).

December 31, 2010	Total	Total restricted	Restricted: Decommiss-ioning Trust Fund	Restricted: POCR and CAS projects and other	Restricted: ART note debt reserve	Capital fund	Unrestricted
			(In millions)				
Cash and investments:							
Cash and cash equivalents	$ 87	20	—	20	—	17	50
U.S. government:							
Treasury bills	43	43	—	43	—	—	—
GNMA	38	—	—	—	—	—	38
	81	43	—	43	—	—	38
Other debt securities:							
FNMA	232	5	—	—	5	22	205
FHLMC	158	—	—	—		6	152
FHLB	371	5	—	—	5	6	360
FFCB	266	4	—	—	4	54	208
All other	118	7	—	—	7	42	69
	1,145	21	—	—	21	130	994
Portfolio Manager	1,032	1,032	1,032	—	—	—	—
Total investments	2,258	1,096	1,032	43	21	130	1,032
	$ 2,345	1,116	1,032	63	21	147	1,082
Summary of maturities (years):							
0 – 1	$ 317	63	—	63	—	47	207
1 – 5	826	21	—	—	21	74	731
5 – 10	69	—	—	—	—	—	69
10+	101	—	—	—	—	26	75
Portfolio manager	1,032	1,032	1,032	—	—	—	—
	$ 2,345	1,116	1,032	63	21	147	1,082

(5) Capital Assets

The following schedule summarizes the capital assets activity of the Authority for the year ended December 31, 2011:

	Beginning balance	Additions	Deletions/ Transfers	Ending balance
	(Amounts in millions)			
Capital assets, not being depreciated:				
Land	$ 148	6	—	154
Construction in progress	125	132	(123)	134
Total capital assets not being depreciated	273	138	(123)	288
Capital assets, being depreciated:				
Production – Steam	437	—	—	437
Production – Hydro	1,749	50	(3)	1,796
Production – Gas turbine/combined cycle	1,248	1,166	—	2,414
Transmission	1,785	157	(33)	1,909
General	1,070	46	(3)	1,113
Total capital assets being depreciated	6,289	1,419	(39)	7,669
Less accumulated depreciation for:				
Production – Steam	436	—	—	436
Production – Hydro	628	32	(3)	657
Production – Gas turbine/combined cycle	497	74	—	571
Transmission	951	44	(2)	993
General	353	40	(3)	390
Total accumulated depreciation	2,865	190	(8)	3,047
Net value of capital assets, being depreciated	3,424	1,229	(31)	4,622
Net value of all capital assets	$ 3,697	1,367	(154)	4,910

Wind Farm Transmission Assets

The Authority is allowing three Wind Farm power facilities to interconnect to its bulk transmission system between the Willis and Plattsburgh 230 kv substations. Noble Ellenburg Wind Park LLC, the wind farm developers, transferred title to three substations (valued at $59 million) to the Authority in order for the Authority to maintain reliability standards and control of its bulk transmission system. The transfer was accounted for as a capital contribution.

The following schedule summarizes the capital assets activity of the Authority for the year ended December 31, 2010:

		Beginning balance	Additions	Deletions/ Transfers	Ending balance
		(Amounts in millions)			
Capital assets, not being depreciated:					
Land	$	148	—	—	148
Construction in progress		144	149	(168)	125
Total capital assets not being depreciated		292	149	(168)	273
Capital assets, being depreciated:					
Production – Steam		437	—	—	437
Production – Hydro		1,689	74	(14)	1,749
Production – Gas turbine/combined cycle		1,236	12	—	1,248
Transmission		1,749	47	(11)	1,785
General		1,037	35	(2)	1,070
Total capital assets being depreciated		6,148	168	(27)	6,289
Less accumulated depreciation for:					
Production – Steam		436	—	—	436
Production – Hydro		614	28	(14)	628
Production – Gas turbine/combined cycle		448	49	—	497
Transmission		910	42	(1)	951
General		321	34	(2)	353
Total accumulated depreciation		2,729	153	(17)	2,865
Net value of capital assets, being depreciated		3,419	15	(10)	3,424
Net value of all capital assets	$	3,711	164	(178)	3,697

(6) Long-Term Debt

(a) Components

	Amount 2011	Amount 2010	Interest rate	Maturity	Earliest redemption date prior to maturity
	(In millions)				
Senior debt:					
Revenue Bonds (Tax-Exempt):					
Series 2000 A Revenue Bonds:					
Term Bonds	$ —	10	5.25%	Refunded	Refunded
Term Bonds	—	67	5.25%	Refunded	Refunded
Series 2002 A Revenue Bonds:					
Serial Bonds	53	120	3.375% to 5.00%	11/15/2012 to 2013 **	N/A
Series 2006 A Revenue Bonds:					
Serial Bonds	123	134	3.5% to 5.0%	11/15/2012 to 2020	11/15/2015
Series 2007 A Revenue Bonds:					
Term Bonds	82	82	4.5% to 5.0%	11/15/2047	11/15/2017
Series 2007 C Revenue Bonds:					
Serial Bonds	264	264	4.0% to 5.0%	11/15/2014 to 2021	11/15/2017
Series 2011 A Revenue Bonds:					
Serial Bonds	69	—	2.0% to 5.0%	11/15/2012 to 2031 *	11/15/2021
Term Bonds	39	—	4.0% to 5.0%	11/15/2032 to 2038	11/15/2021
Revenue Bonds (Taxable):					
Series 2003 A Revenue Bonds:					
Serial Bonds	10	14	4.67% to 4.83%	11/15/2012 to 2013	Any date
Term Bonds	186	186	5.230% to 5.749%	11/15/2018 to 2033	Any date
Series 2007 B Revenue Bonds:					
Serial Bonds	18	18	5.253% to 5.603%	11/15/2013 to 2017	Any date
Term Bonds	239	239	5.905% to 5.985%	11/15/2037 and 2043	Any date
	1,083	1,134			
Plus unamortized premium and discount	34	21			
Less deferred refinancing costs	10	4			
	1,107	1,151			
Less due in one year	43	40			
	$ 1,064	1,111			

* $26.4 million due 2022 is non-callable.
** Principal due 2014 - 2022 defeased in November 2011.

	Amount 2011	Amount 2010	Interest rate	Maturity	Earliest redemption date prior to maturity
	(In millions)				
Adjustable Rate Tender Notes:					
2016 Notes	$ 48	55	0.19%	3/1/2016	Any adjustment date
2020 Notes	75	75	0.19%	3/1/2020	Same as above
	123	130			
Less due in one year	8	8			
	115	122			
Subordinate debt:					
Commercial Paper:					
EMCP (Series 1)	78	141	0.18%	2012 to 2023	
CP (Series 2)	82	128	0.16%	2012 to 2015	
CP (Series 3)	44	68	0.22%	2012 to 2021	
	204	337			
Less due within one year	31	73			
	173	264			
Total Long-term debt	1,434	1,618			
Less due within one year	82	121			
Long-term debt, net of due in one year	$ 1,352	1,497			

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

Senior Debt

As indicated in note 3, "Bond Resolution," the Authority has pledged future revenues to service the Obligations and Parity Debt (Senior Debt) issued under the Bond Resolution. Annual principal and interest payments on the Senior Debt are expected to require less than 35% of operating income plus depreciation. The total principal and interest remaining to be paid on the Senior Debt is $2.0 billion. Principal and interest paid for 2011 and operating income plus depreciation were $108 million and $476 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 above, at principal amount or at various redemption prices according to the date of redemption, together with accrued interest to the redemption date.

In July 2011, the Authority's Trustees authorized the issuance of up to $341 million of additional revenue bonds for the purpose of refunding certain revenue bonds and commercial paper and/or extendible commercial paper notes. In September 2011, the Authority issued $108.4 million of Series 2011 A Revenue Bonds (2011 Bonds). The proceeds from the issuance of the 2011 Bonds and cash-on-hand were used to (i) refund $77.2 million of the Authority's Series 2000 A Revenue Bonds; (ii) defease $41.7 million of the Authority's Series 2002 A Revenue Bonds; and (iii) pay financing and other costs relating to the issuance of the 2011 Bonds.

In prior years, the Authority defeased certain revenue bonds and general purpose bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the Authority's financial statements. At December 31, 2011 and 2010, $310 million and $268 million, respectively, of outstanding bonds were considered defeased.

The Adjustable Rate Tender Notes may be tendered to the Authority by the holders on any adjustment date. The rate adjustment dates are March 1 and September 1. The Authority has entered into a revolving credit agreement (Agreement) with The Bank of Nova Scotia to provide a supporting line of credit. Under the Agreement, which terminates on September 1, 2015, the Authority may borrow up to $123 million for the purpose of repaying, redeeming or purchasing the Notes. The Agreement provides for interest on outstanding borrowings (none outstanding at December 31, 2011 or 2010) at either (i) the Federal Funds Rate plus a percentage, or (ii) a rate based on the London Interbank Offered Rate (LIBOR) plus a percentage. The Authority expects that it will be able to renew or replace this Agreement as necessary. In accordance with the Adjustable Rate Tender Note Resolution, a Note Debt Service Reserve account has been established in the amount of $20 million. See note 8 for the Authority's risk management program relating to interest rates.

At December 31, 2011 and 2010, the current market value of the senior debt was approximately $1.347 billion and $1.294 billion, respectively. Market values were obtained from a third party that utilized a matrix-pricing model.

Subordinate Debt – 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).

The proceeds of the Series 2 and 3 Commercial Paper Notes (CP Notes) were used to refund General Purpose Bonds and for other corporate purposes. 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 Series 2 and 3 CP Notes and the EMCP Notes as they mature so that their ultimate maturity dates will range from 2012 to 2023, as indicated in the table above.

The Authority has a line of credit under a 2011 revolving credit agreement (the 2011 RCA) to provide liquidity support for the Series 1-3 CP Notes, with a syndicate of banks, providing $550 million for such CP Notes until January 20, 2014, which succeeded another revolving credit agreement (the 2008 RCA) in January 2011. No borrowings have been made under the 2011 RCA or the 2008 RCA. The Authority has the option to extend the maturity of the EMCP Notes and would exercise such right in the event there is a failed remarketing. This option serves as a substitute for a liquidity facility for the EMCP Notes.

CP Notes and EMCP Notes are subordinate to the Series 2002 A Revenue Bonds, the Series 2003 A Revenue Bonds, the Series 2006 A Revenue Bonds, the Series 2007 A, B, and C Revenue Bonds, the Series 2011 A Revenue Bonds and the Adjustable Rate Tender Notes.

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

Maturities and Interest Expense:	Long-Term Debt (In millions)				Capitalized Lease Obligations (In millions)		
	Principal	Interest	Hedging Derivative Instruments, Net	Total	Principal	Interest	Total
Year:							
2012	$ 82	57	7	**146**	5	98	**103**
2013	98	55	6	**159**	8	98	**106**
2014	99	53	5	**157**	12	97	**109**
2015	95	50	3	**148**	16	96	**112**
2016	82	47	2	**131**	20	95	**115**
2017 – 2021	420	191	—	**611**	186	437	**623**
2022 – 2026	113	132	—	**245**	383	326	**709**
2027 – 2031	119	104	—	**223**	600	119	**719**
2032 – 2036	112	69	—	**181**	**—**	**—**	**—**
2037 – 2041	77	42	—	**119**	**—**	**—**	**—**
2042 – 2046	92	19	—	**111**	**—**	**—**	**—**
2047	21	1	—	**22**	**—**	**—**	**—**
	1,410	820	23	**2,253**	1,230	1,366	**2,596**
Plus unamortized bond premium	34	—	—	**34**	—	—	**—**
Less deferred refinancing cost	10	—	—	**10**	—	—	**—**
	$ 1,434	820	23	**2,277**	1,230	1,366	**2,596**

The interest rate used to calculate future interest expense on variable rate debt is the interest rate at December 31, 2011.

(b) Terms by Which Interest Rates Change for Variable Rate Debt

Adjustable Rate Tender Notes

In accordance with the Adjustable Rate Tender Note Resolution adopted April 30, 1985, as amended up to the present time (Note Resolution), the Authority may designate a rate period of different duration, effective on any rate adjustment date. The Remarketing Agent appointed under the Note Resolution determines the rate for each rate period which, in the Agent's opinion, is the minimum rate necessary to remarket the notes at par.

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, 2011, the reset rate would have been 7.33%.

(c) Changes in Long-Term Liabilities

Changes in the Authority's long-term liabilities for the year ended December 31, 2011 are comprised of the following:

		Beginning balance	Additions	Maturities/ refundings and other	Ending balance	Due within one year
				(Amounts in millions)		
Senior debt:						
Revenue bonds	$	1,134	108	159	1,083	43
Adjustable rate tender bonds		130	—	7	123	8
Subtotal		1,264	108	166	1,206	51
Subordinate debt:						
Commercial paper		337	3	136	204	31
Subtotal		337	3	136	204	31
Net unamortized discounts/ premiums and deferred losses		17	21	14	24	—
Total debt, net of unamortized discounts/ premiums/ deferred losses	$	1,618	132	316	1,434	82
Other long-term liabilities:						
Capitalized lease obligation	$	—	1,294	64	1,230	5
Nuclear decommissioning		1,032	58	—	1,090	—
Disposal of nuclear fuel		216	—	—	216	—
Relicensing		335	17	23	329	—
Deferred revenues and other		602	17	73	546	—
Total other long-term liabilities	$	2,185	1,386	160	3,411	5

Changes in the Authority's long-term liabilities for the year ended December 31, 2010 are comprised of the following:

		Beginning balance	Additions	Maturities/ refundings and other	Ending balance	Due within one year
		(Amounts in millions)				
Senior debt:						
Revenue bonds	$	1,174	—	40	1,134	40
Adjustable rate tender bonds		138	—	8	130	8
Subtotal		1,312	—	48	1,264	48
Subordinate debt:						
Commercial paper		413	4	80	337	73
Subtotal		413	4	80	337	73
Net unamortized discounts/ premiums and deferred losses		19	—	2	17	—
Total debt, net of unamortized discounts/ premiums/ deferred losses	$	1,744	4	130	1,618	121
Other long-term liabilities:						
Nuclear decommissioning	$	942	90	—	1,032	—
Disposal of nuclear fuel		216	—	—	216	—
Relicensing		331	17	13	335	—
Deferred revenues and other		556	83	37	602	—
Total other long-term liabilities	$	2,045	190	50	2,185	—

(7) Short-Term Debt

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

		December 31			
		2011		2010	
		Availability	Outstanding	Availability	Outstanding
		(In millions)			
CP Notes (Series 1)	$	400	374	400	323

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). See note 6 – Long-term Debt for Series 2 and 3 CP Notes and the EMCP Notes. The proceeds of the Series 1 CP Notes have been and shall be used to finance the Authority's current and future energy services programs and for other corporate purposes.

The changes in short-term debt are as follows:

		Beginning balance	Increases	Decreases	Ending balance
		(In millions)			
Year:					
2010	$	289	159	125	323
2011		323	164	113	374

CP Notes are subordinate to the Series 2000 A Revenue Bonds, the Series 2002 A Revenue Bonds, the Series 2003 A Revenue Bonds, the Series 2006 A Revenue Bonds, the Series 2007 A, B, and C Revenue Bonds, the Series 2011 A Revenue Bonds and the Adjustable Rate Tender Notes.

(8) Risk Management and Hedging Activities

Overview

The Authority purchases insurance coverage for its operations, and in certain instances, is self-insured. Property insurance purchase protects the various real and personal property owned by the Authority and the property of others while in the care, custody and control of the Authority for which the Authority may be held liable. Liability insurance purchase protects the Authority from third-party liability related to its operations, including general liability, automobile, aircraft, marine and various bonds. 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 the impacts of interest rate, energy and fuel market fluctuations on its earnings, cash flows and market values of assets and liabilities. To achieve its objectives the Authority's Trustees have authorized the use of various interest rate, energy, and fuel derivative instruments that are considered financial 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 balance sheet as risk management activities. For designated hedging derivative instruments, changes in the fair values are deferred and classified as deferred inflows or deferred outflows in current and other noncurrent assets or liabilities. For designated interest rate option hedging instruments the change in fair value is applied to interest expense. Renewable energy contracts, designated as investment derivative instruments, are deferred as regulatory assets or liabilities, as they are recoverable from customers by contractual agreements. The fair value of interest rate swap contracts take into consideration the prevailing interest rate environment and the specific terms and conditions of each contract. The fair values were estimated using the zero-coupon discounting method. The fair value of the interest rate option contracts were measured using an option pricing model that considers probabilities, volatilities, time, underlying prices, and other variables. The fair value for over-the-counter energy, renewable energy and natural gas transportation contracts are determined by the monthly market prices over the lifetime of each outstanding contract using the latest end-of-trading-month forward prices published by Platts or derived from pricing models based upon Platt's prices.

Counterparty Credit Risk

The Authority's policy regarding the creditworthiness of counterparties for interest rate derivative contracts 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 contract 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 contract alone. In January, 2011, the Authority's Board of Trustees 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.

Since 2010, the Authority has imposed thresholds, based on agency-published credit ratings, 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 mark-to-market values in excess of the thresholds. In addition, the Authority regularly monitors each counterparty's market-implied credit ratings and financial ratios and 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, 2011 the Authority's individual or aggregate exposure to derivative contract counterparty credit risk is not significant.

The following table shows the fair value of derivatives contracts for 2011 and 2010:

Derivative instrument description	Fair value balance December 31, 2010	Net change in fair value	Fair value balance December 31, 2011	Type of hedge or transaction	Financial statement classification for changes in fair value	Notional amount December 31, 2011	Volume
		(In millions)					
Interest rate contracts (Swaps/Options):							
Series 2 CP Notes	$ (8.7)	$ 2.6	$ (6.1)	Cash Flow	Deferred inflow	81.8	USD
ART Notes	(12.7)	(1.0)	(13.7)	Cash Flow	Deferred outflow	122.9	USD
Series 1 CP Notes (Option)	—		—	Cash Flow	Interest Expense	300.0	USD
Energy contracts (Swaps):							
Economic Cost Savings Benefits	(0.1)	0.1	—	Cash Flow	Deferred inflow	—	MWh
SENY Customer Load	(101.0)	29.1	(71.9)	Cash Flow	Deferred inflow	2,854,800	MWh
SENY Customer Load	(108.8)	(8.7)	(117.5)	Cash Flow	Deferred outflow	5,041,200	MWh
Renewable energy contracts: (Swaps)							
SENY Renewable Energy	(33.8)	0.2	(33.6)	Investment	Regulatory Asset	1,096,288	MWh
Totals	$ (265.1)	$ 22.3	$ (242.8)				

Interest Rate Contracts:

Series 2 CP Notes: In 1998, the Authority entered into forward interest rate swaps to fix rates on long-term obligations initially issued to refinance $268.2 million of Series 1998 B Revenue Bonds required to be tendered in the years 2002 (the 2002 Swaps). Based upon the terms of these forward interest rate swaps, the Authority would pay interest calculated at a fixed rate of 5.1% to the counterparties through February 15, 2015. In return, the counterparties would pay interest to the Authority based upon the SIFMA municipal swap index (SIFMA Index) on the established reset dates. On November 15, 2002 the Authority completed the mandatory payment on the Series 1998 B Revenue Bonds from the proceeds of the issuance of Series 2 CP Notes. The 2002 Swaps became active on November 15, 2002 and are scheduled to terminate on February 15, 2015. Net settlement payments were $4.3 and $6.7 million in 2011 and 2010 respectively.

ART Notes: In 2006, the Authority entered into a forward interest rate swap having an initial notional amount of $156 million (which declines over time to $75 million) with the objective of fixing the interest rates on the Authority's Adjustable Rate Tender

Notes (ART Notes) for the period September 1, 2006 to September 1, 2016. Based upon the terms of the forward interest rate swap, the Authority pays interest calculated at a fixed rate of 3.7585% on the outstanding notional amount. In return, the counterparty pays interest to the Authority based upon 67% of the six-month LIBOR established on the reset dates that coincide with the ART Notes interest rate reset dates. Net settlement payments were $4.3 and $4.5 million in 2011 and 2010 respectively.

Series 1 CP Notes (Option): On January 26, 2011 an interest rate option (cap) was purchased with the objective of limiting exposure to rising interest rates relating to the Series 1 CP Notes at a premium cost of $200 thousand. The interest rate for the Series 1 CP Notes is capped at 5.5 percent and is based upon the SIFMA Index for a notional amount of $300 million through January 25, 2014.

Energy Contracts:

Energy Cost Savings Benefits: In 2011 and 2010, the Authority purchased a number of short-term energy swaps. The objective of these short-term energy swaps was to fix the cost of energy purchases in the NYISO electric market to meet the forecasted load requirements of certain Energy Cost Savings Benefits program (ECSB) customers. These short-term energy swaps have terminated and are not outstanding as of December 31, 2011. Net settlement payments were $1.4 and $0.6 million in 2011 and 2010 respectively.

NYC Customer Load: In 2009, the Authority entered into the first of two medium-term forward energy swaps to fix the cost of energy purchases in the NYISO electric market to meet certain long-term NYC Governmental Customers load requirements between 2010 and 2012. Net settlement payments were $50.2 and $27.7 million in 2011and 2010 respectively.

NYC Customer Load: In 2009, the Authority entered into the second of two medium-term forward energy swaps to fix the cost of energy purchases in the NYISO electric market to meet certain long-term NYC Governmental Customers load requirements between 2011 and 2014. Net settlement payments were $27.8 million in 2011.

Renewable Energy Contracts:

SENY Renewable Energy: In 2006, the Authority entered into long-term forward energy swaps and purchase agreements based upon a portion of the generation of the counterparties' wind-farm-power-generating facilities between 2008 and 2017. The fixed price ranges from $74 to $75 per megawatt and includes the purchase of the related environmental attributes. The intent of the swaps and purchase agreements is to assist specific governmental 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 $6.2 and $4.2 million in 2011 and 2010 respectively. The Authority anticipates the recovery or distribution of any net settlements through specific contractual agreements with customers.

Other Considerations:

In addition, the Authority used derivatives during the periods to hedge certain exposures. There were no open positions in these derivatives on December 31, 2011 or 2010. These derivatives included:

- *Power for Jobs Program:* In 2010, the Authority purchased a number of short-term energy swaps. The objective of these short-term energy swaps was to fix the price of purchases of energy in the NYISO electric market to meet short-term forecasted load requirements for the Authority's Power for Jobs program (which will be replaced by Recharge New York Power program on July 1, 2012). These short-term energy swaps terminated in less than one year. Net settlement payments were $ 0.4 million in 2010.

- *NYC Customer Load*: In 2008 and 2009, the Authority purchased a number of short-term energy swaps. The objective of these short-term energy swaps was to fix the cost of energy purchases in the NYISO electric market for the benefit of the NYC Governmental Customers. These short-term energy swaps terminated in less than two years. Net settlement payments were $17.7 million in 2010.

- *NYC Customer Load*: In 2005, the Authority entered into a long-term forward energy swap to fix the cost of energy purchases in the NYISO electric market to meet certain long-term NYC Governmental Customers load requirements between 2008 and 2010. Net settlement payments were $14.5 million in 2010.

The Authority from time to time may be exposed to any of the following risks defined under GAS 53.

Basis risk: The Authority is exposed to basis risk on its pay-fixed interest rate swaps because the variable-rate payments received by the Authority on these hedging derivative instruments are based upon indexes other than the actual interest rates the Authority pays on its hedged variable-rate debt. Under the terms of the related hedging fixed rate swap transactions, the Authority receives a variable rate based upon SIFMA and sixty-seven percent of LIBOR, respectively. The Authority remarkets its Notes at rates that approximate SIFMA and sixty-seven percent of 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.

Tax risk: The Authority is at risk that a change in Federal tax rates will alter the relationship between the actual rates at which the Authority remarkets its ART Notes and LIBOR Index used in the pay-fixed receive-variable interest rate swap transaction.

Rollover risk: The Authority is exposed to certain rollover risk on its variable ART Notes. Certain of the ART Notes mature on March 1, 2020 while its pay-fixed, receive-variable ART Notes swap terminates on September 1, 2016 leaving the Authority exposed to interest rate volatility during the period September 1, 2016 to March 1, 2020.

Certain electrical commodity, natural gas and natural gas pipeline transportation based derivative instruments are based upon projected future customer loads or facility operations. Beyond the terms of these derivative instruments (varying from one month to 48 months) the Authority is subject to the corresponding market volatilities.

Termination risk: The Authority or its counterparties may terminate a derivative instrument if the other party fails to perform under the terms of the contract. The Authority is at risk that a counterparty will terminate a swap (interest rate or commodity swaps) at a time when the Authority owes the counterparty a termination payment. The Authority has mitigated this risk by specifying that the counterparty has the right to terminate only as a result of certain events, including: a payment default by the Authority; other Authority defaults which remain uncured within a defined time-frame after notice; Authority bankruptcy; 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, a hedging derivative instrument is in a liability position, 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 and its ART Notes every March 1 and September 1. 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 both the CP Note and ART Note program.

(9) Pension Plans, Other Postemployment Benefits, Deferred Compensation and Savings Plans

(a) Pension Plans

The Authority and substantially all of the Authority's employees participate in the New York State and Local Employees' Retirement System (ERS) and the Public Employees' Group Life Insurance Plan (the Plan). These are cost-sharing, multiple-employer defined benefit retirement plans. The ERS 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 ERS and the Plan. The Comptroller adopts and may amend rules and regulations for the administration and transaction of the business of the ERS and the Plan, and for the custody and control of their funds. The ERS 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 12236.

The ERS is contributory except for employees who joined the ERS on or prior to July 27, 1976. Employees who joined between July 28, 1976 and December 31, 2009 and have less than ten years of service, contribute 3% of their salary. Employees who join the ERS on or after January 1, 2010 contribute 3% of their salary during their entire length of service.

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 to the pension accumulation fund.

The Authority is required to contribute at an actuarially determined rate. The required contributions for 2011, 2010 and 2009 were $21.0 million, $17.1 million and $9.6 million, respectively. The Authority's contributions made to the ERS were equal to 100% of the contributions required for each year.

During 2008, the global decline in financial markets adversely impacted state pension investment market values including those of the ERS. The average contribution rates relative to payroll for the fiscal years ended March 31, 2012 and 2013 have been set at approximately 16% and 18%, respectively. If ERS's investment market values do not recover, significant increases in the annual contributions to ERS in subsequent years are expected. For the Authority, such increases initially appeared during calendar year 2010 (State fiscal year 2011).

During 2010, the New York State Legislature passed a bill authorizing a temporary retirement incentive for certain State employees and other public employees. Under the legislation, public employees were be able to either retire without penalty at 55 years of age with a minimum of 25 years of service (Part B), or be targeted to receive an additional month of pension credit for each year of service not to exceed 36 months (Part A) if the employee was 50 years of age or more and had a minimum of 10 years of service. On July 22, 2010 the Authority's Trustees authorized (a) participation in the Part B incentive program for all eligible employees and (b) participation in the Part A incentive on a limited basis for targeted employees at the Poletti plant. The open period for eligible employees ended on December 29, 2010 for the Part A incentive and October 30, 2010 for the Part B incentive. The Authority recognized a liability for an additional contribution to the System based on eligible employees who accepted the incentive. The incremental cost of participation was $4.6 million of which $4 million was recognized in 2010 and $0.6 million was recognized in 2011.

(b) Other Postemployment Benefits (OPEB)

The 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 Authority. Approximately 4,100 participants, including 1,600 current employees and 2,500 retired employees and/or spouses and dependents of retired employees, were eligible to receive these benefits at December 31, 2011. The Authority's post-retirement health care trust does not issue a stand-alone financial report.

Through 2006, other postemployment benefits (OPEB) provisions were financed on a pay-as-you-go basis and the plan was unfunded. In December 2006, the Authority's Trustees authorized staff to initiate the establishment of a trust for OPEB obligations (OPEB Trust), with the trust fund to be held by an independent custodian. Prior to 2009, the Authority funded the OPEB Trust with contributions totaling $225 million. Plan members are not required to contribute to the OPEB Trust. The Authority did not make any contributions to the OPEB Trust in 2010. During 2011, the Authority's Trustees approved on-going annual funding of the Trust in order to strengthen the Authority's financial position. A contribution of $40 million was made to the OPEB Trust during 2011.

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 (dollar amounts in millions)

		2011	2010	2009
Annual OPEB cost:				
Annual required contribution (ARC):				
Normal cost	$	9	8	7
Amortization payment		22	20	13
Interest to the end of the year		—	—	1
Total		31	28	21
ARC adjustment		7	8	8
Interest on net OPEB obligation		(3)	(4)	(5)
Annual OPEB cost	$	35	32	24
Net OPEB obligation:				
Net OPEB (asset) obligation at beginning of fiscal year	$	(46)	(61)	(69)
Annual OPEB cost		35	32	24
Employer contribution:				
Payments for retirees during the year		20	17	16
Trust fund contributions		40	—	—
Total employer contribution		60	17	16
Net OPEB (asset) obligation at end of fiscal year	$	(71)	(46)	(61)

The $71 million OPEB asset is reported as an other noncurrent asset in the balance sheets.

The Authority's annual OPEB cost for 2011 was $35 million, which is reflected as an expense in the statement of revenues, expenses, and changes in net assets. The 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 and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. As indicated herein, the Authority uses a twenty (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 Authority's most recent actuarial evaluation was performed as of January 1, 2010 and resulted in an actuarial accrued liability of $400 million which was funded with assets totaling $218 million indicating that the Authority's retiree health plan was 55% funded as of the evaluation date. As of December 31, 2011, the balance in the OPEB Trust was $282 million and the actuarial accrued liability was $437 million, resulting in the retirees' health plan being 65% funded.

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 2010 actuarial valuation, the projected unit credit actuarial cost method was used with benefits attributed on a level basis. The actuarial assumptions included a 7% investment rate of return (net of administrative expenses) and an annual healthcare cost trend rate of 9% (net of administrative expenses) including inflation, declining approximately 1% each year to an ultimate trend rate of approximately 5%. Both the cost trend rate and the ultimate trend rate include a 4.5% inflation assumption. Commencing with the January 1, 2010 actuarial valuation, the Authority commenced amortizing gains and losses, first recognized in 2010, over an open 20-year period while continuing to amortize its initial unfunded accrued liability (beginning January 1, 2002 through January 1, 2009) over a closed 20-year period.

(c) Deferred Compensation and Savings Plans

The Authority offers union employees and salaried employees a deferred compensation plan created in accordance with Internal Revenue Code, Section 457. This plan permits participants to defer a portion of their salaries until future years. Amounts deferred under the plan are not available to employees or beneficiaries until termination, retirement, death or unforeseeable emergency.

The Authority also offers salaried employees a savings plan created in accordance with Internal Revenue Code, Section 401(k). This plan also permits participants to defer a portion of their salaries. The Authority matches contributions of employees up to limits specified in the plan. Such matching annual contributions were approximately $2.4 million per year for 2011 and 2010.

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.

(10) NYISO

Pursuant to FERC Order No. 888, the New York investor-owned electric utilities (the IOUs), a subsidiary of the Long Island Power Authority (doing business as LIPA hereafter referred to as LIPA) and the Authority, and certain other entities, established two not-for-profit organizations, the New York Independent System Operator (NYISO) and the New York State Reliability Council (Reliability Council). The mission of the NYISO is to assure the reliable, safe and efficient operation of the State's major transmission system, to provide open-access nondiscriminatory transmission services and to administer an open, competitive and nondiscriminatory wholesale market for electricity in the State. The mission of the Reliability Council is to promote and preserve the reliability of electric service on the NYISO's system by developing, maintaining, and from time to time, updating the reliability rules relating to the transmission system. The Authority, the current IOUs and LIPA are members of both the NYISO and the Reliability Council.

The NYISO is responsible for scheduling the use of the bulk transmission system in the State, which normally includes all the Authority's transmission facilities, and for collecting ancillary services, losses and congestion fees from transmission customers. Each IOU and the Authority retains ownership, and is responsible for maintenance of its respective transmission lines. All customers of the NYISO pay fees to the NYISO. Each customer also pays a separate fee for the benefit of the Authority that is designed to assure that the Authority will recover its entire transmission revenue requirement.

The Authority dispatches power from its generating facilities in conjunction with the NYISO. The NYISO coordinates the reliable dispatch of power and operates a market for the sale of electricity and ancillary services within the State. The NYISO surveys the capacity of generating installations serving the State (installed capacity) and the load requirements of the electricity servers and provides an auction market for generators to sell installed capacity. The NYISO also administers day-ahead and hourly markets whereby generators bid to serve the announced requirements of the local suppliers of energy and ancillary services to retail customers. The Authority participates in these markets as both a buyer and a seller of electricity and ancillary services. A significant feature of the energy markets is that prices are determined on a location-specific basis, taking into account local generating bids submitted and the effect of transmission congestion between regions of the State. The NYISO collects charges associated with the use of the transmission facilities and the sale of power and services bid through the markets that it operates. It remits those proceeds to the owners of the facilities in accordance with its tariff and to the sellers of the electricity and services in accordance with their respective bids.

Because of NYISO requirements, the Authority is required to bid into the NYISO day-ahead market (DAM) virtually all of the installed capacity output of its units. The NYISO then decides which Authority units will be dispatched, if any, and how much of such units' generation will be dispatched. The dispatch of a particular unit's generation depends upon the bid prices for the unit submitted by the Authority and whether the unit is needed by the NYISO to meet expected demand. If an Authority unit is dispatched by the NYISO, the Authority receives a fixed price (the Market Clearing Price), based on NYISO pricing methodology, for the energy dispatched above that needed to meet Authority contractual load (the Excess Energy). For the energy needed to meet Authority contractual load (the Contract Energy), the Authority receives the price in its contracts with its customers (the Contract Price).

This procedure has provided the Authority with economic benefits from its units' operation when selected by the NYISO and may continue to do so in the future. However, such bids also obligate the Authority to supply the energy in question during a specified time period, which does not exceed two days (the Short Term Period), if the unit is selected. If a forced outage occurs at the Authority plant that is to supply such energy, then the Authority is obligated to pay during the Short Term Period (1) in regard to the Excess Energy amount, the difference between the price of energy in the NYISO hourly market and the Market Clearing price in the day-ahead market, and (2) in regard to the Contract Energy amount, the price of energy in the NYISO hourly market, which is offset by amounts received based on the Contract Price. This hourly market price is subject to more volatility than the day-ahead market price. The risk attendant with this outage situation is that, under certain circumstances, the Market Clearing Price in the day-ahead market and the Contract Price may be well below the price in the NYISO hourly market, with the Authority required to pay the difference. In times of maximum energy usage, this cost could be substantial. This outage cost risk is primarily of concern to the Authority in the case of its 500-MW plant (discussed in note 12(f)) because of its size, nature and location.

In addition to the risk associated with the Authority bidding into the day-ahead market, the Authority could incur substantial costs, in times of maximum energy usage, by purchasing replacement energy for its customers in the NYISO day-ahead market or through other supply arrangements to make up for lost energy due to an extended outage of its units or failure of its energy suppliers to meet their contractual obligations. As part of an ongoing risk mitigation program, the Authority investigates financial hedging techniques to cover, among other things, future maximum energy usage periods.

(11) Nuclear Plant Divestiture and Related Matters

(a) Nuclear Plant Divestiture

On November 21, 2000 (Closing Date), the Authority sold its nuclear plants (Indian Point 3 (IP3) and James A. FitzPatrick (JAF)) to two subsidiaries of Entergy Corporation (collectively Entergy or the Entergy Subsidiaries) for cash and noninterest-bearing notes totaling $967 million (subsequently reduced by closing adjustments to $956 million) maturing over a 15-year period. The present value of these payments recorded on the Closing Date, utilizing a discount rate of 7.5%, was $680 million.

As of December 31, 2011 and 2010, the present value of the notes receivable were:

		2011	2010
		(In millions)	
Notes receivable – nuclear plant sale	$	68	82
Less due within one year		15	14
	$	53	68

The long-term portion of this notes receivable is reported in other noncurrent assets and deferred outflows in the balance sheet.

On September 6, 2001, a subsidiary of Entergy Corporation completed the purchase of Indian Point 1 and 2 (IP1 and IP2) nuclear power plants from Consolidated Edison Company of New York Inc. Under an agreement between the Authority and Entergy, which was entered into in connection with the sale of the Authority's nuclear plants to Entergy, the acquisition of the IP2 nuclear plant by a subsidiary of Entergy resulted in the Entergy subsidiary which now owns IP3 being obligated to pay the Authority $10 million per year for 10 years beginning September 6, 2003, subject to certain termination and payment reduction provisions upon the occurrence of certain events, including the sale of IP3 or IP2 to another entity and the permanent retirement of IP2 or IP3, The September 6, 2011 and 2010 payments were received and are included in other income.

As part of the Authority's sale of its nuclear projects to Entergy Subsidiaries in November 2000, the Authority entered into two Value Sharing Agreements (VSAs) with them. In essence, these contracts provide that the Entergy Subsidiaries will share a certain percentage of all revenues they receive from power sales in excess of specific projected power prices for a ten-year period (2005 – 2014). During 2006 and 2007, disputes arose concerning the calculation of the amounts due the Authority for 2005 and 2006, respectively. In October 2007, the parties reached an agreement resolving these disputes and amending the VSAs. In essence, these amended VSAs provide for the Entergy Subsidiaries to pay the Authority a set price ($6.59 per MWh for IP3 and $3.91 per MWh for JAF) for all MWhs metered from each plant between 2007 and 2014, with the Authority being entitled to receive annual payments up to a maximum of $72 million. Relating to calendar year 2011, payments totaling $72 million have been accrued by the Authority and are reflected in other income in the Authority's statements of revenues, expenses, and changes in net assets. The Authority has received the maximum annual payments related to calendar years 2010 and 2011. In all other material respects, the terms of the amended and original VSAs are substantially similar. The payments, related to the calendar years ending after December 31, 2011, are subject to continued ownership of the facilities by the Entergy Subsidiaries or its affiliates.

As a result of competitive bidding, and not related to the sale of the nuclear plants, the Authority agreed to purchase energy from Entergy's IP3 and IP2 nuclear power plants in the total amount of 200 MW during the period 2009 to 2013.

(b) Nuclear Fuel Disposal

In accordance with the Nuclear Waste Policy Act of 1982, in June 1983, the Authority entered into a contract with the U.S. Department of Energy (DOE) under which DOE, commencing not later than January 31, 1998, would accept and dispose of spent nuclear fuel. In conjunction with the sale of the nuclear plants, the Authority's contract with the DOE was assigned to Entergy. The Authority remains liable to Entergy for the pre-1983 spent fuel obligation (see note 12(g), "New York State Budget and Other Matters" relating to a temporary transfer of such funds to the State). As of December 31, 2011, the liability to Entergy totaled $216 million. The Authority retained its pre-closing claim against DOE under the DOE standard contract for failure to accept spent fuel on a timely basis.

Following the stay of the case for a period of years to await the outcome of appeals in other relevant cases, the parties served various motions and engaged in extensive discovery and other proceedings. Ultimately, in July 2011, the parties executed a settlement agreement in full and final settlement of the Authority's claims and pursuant to which the Authority received a payment, in August 2011, of approximately $11 million. This item is reported as other income in the nonoperating revenues section of the statement of revenues, expenses, and changes in net assets. This litigation is now concluded.

(c) Nuclear Plant Decommissioning

The Decommissioning Agreements with each of the Entergy Subsidiaries deal with the decommissioning funds (the Decommissioning Funds) currently maintained by the Authority under a master decommissioning trust agreement (the Trust Agreement). Under the Decommissioning Agreements, the Authority will make no further contributions to the Decommissioning Funds.

The Authority will retain contractual decommissioning liability until license expiration, a change in the tax status of the fund, or any early dismantlement of the plant, at which time the Authority will have the option of terminating its decommissioning responsibility and transferring the plant's fund to the Entergy Subsidiary owning the plant. At that time, the Authority will be entitled to be paid an amount equal to the excess of the amount in the Fund over the Inflation Adjusted Cost Amount, described below, if any. The Authority's decommissioning responsibility is limited to the lesser of the Inflation Adjusted Cost Amount or the amount of the plant's Fund.

The Inflation Adjusted Cost Amount for a plant means a fixed estimated decommissioning cost amount adjusted in accordance with the effect of increases and decreases in the U.S. Nuclear Regulatory Commission (NRC) minimum cost estimate amounts applicable to the plant.

Certain provisions of the Decommissioning Agreements provide that if the relevant Entergy Subsidiary purchases, or operates, with the right to decommission, another plant at the IP3 site, then the Inflation Adjusted Cost Amount would decrease by $50 million. In September 2001, a subsidiary of Entergy purchased the Indian Point 1 and Indian Point 2 plants adjacent to IP3.

If the license for IP3 or JAF is extended, an amount equal to $2.5 million per year, for a maximum of 20 years, would be paid to the Authority by the relevant Entergy Subsidiary for each year of life extension during which the plant operates. In April 2007, the NRC received a license renewal application (for an additional 20 years) for IP3. The original licenses for JAF and IP3 expire in 2014 and 2015, respectively. On September 9, 2008, the NRC renewed the operating license of JAF for 20 years to October 17, 2034.

Decommissioning Funds of $1,090 million and $1,032 million are included in restricted funds and other noncurrent liabilities in the balance sheets at December 31, 2011 and 2010, respectively.

If the Authority is required to decommission IP3 or JAF pursuant to the relevant Decommissioning Agreement, an affiliate of the Entergy Subsidiaries, Entergy Nuclear, Inc. would be obligated to enter into a fixed price contract with the Authority to decommission the plant, the price being equal to the lower of the Inflation Adjusted Cost Amount or the plant's Fund amount.

(12) Commitments and Contingencies

(a) Competition

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

To maintain its position as a low cost provider of power in a changing environment, the Authority has undertaken and continues to carry out a multifaceted program, including: (a) the upgrade and relicensing of the Niagara and St. Lawrence-FDR projects; (b) long-term supplemental electricity supply agreements with its governmental customers located mainly within the City of New York (NYC Governmental Customers); (c) construction of a 500-megawatt (MW) combined-cycle electric generating plant at the Authority's Poletti plant site (500-MW plant); (d) a long-term electricity supply contract with Astoria Generating LLC for the purchase of the output of a new 550-MW power plant in Astoria, Queens, adjacent to its existing plant, which entered into service on July 1, 2011; (e) a significant reduction of outstanding debt; and (f) implementation of an energy and fuel risk management program. The Authority operates in a competitive and sometimes volatile market environment. Volatility in the energy market has impacted the Authority in its role as a buyer and until recent years had resulted in higher costs of purchased power and fuel in its NYC Governmental Customer and other market areas. The NYC Governmental Customer market cost situation is mitigated by the cost recovery provisions in the long-term supplemental electricity supply agreements and generation from the Authority's 500-MW plant. The Authority also has implemented a restructuring program for its long-term debt through open-market purchases, early retirements and refundings, which has resulted in cost savings and increased financial flexibility. The Authority can give no assurance that even with these measures it will not lose customers in the future as a result of the restructuring of the State's electric utility industry and the emergence of new competitors or increased competition from existing participants. In addition, the Authority has a variety of legal restrictions on its ability to market its power and energy on a competitive basis.

According to the National Bureau of Economic Research, a recession in the United States began in December 2007 and ended in June 2009. However, the economy continues to grow slowly and unemployment remains high. Forecasted recovery time for these economic conditions ranges from a few to many years. In this environment, the Authority has continued to utilize its financial flexibility to support its mission and its customers. In December 2010, the Governor approved long-term contract extensions for the continued supply of low-cost hydropower to more than 100 of Western New York's leading companies. These expansion and replacement power customers, who account for more than 70 percent of the manufacturing jobs in the region, are integral to the area's economy with wide-ranging impacts associated with spinoff jobs, payments to suppliers for goods and services, local tax revenues and financial support of local communities and organizations. In addition to other actions and programs aimed at creating and maintaining jobs, the Authority has also used low cost energy to attract businesses to New York State.

In response to the economic downturn's effects on New York's manufacturing sector, the Authority's Trustees in March 2009 approved execution of an agreement with Alcoa, Inc. to provide temporary relief from certain power sales contract provisions relating to the temporary shutdown of one of its two smelters served by the Authority in Massena, New York, including allowing Alcoa to release back to the Authority certain hydropower allocated to it, temporary waivers of certain minimum bill and employment thresholds, and entry into arrangements with the Authority for inclusion of a portion of Alcoa's load in the NYISO's demand response programs. In addition, in May 2009, the Authority's Trustees authorized a temporary program whereby up to $10 million would be utilized to provide electric bill discounts for up to a year to businesses located in Jefferson, St. Lawrence, and Franklin counties. These counties constitute the geographic region served by the Authority's Preservation Power program. The source of the $10 million is the net margin resulting from the sale of a portion of Alcoa's currently unused Preservation Power allocation into the NYISO markets. In September 2010, the Authority's Trustees approved extension of the electric bill discount program for the lesser of one year or the duration of the temporary curtailment of operations at the affected Alcoa facility. During the first quarter of 2011, Alcoa restarted the temporarily curtailed facility and the associated bill discount program ceased shortly after.

In March 2009, the Authority's Trustees approved the deferral for recovery in the future of a proposed hydropower rate increase for the Authority's municipal electric and rural cooperative customers, neighboring state municipal customers, upstate investor-owned utilities, and certain other customers that was scheduled to go into effect on May 1, 2009; and in August 2010, the Authority announced an extension of such deferral through the end of 2010. In November 2011, the Authority's Trustees approved a 41-month rate plan providing for certain phased-in increases to these rates and the Trustees also approved commencement of rate recovery of the deferred amount. Further, in March 2009, the Authority also suspended the application of two annual, contractually-indexed hydropower rate increases for its Replacement Power, Expansion Power, and certain other industrial customers that were scheduled to go into effect on May 1, 2009 and May 1, 2010, respectively, totaling approximately $6.9 million. The Authority's Trustees in July 2011 approved the reinstatement of these indexed rate adjustments, resulting in an increase in these rates effective September 1, 2011 in the annualized amount of approximately $5.3 million.

Recharge New York Power Program

Legislation enacted into law on March 31, 2011 (Chapter 60 of the Laws of 2011) establishes the "Recharge New York Power Program (RNYPP). The RNYPP is a new power program, administered by the Authority and the EDPAB, which has as its central benefit up to 910 MW of power comprised of up to 455 MW of hydropower from the Niagara and St. Lawrence-FDR Projects (which power, until August 1, 2011, had been provided to residential and farm customers of three upstate utilities) and up to 455 MW of other power procured or produced by the Authority. The 910 MW of power will be available for allocation to eligible new and existing businesses and not-for-profit corporations under contracts of up to seven years effective no sooner than July 1, 2012. The legislation also temporarily extends the PFJ and ECSB Programs through June 30, 2012 at which time the two programs will end and be replaced by the RNYPP. Those PFJ and ECSB Program customers that do not receive RNYPP allocations will be eligible to apply for certain "transitional electricity discounts". Under the legislation, these transitional discounts, which may be paid only if deemed feasible and advisable by the Authority's Trustees, will gradually decline to zero by June 30, 2016. The legislation also 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 received the hydropower that will be utilized in the RNYPP. The 455 MW of hydropower was withdrawn by the Authority on August 1, 2011. The Authority's Trustees have authorized the use of revenues from the sales of such power into the wholesale market or, as necessary, internal funds to fund the residential consumer discount program for its first year. For the period August 1, 2011 through December 31, 2011, operations and maintenance expenses include $42 million in residential consumer discounts. In addition, in January 2012, the Authority's Trustees authorized up to $50 million for the six months ending August 2012 for the Residential Consumer Discount Program incorporated in the RNYPP.

Legislation

Chapter 436 of the Laws of 2010 established a Western New York Economic Development Fund Benefit program, and authorized the Authority to fund the program from net earnings from the Authority's sale of unallocated, relinquished, and withdrawn Expansion Power and Replacement Power into the wholesale market. Net earnings are defined as any excess revenues earned from such power allocated to 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 Project that qualify under applicable criteria. The law authorizes the Authority to administer the new program with assistance from public and private entities. Payments from the Authority to the Fund are estimated to range between $6 million in 2012 declining to $0 by 2015 when power is anticipated to be fully sold.

(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 (Agreements). Under the Agreements, the NYC Governmental Customers agreed to purchase their electricity from the Authority through December 31, 2017, with the NYC Governmental Customers having the right to terminate service from the Authority at any time on three years' notice and, under certain limited conditions, on one year's notice, provided that they compensate the Authority for any above-market costs associated with certain of the resources used to supply the NYC Governmental Customers.

Under the Agreements, the Authority will modify rates annually through a formal rate case where there is a change in fixed costs to serve the NYC Governmental Customers. Except for the minimum volatility price option, changes in variable costs, which include fuel and purchased power, will be captured through contractual pricing adjustment mechanisms. Under these mechanisms, actual and projected variable costs are reconciled and all or a portion of the variance is either charged or credited to the NYC Governmental Customers. The Authority provides the customers with indicative electricity prices for the following year reflecting market-risk hedging options designated by the NYC Governmental Customers. Such market-risk hedging options include a full cost energy charge adjustment ("ECA") pass-through arrangement relating to fuel, purchased power, and NYISO-related costs (including such an arrangement with some cost hedging) and a sharing option where the customers and the Authority will share in actual cost variations as specified in the Agreements.

For 2011 and 2012, the NYC Customers chose a market-risk hedging price option designated an "ECA with hedging" pricing option whereby actual cost variations in variable costs are passed through to the customers as specified above.

With the customers' guidance and approval, the Authority will continue to offer up to $100 million annually in financing for energy efficiency projects and initiatives at governmental customers' facilities, with the costs of such projects to be recovered from such customers.

In response to the Authority's Request for Proposals for Long-Term Supply issued in March 2005, Authority staff entered into negotiations for the execution of a firm transmission capacity purchase agreement with the winning bidder, Hudson Transmission Partners, LLC (HTP), to serve the long-term requirements of the Authority's NYC Governmental Customers through the transmission rights associated with HTP's proposed 345 kV underground/submarine transmission line (Line) extending from Bergen County, New Jersey, to Con Edison's West 49th Street substation in midtown Manhattan. The New York Public Service Commission issued a certificate of environmental compatibility and public need for the Line on September 15, 2010 determining, among other things, that the Line would improve electric system reliability and promote network security by enhancing New York City's transmission infrastructure and its access to generation resources outside of the City. On April 15, 2011, the Authority executed a Firm Transmission Capacity Purchase Agreement (FTCPA) with HTP and the Line is currently under construction. The FTCPA will provide the Authority with 75% of the firm transmission capacity of the 660 MW Line for 20 years. The Authority's obligation to make payments under the FTCPA will begin upon commercial operation of the Line, which is expected in the summer of 2013. Based on minimum monthly payment obligations, the Authority estimates that it will pay an annual amount of approximately $56 million in the initial year with amounts escalating annually until the annual amount paid in the 20th year will be approximately $88 million for transmission capacity under the contract. The average of the annual payments over the 20-year term of the contract is approximately $70 million. The Authority will enter into separate power purchase agreements for the supply of electricity for which the transmission capacity will be utilized.

Under the FTCPA, the Authority also will pay the costs of certain interconnection and transmission upgrades associated with the Line once it enters into service, estimated to total approximately $200 million.

The Authority is currently in negotiations with certain of its NYC Governmental Customers and other third parties regarding partial recovery of the costs of the Line. It is estimated that the revenues derived from the Authority's rights under the FTCPA will cover the Authority's costs over the life of the Line but not be sufficient to fully cover the Authority's costs under the FTCPA during its initial 20 year term. Depending on a number of variables, it is estimated that the authority's underrecovery of costs under the FTCPA could be in the range of approximately $40 million to $80 million per year during the first five years of commercial operation. The Authority expects based on current projections that its entry into the FTCPA it will be able to continue to meet its debt service coverage ratio, cash, and reserve requirements in the future; however, there can be no assurance such requirements will be met.

In anticipation of the closure of the Authority's existing Poletti plant in January 2010, and in addition to its supply agreements, the Authority, in November 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, among other things, approvals of the NYC Governmental Customers, the Authority and Astoria Energy II LLC, resulted in a long-term electricity supply contract in July 2008 with Astoria Energy II LLC for the purchase of the output of AEII which was constructed and entered into commercial operation on July 1, 2011 in Astoria, Queens, adjacent to its existing plant. The costs associated with the contract are being borne by these customers for the life of the contract. The Authority is accounting for and reporting this lease transaction as a capitalized lease in the amount of $1.24 billion which reflects the present value of the monthly portion of lease payments allocated to real and personal property as of July 1, 2011. The balance of the monthly lease payments represents the portion of the monthly lease payment allocated to operations and maintenance costs which is recorded monthly. Fuel for the 550-MW power plant is provided by the Authority and the costs thereof are being recovered from the NYC Governmental Customers.

The Authority's other Southeastern New York (SENY) Governmental Customers are the County of Westchester and numerous municipalities, school districts, and other public agencies located in Westchester County (collectively, the "Westchester Governmental Customers"). By early 2008, the Authority had entered into a new 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.

(c) Power for Jobs

In 1997 and subsequent years, legislation was enacted into New York law which authorized the Power for Jobs Program (the "PFJ Program") to make available low-cost electric power to businesses, small businesses, and not-for-profit organizations. Under the PFJ Program, the New York Economic Development Power Allocation Board ("EDPAB") recommends for Authority approval allocations to eligible recipients of power from power purchased by the Authority through a competitive procurement process and power from other sources. In 2004, legislation was enacted which amended the PFJ Program in regard to contracts of certain customers. Under the amendment, certain contracts terminating in 2004 and 2005 could be extended by the affected customer, or the customer could opt for "Power for Jobs electricity savings reimbursements" ("PFJ Reimbursements") from the Authority. Generally, the amount of such PFJ Reimbursements for a particular customer is based on a comparison of the current cost of electricity to such customer with the cost of electricity under the prior Power for Jobs contract during a comparable period.

Thereafter, the PFJ Program has been extended numerous times and pursuant to the new Recharge New York Power Program ("RNYPP") legislation enacted in 2011, discussed above, the PFJ Program will end on June 30, 2012. The Authority has approved PFJ Reimbursements payments totaling $280 million for the years 2005-2011 and expects such payments will not exceed $79 million for the remainder of the extended PFJ Program through June 30, 2012. See notes 12(a) and 12(g), "Recharge New York Power Program," for a discussion of recent legislative activity involving the PFJ Program.

The Power for Jobs legislation authorizes the Authority "as deemed feasible and advisable by the trustees," to make annual "voluntary contributions" to the State in connection with the Program. Commencing in December 2002 through January 2012, the Authority made such voluntary contributions to the State in an aggregate amount of $469 million in connection with the Power for Jobs Program with another $6 million authorized for payment in the first quarter of 2012.

(d) Legal and Related Matters

In 1982 and again in 1989, several groups of Mohawk Indians, including a Canadian Mohawk tribe, filed lawsuits against the State, the Governor of the State, St. Lawrence and Franklin counties, the St. Lawrence Seaway Development Corporation, the Authority and others, claiming ownership to certain lands in St. Lawrence and Franklin counties and to Barnhart, Long Sault and Croil islands (St. Regis litigation). 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.

On May 30, 2001, the United States District Court (the Court) denied, with one minor exception, the defendants' motion to dismiss the land claims. However, the Court barred the Federal government and one of the tribal plaintiffs, the American Tribe of Mohawk Indians from relitigating a claim to 144 acres on the mainland which had been lost in the 1930s by the Federal government. The Court rejected the State's broader defenses, allowing all plaintiffs to assert challenges to the islands and other mainland conveyances in the 1800s, which involved thousands of acres.

On August 3, 2001, the Federal government sought to amend its complaint in the consolidated cases to name only the State and the Authority as defendants. The State and the Authority advised the Court that they would not oppose the motion but reserved their right to challenge, at a future date, various forms of relief requested by the Federal government.

The Court granted the Federal government's motion to file an amended complaint. The tribal plaintiffs still retain their request to evict all defendants, including the private landowners. Both the State and the Authority answered the amended complaint. In April 2002, the tribal plaintiffs moved to strike certain affirmative defenses and, joined by the Federal government, moved to dismiss certain defense counterclaims. The defendants filed their opposition papers in September 2002. In an opinion, dated July 28, 2003, the Court left intact most of the Authority's defenses and all of its counterclaims.

Thereafter, settlement discussions produced a land claim settlement, which if implemented would include, among other things, the payment by the Authority of $2 million a year for 35 years to the tribal plaintiffs, the provision of up to 9 MW of low cost Authority power for use on the reservation, the transfer of two Authority-owned islands; Long Sault and Croil, and a 215-acre parcel on Massena Point to the tribal plaintiffs, and the tribal plaintiffs withdrawing any judicial challenges to the Authority's new license, as well as any claims to annual fees from the St. Lawrence-FDR project. Members of all three tribal entities voted to approve the settlement, which was executed by them, the Governor, and the Authority on February 1, 2005. The settlement would also require, among other things, Federal and State legislation to become effective.

Litigation in the case had been stayed to permit time for passage of such legislation and thereafter to await decision of appeals in two relevant New York land claim litigations (Cayuga and Oneida) to which the Authority is not a party.

The legislation was never enacted and once the Cayuga and Oneida appellate decisions were issued in 2005 and 2006, respectively, efforts to obtain legislative approval for the settlement ceased. Because these appellate decisions dismissed land claims by the Cayugas and Oneidas based on the lengthy delay in asserting such claims (i.e., the defense of laches), the defense in the instant actions, in motions filed in November 2006, moved to dismiss the three Mohawk complaints as well as the United States' complaint on similar delay grounds. The Mohawks and the Federal government filed papers opposing those motions in July 2007, and additional briefing by the parties occurred thereafter. By order dated May 16, 2008, U.S. Magistrate Lowe granted the defense motion to stay all proceedings until the U.S. Court of Appeals for the Second Circuit issued its decision in the Oneida case, one raising similar laches issues.

On August 9, 2010, the Second Circuit issued a decision in the Oneida case (Oneida Indian Nation of New York et al. v County of Madison et al.), thereby lifting the stay of this litigation. The Second Circuit, in that case, dismissed both the Native American and U.S. claims in their entirety finding, among other things, that those claims were barred by equitable principles as articulated in the earlier Cayuga and other decisions. U.S. Magistrate Lowe then ordered all parties in the St. Regis case to submit supplemental briefs and, thereafter, oral argument on the pending motions was held before him on June 17, 2011. On February 10, 2012, this case was reassigned. As a result, it would appear that a decision on the outstanding motion will be delayed until the new judge familiarizes herself with the long history of this case.

The Authority had previously accrued an estimated liability based upon the provisions of the settlement described above. This liability is reflected in the balance sheet as of December 31, 2011.

The Authority is unable to predict the outcome of the matters described above, but believes that the Authority has meritorious defenses or positions with respect thereto. However, adverse decisions of a certain type in the matters discussed above could adversely affect Authority operations and revenues.

In late November 2011, approximately 14 notices of claim were received by the Authority involving the heavy rains and widespread flooding resulting from Tropical Storm Irene's passage through the Northeast in late August 2011. The notices of claim essentially claim that property and other damages allegedly incurred by certain landowners were the result of the Authority's negligence in its operations at its Blenheim-Gilboa Pumped Storage Power Project located on the Schoharie Creek in Schoharie County, New York. In addition, in mid-January 2012, the County of Schoharie, eight towns and villages therein, and one school district ("Municipalities") filed a motion in Schoharie County Supreme Court requesting leave to serve late notices of claim on the Authority. The Municipalities similarly allege in their late notices of claim that they sustained property damage, as well as lost tax revenues, as a result of the Authority's negligence in its operations at the Blenheim-Gilboa Pumped Storage Power Plant. In late February 2012, a private landowner filed a similar motion in such court. While the Authority cannot presently predict whether and to what extent any lawsuits will be initiated based on such notices of claim or similar claims that may be filed in the future, or the outcome of any such litigation, the Authority believes that it has meritorious defenses and positions with respect thereto.

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.

(e) Construction Contracts and Net Operating Leases

Estimated costs to be incurred on outstanding contracts in connection with the Authority's construction programs aggregated approximately $486 million at December 31, 2011.

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

	Total	2012	2013	2014	2015	2016	2017
				(In millions)			
Operating leases	$ 2.2	0.8	0.5	0.4	0.3	0.1	0.1

(f) Small, Clean Power Plants and 500-MW Plant

To meet capacity deficiencies and ongoing load requirements in the New York City metropolitan area, which could also adversely affect the statewide electric pool, the Authority placed in operation, in the Summer of 2001, 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, as early as the commercial operation date of either the 500-MW plant (December 31, 2005) or another specified plant being constructed in the New York City area, if the Mayor of New York City directs such cessation. No such cessation has occurred.

To serve its NYC Governmental Customers and to comply with the NYISO in-city capacity requirement in the New York City area, the Authority has constructed a 500-MW combined-cycle natural-gas-and-distillate-fueled power plant at the Poletti site (the 500-MW plant) as the most cost-effective means of effectuating such compliance. In connection with the licensing of the 500-MW plant, the Authority entered into an agreement that resulted in the cessation of operation of the Authority's Poletti plant (which had entered into service in 1977) on January 31, 2010.

(g) 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 which the Authority currently possesses under the Act and other applicable law or otherwise would affect the Authority's financial condition or its ability to conduct its business, activities, or operations, in the manner presently conducted or contemplated by the Authority. It is not possible to predict whether any such bills or other bills of a similar type which may be introduced in the future will be enacted.

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

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 State legislation (generally budget legislation), 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 addition, 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, 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 in subsequent years, 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 Power for Jobs (PFJ) Program and for other purposes as well. Beginning December 2002 through January 2012, the Authority has made voluntary contributions to the State of $469 million in connection with the Power for Jobs Program with another $6 million authorized for payment in the first quarter of 2012, and an additional $402 million unrelated to the Power for Jobs Program. The 2011 ($65 million) and the 2010 ($147 million) contributions to State which are not related to the PFJ Program were recorded as a nonoperating expense and classified as contributions to New York State in the 2011 and 2010 statement of revenues, expenses and changes in net assets, respectively. The $60 million paid in January 2012 will be reported as a nonoperating expense in the 2012 financial statements. In the Governor's proposed budget for State Fiscal Year 2012-2013, released in January 2012, it is proposed that the Authority be authorized to make an additional voluntary contribution of up to $65 million unrelated to the Power for Jobs Program during such fiscal year. The proposed budget has not yet been enacted into law. Such contributions will only be made if authorized by legislation and approved by the Authority's Trustees as feasible and advisable at that time. See note 12(a), "Recharge New York Power Program," for a discussion of recent legislative activity involving the State Fiscal Year 2012-2013 budget.

By budget legislation enacted in February 2009, the Authority was further authorized to make certain temporary asset transfers to the State of funds in reserves. Pursuant to the terms of a Memorandum of Understanding dated February 2009 (MOU) between the State, acting by and through the Director of the Budget of the State, and the Authority, the Authority agreed to transfer $215 million associated with its Spent Nuclear Fuel Reserves (Asset B) by March 27, 2009. The Spent Nuclear Fuel Reserves are funds that have been set aside for the liability to the federal government sometime in the future when the federal government accepts the spent nuclear fuel for permanent storage. 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. Both transfers were approved by the Authority's Trustees and made in 2009.

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 would be 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 monies 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.

The Authority classified the transfers of Assets A and B ($318 million) as a long-term loan receivable. In lieu of interest payments, the State 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 will be 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 will be waived from April 1, 2011 to March 31, 2017. These payments would have been approximately $8 million per year but the waiver will be limited to a maximum of $43 million for the period. The present value of the waivers approximates the present value of the lost interest income.

In May 2009, the County of Niagara, "on behalf of its residents", and several individuals commenced an Article 78 lawsuit in Niagara County Supreme Court against the Authority, its Trustees, the State of New York, and the State Comptroller. The lawsuit challenged on numerous grounds the legality of the two temporary asset transfers totaling $318 million and two voluntary contributions made by the Authority to the State totaling $226 million (except as such contributions relate to the Power for Jobs Program). Among other things, the lawsuit sought judgment providing for the return to the Authority of any such monies that have been paid; prohibiting such asset transfers and voluntary contributions in the future; directing the Authority to utilize such returned monies only for "statutorily permissible purposes"; directing the Authority to "rebate" to certain customers receiving hydropower from it some portion, to be determined, of the monies returned to the Authority; and directing that the Authority submit to an audit by the State Comptroller.

By decision dated December 23, 2009, the court denied respondents' motion to dismiss the petition; however, by decision dated March 25, 2011, the Appellate Division unanimously reversed the lower court's ruling and dismissed the amended petition in its entirety; and the Court of Appeals subsequently denied petitioners' motion seeking leave to appeal thereby concluding this litigation.

Energy Cost Savings Benefits

Legislation was enacted into law in July 2005 (Chapter 313, 2005 Laws of New York) (the 2005 Act) which amended the Act and the New York Economic Development Law (EDL) in regard to several of the Authority's economic development power programs and the creation of energy cost savings benefits to be provided to certain Authority customers. Relating to the Energy Cost Savings Benefits (ECS Benefits), the 2005 Act revises the Act and the EDL to allow up to 70 MW of relinquished Replacement Power and up to 38.6 MW of Preservation Power that might be relinquished or withdrawn in the future to be sold by the Authority into the market and to use the net earnings, along with other funds of the Authority, as deemed feasible and advisable by the Authority's Trustees, for the purpose of providing ECS Benefits. The ECS Benefits are administered by the New York State Economic Development Power Allocation Board (EDPAB) and awarded based on criteria designed to promote economic development, maintain and develop jobs, and encourage new capital investment throughout New York State. The ECS Benefits are available only for business customers served under the Authority's High Load Factor, Economic Development Power and Municipal Distribution Agency programs which would have, in the absence of the ECS Benefits, faced rate increases beginning November 1, 2005.

In August 2006, legislation was enacted into law that extended the ECS Benefits Program through June 30, 2007 and also provided that the Authority make available for allocation to customers the 70 MW of hydropower that had been utilized as a source of funding the ECS Benefits. Subsequently, legislation has been enacted that extends the ECS Benefits Program through June 30, 2012, at which time the Program will end pursuant to the legislation establishing the RNYPP, discussed above. From the inception of the ECS Benefits Program through December 2007, there were no ECS Benefits paid by the Authority from internal funds, as opposed to funds derived from the sale of such hydropower. For 2008, the Authority paid $21 million in ECS Benefits from internal funds. In 2009-2011, no ECS Benefits were paid from internal funds, which is reflective of the current lower market prices for electric energy. See "Recharge New York Power Program" within note 12(a) for a discussion of recent legislative activity involving the ECS Benefits Program.

Other Legislation

The ''Public Authorities Accountability Act of 2005'' (''PAAA'') was signed into law in January 2006 and its various provisions address public authority reporting, governance, budgeting, oversight, and auditing matters, among other things. Additional public authority reform legislation took effect on March 1, 2010 which provides, among other things, for State Senate approval of certain authorities' chief executive officers, including the Authority, and also provides the State Comptroller with discretionary authority to review and approve certain contracts entered into by public authorities, including the Authority.

On July 21, 2010, President Obama signed into law the Dodd-Frank Wall Street Reform and Consumer Protection Act ("DF Act") which addresses, among other things, interest rate and energy swap transactions of the type in which the Authority engages ("Swaps"). Many of the requirements and processes in this area are to be set forth in regulations promulgated by the Commodities Futures Trading Commission ("CFTC"). The CFTC issued an order on July 14, 2011 that delayed implementation of many of the substantive provisions of the DF Act until December 31, 2011. Depending on the ultimate resolution of numerous issues, which is uncertain, including whether and to what extent Swaps are required to be cleared through clearinghouses and/or traded on exchanges with accompanying collateral and/or margin requirements; whether and to what extent Swaps entered into prior to the enactment of the DF Act are required to be collateralized; and whether and to what extent public power entities such as the Authority are exempted from these requirements, the impact of the DF Act on the Authority's liquidity and/or future risk mitigation activities could be significant. In the event such regulations are applied retroactively to Swap positions predating the enactment of the DF Act, it could require the Authority to post as much as $185 million in collateral to maintain its open hedge positions as of July 16, 2012 (the revised, full-implementation date adopted by the CFTC in December 2011). The Authority has sufficient liquidity to post such collateral, if required.

In the Governor's proposed budget for State Fiscal Year 2012-2013, released in January 2012, it is proposed that public benefit corporations be authorized to make voluntary contributions into the State treasury or to other public benefit corporations in such amounts as the governing board of such corporation deems feasible and advisable, after due consideration of such corporation's legal and financial obligations, and that any such contribution will be deemed to be a valid and proper purpose for which available funds may be applied. The proposed budget legislation has not yet been enacted into law.

(h) 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. The Authority currently expects that the costs associated with the relicensing of the Niagara Project will be at least $495 million (2007 dollars) over a period of 50 years, which 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. Of the $495 million, $218 million has been spent as of December 31, 2011.

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.

In December 2009, the Authority's Trustees approved an amendment of the Niagara Relicensing Settlement Agreement (Settlement Agreement) to implement a proposal to expedite the then current funding stream provided for Buffalo's waterfront redevelopment effort under the Settlement Agreement in order to facilitate the completion of the Canal Side project and reinvigorate downtown Buffalo's inner harbor area. This acceleration in funding results in the Authority providing a payment stream of $4.7 million a year for 20 years in lieu of the original payment stream of $3.5 million per year for the remaining 47 years of the Niagara License.

In addition, the EDPAB and the Authority's Trustees approved an Industrial Incentive Award which provides an additional $3.7 million a year from 2010 to 2029 to support the harbor revitalization efforts. The second $3.7 million payment was made in October 2011.

(i) Regional Greenhouse Gas Initiative and Air Pollution Rule

The Regional Greenhouse Gas Initiative (RGGI) is a cooperative effort by Northeastern and Mid-Atlantic states (including New York) to hold carbon dioxide emission levels steady from 2009 to 2014 and then reduce such levels by 2.5% annually in the years 2015 to 2018 for a total 10% reduction. 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, SCPPs, and 500-MW Plant are subject to the RGGI requirements as is AEII. The Authority has participated in program auctions commencing in September 2008 and expects to recover RGGI costs through its power sales revenues. The Authority is monitoring federal legislation and proposed programs that would impact RGGI.

During the last half of 2011, the Environmental Protection Agency ("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. On December 30, 2011, the U.S. Court of Appeals (D.C. Circuit) granted a stay of the CSAPR pending the court's resolution of numerous petitions for review. In the interim, the court indicated that the EPA should continue to enforce its Clean Air Interstate Rule ("CAIR") which the CSAPR was designed to replace. The Authority has been able to operate its fossil plants and the Astoria Energy II plant within the allocated allowances under the CAIR. In the event the CSAPR as promulgated by the EPA ultimately is implemented following judicial review, the Authority anticipates that operation of its fossil plants and the Astoria Energy II plant would not be impacted.

(j) Wind and Solar Initiatives

In December 2009, the Authority issued a non-binding RFP for development of a utility scale, offshore wind power project in the range of 120 MW to 500 MW to be located within New York State waters of Lake Erie and/or Lake Ontario. The RFP indicated that the Authority would purchase the full output of the project under a long-term power purchase agreement. In June 2010, the Authority announced that five proposals had been received in response to the RFP. Based on a multi-disciplinary review, which included among other things, costs, economic development benefits, community response, and environmental impacts, in September 2011, the Authority's Trustees voted to end the competitive solicitation process for the proposed Great Lakes Offshore Wind Project (GLOW) without awarding a contract for project development.

The Long-Island-New York City Offshore Wind Collaborative (Collaborative), which consists of the Authority, Con Edison, the Long Island Power Authority (LIPA), the City of New York and other New York City and New York State governmental entities, is evaluating the potential development of between 350 MW up to 700 MW of offshore wind. The Collaborative is currently planning the next steps in project evaluation.

In January 2010, the Authority issued an RFP for a 100 MW Statewide Solar Photovoltaic initiative seeking pricing for solar energy and related environmental attributes from 100 MW of solar power capacity to be installed statewide by 2014. It is anticipated that the Authority's Trustees will consider whether to go forward with the initiative in March 2012.

REQUIRED SUPPLEMENTARY INFORMATION
(UNAUDITED)

Required Supplementary Information

Schedule of Funding Progress for the Retiree Health Plan (Unaudited)

(In millions)

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, 2010	$ 218	400	182	55%	$ 141	129%
January 1, 2008	100	337	237	30	133	178
January 1, 2006	—	301	301	—	130	232
January 1, 2004	—	279	279	—	116	241
January 1, 2002	—	271	271	—	107	253

See accompanying independent auditors' report.

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

Our Mission is to...

provide clean, low-cost and reliable energy consistent with our commitment to the environment and safety, while promoting economic development and job development, energy efficiency, renewables and innovation, for the benefit of our customers and all New Yorkers.

New York Power Authority
Generating more than electricity

This 2011 Annual Report was designed, written, photographed and produced in-house by the New York Power Authority's Corporate Communications staff, and was digitally printed by the NYPA Reproduction Division's iGen3 printer, on recycled paper.

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